MARKETING MANAGEMENT

4th European edition

Philip
Kotler
Kevin Lane
Keller
Mairead
Brady
Malcolm
Goodman
Torben
Hansen

Pearson

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This book is dedicated to my wife and best friend, Nancy, with love – PK

This book is dedicated to my wife, Punam, and my two daughters, Carolyn and Allison, with much love and thanks – KLK

This book is dedicated to Martin and three great girls, Aine, Leah and Isabel, with all my love – MB

This work is dedicated to my wife, Jill, my daughter, Abigail, my son, David, and to the memory of my father – MRVG

To Ulla and to the memory of my mother and father – TH

About the authors

Philip Kotler is one of the world's leading authorities on marketing. He is the S. C. Johnson & Son Distinguished Professor of International Marketing at the Kellogg School of Management, Northwestern University. He received his master's degree at the University of Chicago and his Ph.D. at MIT, both in economics. He did postdoctoral work in mathematics at Harvard University and in behavioural science at the University of Chicago.

Dr Kotler is the coauthor of *Principles of Marketing and Marketing: An Introduction*. Dr Kotler's other books include *Marketing Models; The New Competition; Marketing Professional Services; Strategic Marketing for Educational Institutions; Marketing for Health Care Organizations; Marketing Congregations; High Visibility; Social Marketing; Marketing Places; The Marketing of Nations; Marketing for Hospitality and Tourism; Standing Room Only – Strategies for Marketing the Performing Arts; Museum Strategy and Marketing; Marketing Moves; Kotler on Marketing; Lateral Marketing; Winning at Innovation; Ten Deadly Marketing Sins; Chaotics; Marketing Your Way to Growth; Winning Global Markets* and *Corporate Social Responsibility*.

In addition, he has published more than 150 articles in leading journals, including the *Harvard Business Review*, *Sloan Management Review*, *Business Horizons*, *California Management Review*, the *Journal of Marketing*, the *Journal of Marketing Research*, *Management Science*, the *Journal of Business Strategy and Futurist*. He is the only three-time winner of the coveted Alpha Kappa Psi award for the best annual article published in the *Journal of Marketing*. Professor Kotler was the first recipient of the American Marketing Association's (AMA) Distinguished Marketing Educator Award (1985). The European Association of Marketing Consultants and Sales Trainers awarded him their Prize for Marketing Excellence. He was chosen as the Leader in Marketing Thought by the Academic Members of the AMA in a 1975 survey. He also received the 1978 Paul Converse Award of the AMA, honouring his original contribution to marketing. In 1995, the Sales and Marketing Executives International (SMEI) named him Marketer of the Year. In 2002, Professor Kotler received the Distinguished Educator Award from the Academy of Marketing Science. In 2013, he received the William L. Wilkie 'Marketing for a Better World' Award and subsequently received the Sheth Foundation Medal for Exceptional Contribution to Marketing Scholarship and Practice. In 2014, he was inducted into the Marketing Hall of Fame.

He has received honorary doctoral degrees from Stockholm University, the University of Zurich, Athens University of Economics and Business, DePaul University, the Cracow School of Business and Economics, Groupe H.E.C. in Paris, the Budapest School of Economic Science and Public Administration, the University of Economics and Business Administration in Vienna, and Plekhanov Russian Academy of Economics. Professor Kotler has been a consultant to many major US and foreign companies, including IBM, General Electric, AT&T, Honeywell, Bank of America, Merck, SAS Airlines, Michelin and others in the areas of marketing strategy and planning, marketing organisation and international marketing.

He has been Chairman of the College of Marketing of the Institute of Management Sciences, a Director of the American Marketing Association, a Trustee of the Marketing Science Institute, a Director of the MAC Group, a member of the Yankelovich Advisory Board and a member of the Copernicus Advisory Board. He was a member of the Board of Governors of the School of the Art Institute of Chicago and a member of the Advisory Board of the Drucker Foundation. He has travelled extensively throughout Europe, Asia and South America, advising and lecturing to many companies about global marketing opportunities.

Kevin Lane Keller is the E. B. Osborn Professor of Marketing at the Tuck School of Business at Dartmouth College in New Hampshire, USA. Professor Keller has degrees from Cornell, Carnegie-Mellon and Duke universities. At Dartmouth, he teaches MBA courses on marketing management and strategic brand management and lectures in executive programmes on those topics. Previously, Professor Keller was on the faculty at Stanford University, where he also served as the head of the marketing group. Additionally, he has been on the faculty at the University of California at Berkeley and the University of North Carolina at Chapel Hill, has been a visiting professor at Duke University and the Australian Graduate School of Management, and has two years of industry experience as Marketing Consultant for Bank of America.

Professor Keller's general area of expertise lies in marketing strategy and planning and branding. His specific research interest is in how understanding theories and concepts related to consumer behaviour can improve marketing and branding strategies. His research has been published in three of the major marketing journals: the *Journal of Marketing*, the *Journal of Marketing Research* and the *Journal of Consumer Research*. He also has served on the Editorial Review Boards of those journals. With over 120 published papers, his research has been widely cited and has received numerous awards.

He has served as a consultant and advisor to marketers for some of the world's most successful brands, including Accenture, American Express, Disney, Ford, Intel, Levi Strauss, L. L. Bean, Nike, Procter & Gamble, and Samsung. Additional brand-consulting activities have been with other top companies such as Allstate, Beiersdorf (Nivea), BJs, BlueCross BlueShield, Campbell, Capital One, Caterpillar, Colgate, Combe, Eli Lilly, ExxonMobil, General Mills, GfK, Goodyear, Hasbro, Heineken, Intuit, Irving Oil, Johnson & Johnson, Kodak, Mayo Clinic, MTV, Nordstrom, Ocean Spray, Red Hat, SAB Miller, Serta, Shell Oil, Starbucks, Time Warner Cable, Uni-lever, and Young & Rubicam. He has served as an expert witness for a wide variety of firms. He has also served as an academic trustee for the Marketing Science Institute and as their executive director from 2013 to 2015.

A popular and highly sought-after speaker, he has made keynote speeches and conducted marketing seminars to top executives in a variety of forums. Some of his senior management and marketing training clients have included such diverse business organisations as AT&T, Cisco, Coca-Cola, Deutsche Telekom, ExxonMobil, Fidelity, GE, Google, Hershey, Hyundai, IBM, Macy's, Microsoft, Nestle, Novartis, Pepsico, S. C. Johnson & Son and Wyeth. He has lectured all over the world, from Seoul to Johannesburg, from Sydney to Stockholm, and from Sao Paulo to Mumbai.

Professor Keller is currently conducting a variety of studies that address strategies to build, measure and manage brand equity. His textbook on those subjects, *Strategic Brand Management*, in its fourth edition, has been adopted at top business schools and leading firms around the world and has been heralded as the 'bible of branding'.

An avid sports, music and film enthusiast, in his so-called spare time he has helped to manage and market, as well as serve as executive producer for, one of Australia's great rock-and-roll treasures, The Church, as well as American power-pop legends Tommy Keene and Dwight Twilley. He also serves on the Board of Directors for The Doug Flutie, Jr. Foundation for Autism, the Lebanon Opera House and the Montshire Museum of Science. Professor Keller lives in Etna, NH, with his wife, Punam (also a Tuck marketing professor), and his two daughters, Carolyn and Allison.

Mairead Brady is an assistant Professor of Marketing at the Trinity School of Business, Trinity College Dublin. She holds a Ph.D. from the University of Strathclyde in Scotland, which she completed under the supervision of Professors Michael Saren and Nikolaos Tzokas.

Dr Brady lectures at undergraduate and Master levels and supervises Ph.D. students. She is also the director of the BA Mod in Computer Science and Business. She provides executive education to managers and directors and also provides consulting and marketing advice to multinational companies as well as start-ups and Irish government agencies. She was a recent winner of the Provost Teaching Award at Trinity College Dublin as a recognition of her commitment to her teaching and teaching innovations.

Dr Brady's research focuses on the assimilation and management of digital technologies in marketing. She concentrates on analysing the challenges of contemporary marketing practice with papers and research work in the area of digital challenges, social networking realities and myths, and how real-time data affects business. She is also the academic lead on the Pearson MyMarketingExperience game-based learning, which is an online simulation designed to engage students in the writing of a marketing plan. This aligns with her research interest in academic adoption of technology within third level education, in the digitalised student and the role of technology, and particularly games and simulations, in the development of higher-order cognitive skills. She is a core member of a network of academics, including educationalists and computer scientists, who are evaluating the growing assimilation of technology into the university setting.

With more than 90 publications, including journal articles and international conference papers and presentations, Dr Brady is a prolific author. She has published in many journals, including *British Journal of Educational Technology, Psychology and Marketing*, *Journal of Marketing Management*, *Journal of Business and Industrial Marketing*, *International Journal of Technology Marketing*, *International Journal of Applied Logistics*, *Irish Marketing Review*, *Irish Journal of Management* and *Management Decision*. She has been guest editor of the *Irish Journal of Management* and *Journal of Business and Industrial Marketing*, which she jointly edited with Professor Rod Brodie of the University of Auckland. She was also guest editor of the Service Industries Journal, (2015) with Mark Durkin, and Aodheen, McCartan from the University of Ulster on exploring social media impact within service contexts.

Dr Brady was co-chair of the Irish Game-Based Learning Conference, held in Trinity College in 2016. She was also chair of the Irish Academy of Management Conference and she was on the organising committee of the 11th International Product Development Management Conference held at Trinity College. She was/is a reviewer and/or track chair for the following conferences: European Marketing Academy Conference (EMAC), International Conference on Service Operations, Logistics and Informatics (IEEE/INFORMS), Academy of Marketing, American Marketing Association and American Academy of Management.

She was also a editor on the book - Social Media & Interactive Communication: A service sector reflective on the challenges for practice and theory, 1st Edition, Oxfordshire, Routledge (2016), with Mark Durkin, and Aodeen McCarten. Additionally, Dr Brady has contributed chapters to a selection of books, including two to *Marketing Graffiti* edited by Professor Michael Saren and one to the Handbook of Teaching with Technology in Management, Leadership, and Business with a chapter title of: 'The challenges of adopting technology for assessment in higher education: Implications for assessment design and technology deployment'.

Her many conference publications include the European Academy of Marketing (EMAC), European Academy of Management (EURAM), American Academy of Management (AOM), British Academy of Management (BAM), Irish Academy of Management, Academy of Marketing (UK and Ireland), Australian and New Zealand Marketing Academy (ANZMAC), IEEE/INFORMS, European Group for Organizational Studies (EGOS) and Academy of International Business. She was the communications director for the technology and innovation special interest group of the American Marketing Association and is currently the secretary of the Management Education Division of the Academy of Management (American).

With a busy work and home life, Dr Brady still makes the time to enjoy travel. She particularly likes socialising with friends, though time with her family – Martin and Aine, Leah and Isabel – is her greatest joy.

Malcolm Robert Victor Goodman has retired from full-time teaching and is actively engaged in AJM Management Development, a partnership specialising in the practical application of marketing, creativity, change management and strategic innovation initiatives. He is also Visiting Associate of Sheffield Business School, Sheffield Hallam University. He has co-authored *Creativity and Strategic Innovation Management* (2nd edition) with Professor Dingli of the Edward de Bono Institute for the Design and Development of Thinking at the University of Malta. During his twenty-plus years at Durham Business School he taught both undergraduates and postgraduates at the University of Durham in the UK. His specialist subjects are business creativity, organisational change and marketing.

He graduated in economics after submitting a practical marketing study on the cricket bat and ball industries of Britain, designed to explore the gap between theoretical knowledge and its application to the real world. This became the springboard for a lifetime interest in the practical application of marketing concepts and techniques. Professor Goodman also holds the Diploma from the UK's Chartered Institute of Marketing.

The paradigm change in many markets, both in Europe and further afield, from sellers' to buyers' markets, sparked his fascination with the problems that many organisations face as they seek to come to terms with the challenges presented by mounting global competition. This has led to him developing a keen interest in business creativity and organisational change. The pursuit of business success now requires a holistic integration of creative management and marketing management skills, and this challenges organisations to pursue and adopt new attitudes and skills.

Publications include original texts on *The Cricket Bat and Ball Industries of Britain* and *Creative Management*. He also contributed a chapter entitled 'Managing in times of change: avoiding management myopia' in *Strategy and Performance*: *Achieving Competitive Advantage in the Global Market* edited by Abby Ghobadian, Nicholas O'Regan, David Gallear and Howard Viney, which has been translated into Chinese. Professor Goodman has produced several papers for academic, trade and industry publications. He has also authored and contributed to distance learning courses in marketing for Durham University Business School and tutored on the UK's Open University Creative Management course.

Before entering the academic profession, Professor Goodman gained experience in the practical application of creative management and marketing skills in executive posts at British Leyland (where he was market planner for British Leyland France), General Motors, Lucas Industries and the Tube Investments Group. He also served as Marketing Director for Lindley Lodge, a charity charged with the provision of development training programmes for young people, which provided useful experience in getting results with a very small budget. Training courses run for the coal and steel industries were balanced by the pioneering of programmes for national retailers such as Boots and Marks & Spencer.

During his career, management briefs have covered both consumer and business-to-business assignments. These have included product and market planning posts that have provided a wealth of experience in working with outside professional agencies. Professor Goodman has worked on several international assignments and has conducted on-the-spot marketing surveys and management briefs in Europe (particularly France and Germany) and in the Far East (especially Indonesia, Malaysia, Singapore and Thailand).

He has been a consultant to and been involved in creative management and marketing training with many organisations including ICI, Lucas, Marks & Spencer, Price Waterhouse, the Royal Navy, Sunderland Association Football Club and Uniroyal. He has also contributed to the UK government-inspired gifted and talented youth programme (NAGTY) by running two-week summer school programmes in practical business skills at the University of Durham.

In his youth, Professor Goodman played football and roamed the pitch for the London-based Crystal Palace FC. A lifetime interest in sport – mainly football and cricket – has convinced him of the importance of taking a holistic and team-based approach to management tasks. His academic career began with an appointment to teach marketing and management skills on the Royal Navy Resettlement Programme and to run UK government-sponsored practical business courses for small businesses (SMEs) at the Portsmouth Management Centre (now Portsmouth University). He also brought and further developed retail-orientated training programmes for Boots and Marks & Spencers. His current activity is characterised by a strong desire to assist clients and students to apply creative management and marketing skills practically, to enable them to make a difference in highly competitive global markets.

Outside of work he cites his main interests – other than sport – to be camping, creative thinking, current affairs and classical music. He is happily married to Jill and has an adult daughter and son.

Torben Hansen is a Professor at the Department of Marketing, Copenhagen Business School (CBS). He received his Bachelor's and Master's degrees from the University of Southern Denmark and his Ph.D. from Copenhagen Business School. His main fields of research are consumer behaviour and marketing research methods, and his papers have appeared in various academic journals, including *Journal of Service Research*, *Psychology & Marketing*, *Food Policy*, *International Journal of Consumer Studies*, *European Journal of Marketing*, *Journal of Consumer Behaviour*, *Journal of Foodservice Business Research*, *Journal of Product & Brand Management*, *Journal of International Consumer Marketing*, *International Journal of Retail & Distribution Management*, *International Review of Retail Distribution and Consumer Research*, *Journal of Retailing and Consumer Services* and others, and he has contributed a number of chapters in scholarly books. He has authored or co-authored several books, including *New Perspectives in Retailing: A Study of the Interface between Consumers and Retailers*. He is a frequent speaker at national and international conferences and community forums.

Professor Hansen is editor in chief of the *Consumer Behaviour Newsletter* at Copenhagen Business School. He has served as a member of the Danish Food Think Tank and a member of the Danish Marketing Practices Act Committee. Professor Hansen has also served as chairman of the Danish Money and Pension Panel, a board established by the Danish parliament with the purpose of improving consumers' knowledge of and interest in financial matters. Apart from the chairman, the panel comprises eight Danish consumer-orientated and financial organisations. In 2011 Professor Hansen was appointed member of the BEUC (the European Consumer Organisation) Consumer Strategy Council. He has received several awards for his research, including the Marketing Trends Award, the International Academy of Business & Public Administration Research Award, the ICEBMM (International Conference on Economics, Business and Marketing Management) Best Presentation Award, and the Copenhagen Business School Gold Medal.

Professor Hansen has worked as a consultant for various companies and collaborates with several private organisations and public authorities, including the Danish Chamber of Commerce, the Ministry of Science, Technology and Innovation, the Confederation of Danish Industry and the Danish Consumer Council. He is a VIP member of the Danish Shareholders' Association. As a consumer behaviour expert, he is often called upon by the press, which relies on him for assessments of market trends and comments on consumer behaviour issues.

Professor Hansen has served as a reviewer for several leading marketing journals, including *Journal of Service Research*, *Journal of the Academy of Marketing Science*, *International Review of Retail*, *Distribution and Consumer Research*, *Journal of Consumer Psychology*, *Journal of Retailing* and *Consumer Services*, *International Journal of Retail and Distribution Management*, *British Food Journal* and *Journal of Marketing Management*. In 2010 he was appointed chairman of the Northern European scientific committee for the ESCP-EAP International Marketing Trends Congress. Professor Hansen has chaired, or been a member of, several assessment committees for various academic positions. He is the director of the M.Sc. programme in Economics and Marketing (EMF) at Copenhagen Business School and has wide teaching experience, which also includes Master's and Ph.D. supervision activities.

Professor Hansen has a passion for food and wine, and often experiments with exotic spices and new recipes, which with various success he serves for people who visit him and his wife in their home. He has appeared on Danish television as a guest chef in a popular comedy cookery and talk show. In his spare time he often goes boating in his small but fast boat, which he also uses for fishing expeditions. He enjoys do-it-yourself work on his old country house.

Brief contents

Contents

Lecturer Resources

ON THE WEBSITE

For password-protected online resources tailored to support the use of this textbook in teaching, please visit **www.pearsoned.co.uk/kotler**

Preface

What is *Marketing Management* all about?

The US edition of *Marketing Management* is the world's leading marketing text because its content and organisation consistently reflect changes in marketing theory and practice. The fourth European edition of *Marketing Management* has been inspired by the US editions and explores the challenges facing European marketing practitioners.

European companies continue to change their boardroom understanding of the importance of marketing practice moving marketing activity from the narrow cost view to their core philosophy and an investment that demands close and company wide attention driving their business in a sustainable manner for their customers, their business and for society. It is progressively being seen as a company-wide rather than a functional activity that drives the company's vision, mission and strategic planning. Marketing management's role is in identifying and consistently delivering customer perceived value offerings to carefully targeted customers in the vibrant and challenging European marketplace, which has increased global geopolitical unrest, increased digitalised and global competition and increased focus on the responsibilities of organization to their customers, their profitability and also the planet. Marketing management demands sophisticated decision making involving a host of vital decisions underpinned by the marketing philosophy to decide on who the company wants as its customers or target markets, which of their perceived needs to meet, what market offerings to develop, at what price, using which online and offline channels of distribution with which partnerships, and with which processes, people and environmental designs. The rapid development of digital technologies must also be used wisely and managed successfully throughout the management of marketing from analysis to planning to implementation and control.

Marketing can succeed only when it is a total company effort across all the functions in an organisation working in a coordinated way to beat competitive organisations by consistently pleasing and delighting customers at a profit to the organization and cognizant of the social responsibility of the organisation. While firms have had to develop a consistent customer-oriented approach to their businesses, there are further challenges thanks to the explosion of digital technology and the rapid expansion of social media in its wake. Such challenges demand a reappraisal of traditional marketing practice. Traditional marketing mix approaches such as the 4Ps, have now expanded to the 7Ps and a service-dominant logic which provides insight into how to meet the expectations of consumers and business to business customers in competitive economies. The traditional split between product and service marketing is best superseded by a composite approach that focuses on the need for suppliers to meet their customers' perceived value expectations through all aspects of the organization viewed through the lens of the 7 P's of the marketing mix. The explosive development of digital technology continues to have a profound effect for marketers. Firms now operate a variety of direct and indirect channels. New forms of communication are enriching the traditional communications mix and meeting today's requirement to open up and sustain multiple models of communication. Digitalisation has greatly empowered market research and big data can be generated, accessed and used at ever increasing speeds. The drive to personalise rather than standardise market offerings is potentially costly but technological development have provided cost efficient benefits. The increased move to artificial intelligence, machine learning, robotics, automation, smart interconnected product and service and augment and virtual reality and many other new and developed technologies can challenge marketing managers and automate, augment or transform practices, processes and even industries. Therefore marketers must manage a range of developing technologies efficiently, effectively and across the full spectrum of marketing activities all of which are explored and discussed throughout this text. Marketing managers and business are also supported by an increasing range of both online and offline key metrics to measure marketing programme effectiveness and the financial return on their marketing investment. These also provide increased transparency, accountability and credibility for marketing practices in the boardroom and support implementation and control of the marketing management process.

This text is designed to provide marketing managers with the means to understand, plan and control for the complexities of contemporary European marketing challenges including increased digitalization and increased geopolitical conflicts and to have oversight of the entire company effort needed to satisfy customers at a profit and aware of their wider corporate responsibility throughout their networks, to society and the planet.

Marketing management

To achieve the right balance between the concepts of effectiveness and efficiency, marketers practise their expertise on a national, international and global scale. Marketing management is the design, development and implementation of marketing programmes, processes and activities that recognise the breadth and interdependencies of the business environment.

Marketing managers face four key tasks:

1. Develop a detailed and deep understanding of current and prospective customers. Much of this should come from regular direct contact with customers and from programmed ad hoc research to reveal new trends in customer preferences. Suitable customer-perceived value offerings should then be developed and introduced into the market as quickly as prudent to gain or maintain a sustainable competitive advantage.
2. Develop a detailed and deep understanding of existing and emerging competitors by regarding expenditure on suitable market research as an investment decision rather than a cost sign-off.
3. Develop a detailed and deep understanding of how markets are changing. This needs to be communicated clearly by regular briefing reports to all functional managers to facilitate a holistic approach to marketing in the company. Updated topics might include the state of key markets (context), distribution and marketing communication channels – especially social media.
4. Develop a strategic marketing approach to support corporate strategy. Seek to become a 'market driver' rather than be a company that is 'market driven'.

Marketing management recognises that 'everything matters' with marketing and that a broad, integrated perspective is necessary.

Organisation

The text specifically addresses the following operations that constitute the essence of modern marketing management:

1. Understanding marketing management.
2. Capturing marketing insights.
3. Connecting with customers.
4. Shaping and pricing the market offering.
5. Communicating value.
6. Delivering value.
7. Managing marketing implementation and control.

The most significant organisational changes in the European edition as compared with the US edition are as follows:

- All chapters provide a European focus and include illustrations drawn from European companies.
- The text argues the case for marketing management in Europe and explores its practice through the use of a number of marketing mixes.
- Management skills and the core requirements of a successful manager are introduced in this text, which sees management skills as critical for marketing managers.
- The aim of marketing management is the provision of customer-perceived value offerings to both consumers and business-to-business customers.
- The growth in digital marketing has provided marketing management with an array of tools, including the internet, mobile and smart phones, social networking and viral marketing, self-service technologies, dashboards and big data, to name but a few.
- To complement the use of digital technologies the text provides a window into the increasing interest in and use of creative marketing technologies.
- As marketing management becomes crucial in Europe, there is a need to ensure that marketing initiatives are both effective and efficient. The text devotes a whole chapter to exploring marketing metrics.
- A selection of topic templates, including formats to encourage readers to practise drawing up marketing plans, is also included.
- European case studies and exercises are featured to help readers bridge the gap between knowledge and practice.

Chapter-by-chapter changes for this edition

Chapter 1 Defining marketing for the new realities

- Marketing during challenging economic and politically disruptive times.
- Marketing is a philosophy of business and a core senior-board-level activity guiding the organisations.
- Marketing and technology are intertwined.
- Understanding the current unprecedented changes to European marketing presenting numerous challenges.

Chapter 2 Understanding marketing management within a global context

- Increasingly complex European markets and marketing management issues.
- Contemporary challenges for high-performing marketing departments.
- Managing digital technologies such as robotics, artificial intelligence, augmented and virtual reality, etc.
- Managing automation and transformation of many businesses and processes.
- Increased focus on valuing marketing within organisations.
- Growth in global management challenges.
- The challenges of developing countries.

Chapter 3 Developing marketing strategies and plans

- Importance of the business environmental paradigm change from sellers' to buyers' markets and the challenges this presents to marketing management.
- The importance of the transformation in the concept of value and the need for firms to develop and deliver value to their customers.
- Change today not tomorrow – key strategies for managing change.

- Critique of conventional SWOT analysis.
- Moving from *know-what* to *know-how* – a sample €uromart marketing plan enables readers to get to grips with the practical application of marketing concepts and reflects the seven parts of the text.
- The importance of open business models.

Chapter 4 Managing digital technology in marketing

- The transformation of processes, practices and managerial challenges through ever-increasing digital technology adoption.
- Increased focus on mobile, internet and data.
- New marketing title including marketing technologist.
- Understanding the digitalised customer.
- Mapping the challenges and changing digital landscape.
- Increased utilisation of apps and mobile as normal.
- Some future predictions – robotics, AI, augmented and virtual reality, smart-connected products and services, smart personnel assistance and wearable technology.

Chapter 5 The changing marketing environment and information management

- Managing sustainability.
- Shifts in European population.
- Increased focus on sustainable energy.

Chapter 6 Managing market research and forecasting

- New examples of marketing research.
- Big data.
- Advantages and disadvantages of research approaches.

Chapter 7 Analysing consumer markets

- Increased focus on consumer social networks.
- New examples of consumer behaviour.
- Examples of new consumer market offerings in Europe.

Chapter 8 Analysing business markets

- Increased focus on social media in business markets.
- Examples of successful business models.

Chapter 9 Dealing with competition

- Trust in financial service providers.
- In-depth examples of successful competitors.
- Competing in a changing environment.

Chapter 10 Seeking and developing target marketing differentiation strategies

- Geodemographic market research agencies that operate in Europe.
- Description of key trends in the social and cultural environment – youth and ethnic markets.
- Forces shaping European social change.

Chapter 11 Creating customer value, satisfaction and loyalty

- The pursuit of customer-perceived value.
- Customer lifetime value – a conceptual dream or real-time activity?
- The empowered customer and European legislation.

Chapter 12 Creating and managing brands and brand equity

- Massive brand portfolios and brand values.
- Branding storytelling and narratives.
- Social media evaluations and their impacts on brands.
- The four ages of branding – identity, value, experience and you.
- Brands that have reach across generations and national boundaries.

Chapter 13 Digital and global brand management strategies

- Enhancing the consumer digital experience.
- Digital innovations and branding – from augmented reality to apps.
- The power and reach of online and global brand communities.
- The reach and impact of the top global and technology brands.

Chapter 14 Designing, developing and managing market offerings

- The development of balanced market offering portfolios as product life cycles shorten.
- The challenge of high customer churn rates as marketing evolution gathers pace under the influence of dynamic competition and innovation.
- The ecological issues surrounding packaging in Europe.
- The function and European legal regulations affecting packaging.

Chapter 15 Introducing new market offerings

- Many cultures, many markets – the development of new market offerings in Europe.
- Europe's leading innovative companies.
- Key national innovation performances.
- Examples of successful new market offerings in Europe.

Chapter 16 Developing and managing pricing strategies

- Examples of successful pricing strategies.
- Pricing in a sharing economy.
- Pricing in a digital economy.

Chapter 17 Designing and managing non-personal marketing communications

- The role of marketing communications.
- How marketing communications work.
- The major steps for developing effective marketing communications.
- The marketing communications mix?
- How the marketing communications budget is established.
- The steps required to develop an advertising programme.
- How sales promotion decisions are made.
- How companies can exploit public relations potential.

Chapter 18 Managing personal communications

- Personal communications mix.
- Direct marketing.
- Interactive and online marketing activities.
- Developing and managing the sales force.
- Impact of social media technologies.
- Social media marketing.
- Integrated marketing communications.
- Implications of digital media for practitioners.

Chapter 19 Designing and managing distribution channels and global value networks

- Order from anywhere and fulfil from anywhere.
- Multiple and omnichannels.
- The rise in digital channels and their amalgamation with offline channels.
- Increased complexity of channel management issues.
- Trade, border and global supply challenges from issues such as Brexit, Middle East disruptions and trade wars between a variety of countries.
- Replacement of the traditional supply chain with a digital supply network.
- Increased digitalisation of branding with apps, virtual reality, social media and so on.
- Speed and developments in online and offline delivery using drones, AI, robotics, etc.

Chapter 20 Managing process, people and physical evidence

- The transformation of processes through digital adoption.
- Digital technologies within service process.
- Increased digital and personnel coordination.
- Digital technologies at the consumer interface.
- Future technologies and automation and transformation.
- Managing robotics and other challenging technologies.

Chapter 21 Implementing marketing management

- Internal marketing critique.
- The application of true creativity in marketing.
- Creativity – a mystical gift for some or something for everyone?
- Potential for marketing to European ethnic and green groups.
- Key tasks for marketing managers.

Chapter 22 Managing marketing metrics

- New insights in marketing metrics usage.
- New marketing metrics examples.

Acknowledgements

This fourth European edition of *Marketing Management* contains contributions from many people: in particular, Phil Kotler, whose work, comments and guiding hand greatly assisted the development of the text, and Kevin Lane Keller, whose insights into marketing have also inspired the authors of this edition.

The text has been co-authored by Malcolm Goodman of Durham University, Torben Hansen of the Copenhagen Business School and Mairead Brady of Trinity College, Dublin. Our thanks are due to many academics in our own and other universities as well as contacts too numerous to detail.

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PART 1
Understanding marketing management

Marketing Management is designed to take both business practitioners and students on a journey to explore the marketing manager's world.

Part 1: Understanding marketing management provides an overview of this journey and addresses four essential themes:

1. **Defining contemporary marketing.**
2. **Exploring marketing management, particularly from a European perspective – locally, nationally and internationally.**
3. **Designing marketing strategies and plans.**
4. **Understanding the challenges of digital technology management in marketing.**

Part 1 explores the world of the marketing manager from the point of view of *what* managers do and the rest of the book provides guidance as to *how* they do it. Marketing is a business activity that is relevant to all types of business, whether private, public, charity or other not-for-profit organisations. It is about the identification and fulfilment of customer needs, through the establishment and maintenance of brand values at a profit to the organisation.

In a highly competitive, technology-enabled global market, European companies need to exercise both vision and mission, they need to understand marketing and management, and they need to use the range of digital technologies available to them. They also need to identify what segments to target, how to position their brand and how to use the marketing mix to achieve profit and other objectives of the organisation.

CHAPTER 1
Defining marketing for the new realities

In this chapter, you will learn about the following topics:

1 Why marketing is important

2 The scope of marketing

3 How technology, globalisation and social responsibility are forces defining European marketing practices

4 What new capabilities these forces have given consumers and companies

5 Production, selling, marketing and holistic marketing philosophies

6 Overview of marketing management

Marketing managers must understand consumer needs and align marketing mix activities with satisfying these needs at a profit. IKEA really understands its consumers' love for well-designed low-cost furniture.
Source: emka74/Shutterstock

Chapter Journey

Formally and informally, people and organisations engage in a vast number of activities we can call marketing. In the face of a digital revolution and other major changes in the business environment, good marketing today is both increasingly vital and radically new.[1] What is the same is the philosophy of marketing, which puts the customer at the centre of profitable companies. Consider IKEA.

IKEA, the world's most successful furniture retailer, has a deep understanding of the customer, designing and manufacturing ready-to-assemble home furniture and furnishings in a Scandinavian style at affordable prices. This Swedish company is a global entity, distributing its products through over 350 retail outlets in over 45 countries, mostly in Europe.

With over 915 million customer visits annually in its stores, over 1.8 billion website visits and over 10 million downloads of its app, it is clear that successful marketing has resulted in customers who identify with the IKEA ideal of good-quality, affordable furniture that is both functional and beautiful. Anna Crona, marketing director at IKEA United Kingdom and Ireland, explained: 'We are committed to understanding how our customers live life at home so we can provide solutions to make life happier.'[2] The warm, welcoming Swedish style has become a model of simplicity, practicality and informality.[3]

Each chapter of this text explores the various marketing management challenges for IKEA, as outlined below:

- **Introduction to marketing:** The marketing philosophy of understanding and satisfying customer needs at a profit is embedded within the corporate culture of the IKEA company **(Chapter 1)**.
- **Marketing management:** The marketing management team manages the company nationally and expands its global business through the management functions of planning, organising, leading and controlling **(Chapter 2)**.
- **Marketing plans and strategies:** IKEA designs marketing plans and strategies to guide the company, which revolves around understanding customer needs **(Chapter 3)**.
- **Digital technologies:** IKEA manages a range of digital technology, both internally and externally, including web, mobile and social **(Chapter 4)**.
- **Capturing marketing insights:** IKEA continually researches the market to understand its consumers, markets and competitors **(Chapters 5–9)**.
- **Customer segments and target markets:** IKEA understands consumer segments and chooses to target price-conscious and quality and design focused consumers **(Chapter 10)**.
- **Positioning in the market:** The IKEA brand is positioned as fun, affordable and good-quality furniture, in the low-price but high-design quadrant of the positioning map **(Chapter 11)**.
- **Managing the brand:** More than 70 years old, the brand continues to evolve, with a strong brand identity created through a coherent branding strategy **(Chapter 12)**.
- **Digital and global branding:** IKEA understands the importance of its digital brand and the global marketplace it operates in **(Chapter 13)**.

To position its brand in the eyes of its target consumers, IKEA manages the 7Ps of the marketing mix activities:

- **Product/service:** IKEA offers more than 12,000 products within a self-assembly concept, with a commitment to innovative product design and clever service solutions **(Chapters 14 and 15)**.
- **Pricing:** IKEA understands the importance of pricing and profitability. It keeps prices affordable with a focus on good value for the customer **(Chapter 16)**.
- **Promotion/communicating value:** IKEA has an integrated marketing communication strategy through advertising, social media, apps, personal selling, internet, catalogue, viral marketing, PR and publicity **(Chapters 17 and 18)**.
- **Place/global supply network and channels of distribution:** IKEA operates a major global retail and distribution supply-and-demand network **(Chapter 19)**.
- **Process/physical evidence/people:** IKEA uses a maze service process design to route its customers through its very large but well-designed stores, utilising the five senses within each store and employing more than 150,000 staff[4] **(Chapter 20)**.

The chosen marketing mix activities, aligned to the target market and positioning, must be implemented throughout the organisation:

- **Implementing marketing management:** IKEA implements its plans through the operationalisation of marketing **(Chapter 21)**.
- **Managing marketing metrics:** Marketing metrics both online and offline quantify, compare and interpret marketing performance **(Chapter 22)**.

IKEA has grown to be one of the most successful and profitable European companies through a marketing focus on providing customers with what they want at a profit to the company.

Good marketing is no accident. It is both an art and a science, and it results from careful **planning** and execution using state-of-the-art tools and techniques. In this text, we describe how skilful marketers are updating classic practices and inventing new ones to find creative, practical solutions to new marketing realities. In the first chapter, we lay our foundation by reviewing important marketing concepts, tools, frameworks and issues.

The value of marketing

Marketing managers are challenged to deliver value and profits in the face of an unforgiving economic environment, unprecedented changes in business, growing globalisation, climate change concerns and continuing digital technology advancement.[5] Finance, operations, accounting and other business functions are all dependent on sufficient demand for **products** and **services** from customers who are prepared to pay for them so that companies can make a profit. Thus, financial success often depends on marketing ability. Marketing skill can be used to market ten main types of entities: products, services, events, experiences, people, places, properties, non-profits, information and ideas. Marketing's value also extends to society as a whole. It has helped introduce new or enhanced products and services that ease or enrich people's lives. Successful marketing builds demand for products and services, which in turn creates jobs. By contributing to the bottom line, successful marketing also allows firms to more fully engage in socially responsible activities.[6]

Making marketing central

Chief executive officers (CEOs) recognise that marketing builds strong brands and a loyal customer base–intangible assets that contribute significantly to the value of a firm.[7] Marketing directors or chief marketing officers (CMOs) are, or should be, on an equal footing with other directors or C-level executives such as the finance director or chief financial officer (CFO) or chief information officer (CIO).[8] In an **internet**-fuelled environment where consumers, competition, technology and economic forces change rapidly and consequences quickly multiply, marketers must make numerous marketing decisions, which are at the core of how companies operate. Speaking at the Apps World Conference in London, Steve Wozniak, a co-founder of Apple, told attendees that marketing is the most critical aspect of his technology company and as important as engineering to the success of Apple.[9]

There is little margin for error in marketing. Just a short time ago, MySpace, Yahoo!, Blockbuster, Kodak and HMV were admired leaders in their industries. What a difference a few years can make. Many brands have been completely overtaken by start-up challengers – such as Snapchat, Facebook, Google, Netflix and Amazon – and many have struggled, sometimes unsuccessfully, for mere survival.[10] Firms must constantly move forward. At greatest risk are those that fail to carefully monitor their customers and competitors, to continuously improve their value offerings and marketing strategies, and satisfy their employees, stockholders, suppliers and channel partners in the process.

The role of marketing is always to have the customer at the centre of the organisation – in other words, to think 'customer'. Peter Drucker, the management guru, confirms the importance of marketing and this customer focus:

> **The purpose of business is to create a customer. The business enterprise has two – and only two – basic functions: marketing and innovation. Marketing and innovation produce results; all the rest are costs. Marketing is the distinguishing, unique function of the business.**[11]

So, much business success can be attributed to companies that embrace marketing and understand and win customers through marketing.

Winning marketing

Skilful marketing is a never-ending pursuit, with businesses adapting and thriving in these changing times. Consider Pinterest.

Pinterest

Pinterest is one of the fastest-growing social media sites ever – it has surpassed 175 million monthly users and has over 50 billion Pinterest pins.[12] Pinterest is a visual bookmarking tool that lets users collect and share images of projects or products on digital scrapbooks or 'pinboards'. Especially popular with women, who account for 81 per cent of their consumers, they use it for planning weddings, saving recipes and designing kitchen upgrades. Pinterest has driven more traffic to websites in a month than Twitter, Google+, LinkedIn and YouTube combined. Part of its appeal is its unique customisable grid of images. Pinterest's sweet spot is that users are often in a shopping mindset; one study showed almost 70 per cent of online purchasers who found a product via Pinterest went on to buy, compared to 40 per cent for Facebook. Brands from Dell to Mercedes-Benz are integrating this site into their social media strategies. Nevertheless, Pinterest is only slowly monetising its business venture as it originally focused on a 'network first, revenue later' model similar to Snapchat, which was valued at over €25 billion despite having no revenues.[13]

Pinterest has tapped into consumer desire to collect and share personally relevant images online.
Source: LightField Studios/Shutterstock

Even business-to-business firms are finding these techniques are critical and that they do work. The manufacturer Corning struggled with transcending its reputation as a seller of Pyrex cookware, a business it sold more than a decade ago, to its current status as a provider of highly engineered speciality glass products. Corning created a YouTube video, 'A day made of glass . . . made possible by Corning'. Unconventionally long but beautifully put together, within three weeks it attracted more than 1 million views, and in total was viewed over 26 million times with social conversation revolving around the themes of glass, product toughness and hope for the future – exactly what Corning wanted.

The scope of marketing

To become a marketer, you need to understand what marketing is and how it works.

Marketing is about identifying and meeting human and social needs at a profit. One of the shortest definitions of marketing is that it is the process of 'meeting customer needs profitably'. When Ryanair spotted that people wanted low prices and would accept lower services levels, their marketing plan designed this. When Google recognised that people needed help managing the information on the internet, they created a powerful search engine that organised and prioritised queries. These two firms demonstrated marketing savvy and turned a private or social need into a profitable business opportunity. Marketing is a revenue-generating function of a business, and the ultimate test of marketing success is a profit level that allows a company to prosper in the long run.[14]

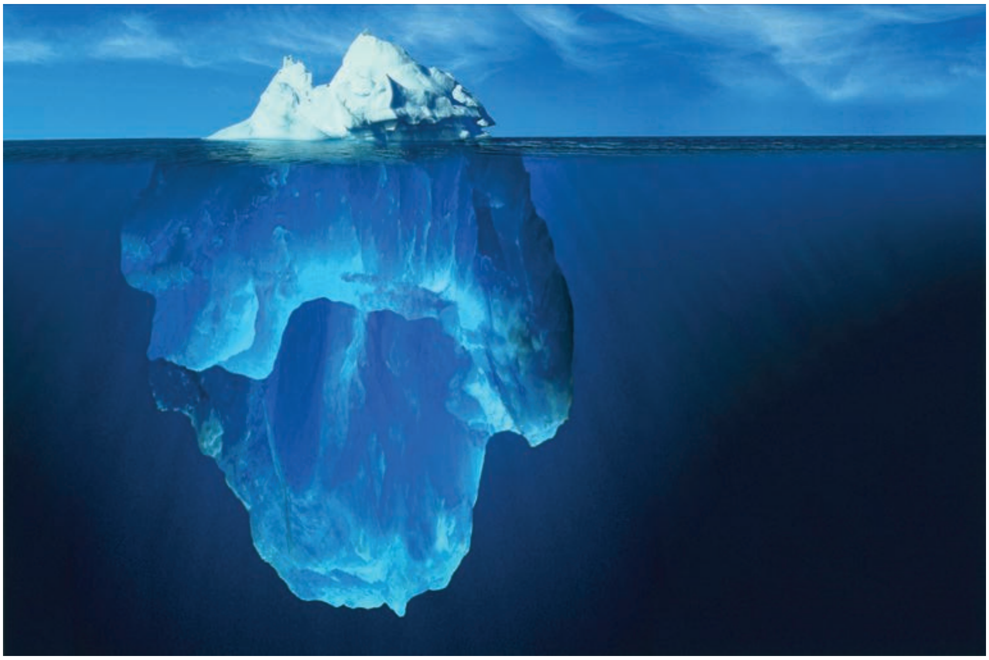
A formal definition is that marketing is the science and art of exploring, creating, and delivering value to satisfy the needs of a target market at a profit. The marketing concept focuses on a total company effort to provide exchange and value for customers, clients partners and society.[15] Coping with these exchange processes calls for a considerable amount of work and skill. Marketing management takes place when at least one party to a potential exchange thinks about the means of achieving desired responses from other parties. Thus, we see **marketing management** as the managerial responsibility that aligns the total company effort towards choosing and satisfying target market(s) by getting, keeping and growing customers through creating, delivering and communicating superior customer value at a profit to the organisation.

We can distinguish between a social and a managerial definition of marketing. A social definition shows the role marketing plays in society – for example, one commentator said that marketing's role should be to 'deliver a higher standard of living' and that marketing should be elevated to a higher level of consciousness.[16] Here is a social definition that serves our purpose: 'marketing is a societal process by which individuals and groups obtain what they need and want through creating, offering and freely exchanging products and services of value with others'.

Marketing is an often misunderstood term, seen more as 'the art of selling products' or advertising, and many people are surprised when the full extent of marketing beyond selling and advertising is articulated. The reality is that selling and advertising are only the tip of the marketing iceberg – simply the most visible to the customer. Peter Drucker, the management guru, put it this way:[17]

> **There will always, one can assume, be need for some selling. But the aim of marketing is to make selling superfluous. The aim of marketing is to know and understand the customer so well that the product or service fits him and sells itself. Ideally, marketing should result in a customer who is ready to buy. All that should be needed then is to make the product or service available.**

Just like an iceberg, over 80 per cent of marketing occurs out of sight of the customer. Advertising and sales are the final rather than the beginning stages of marketing. When Nintendo designed its Wii game, when Apple launched its iPad and when Toyota introduced its Prius hybrid car, they were swamped with orders. These marketers had designed the right product/service, delivered, priced, communicated and managed through the service process based on careful marketing understanding about consumers, competition and all the internal and external factors that affect cost and demand. Consider Zara.



Much of marketing occurs below the waterline. Non-marketers are inclined to think that marketing is only advertising and selling because they are the elements visible above the line.
Source: Ralph A. Clevenger/Corbis/Getty Images.

Zara

Think of how Zara competes with Benetton – two fashion companies that view marketing very differently. Zara, one of Europe's top fashion brands, has succeeded through a core understanding of the customer, whereas Benetton trails far behind, over-focused on creative and dynamic advertising.[18] Zara understood its consumers' desire for fast fashion and aligned its whole company towards this ideal, while Benetton struggled to get customers into its stores. Benetton has continued to focus on provocative advertising to gain attention rather than embracing real customer understanding. It let a customer-focused company such as Zara capture the young fashion market and build incredible brand loyalty. Zara understands the needs and desires of its young adult consumers – a market that craves new styles quickly and cheaply, and customers who are happy with concepts such as 'fast fashion' and 'disposable clothing'.

Zara produces around 12,000 styles per year (compared with the industry average of only 3,000), which means fresh fashion trends reach the Zara stores regularly and quickly. Zara's advertising budget is 0.03 per cent of its revenues, very different to competitors such as Gap and H&M, spending 5 per cent and 4 per cent respectively, and Benetton, spending €80 million on advertising alone.[19] A typical Zara customer visits a Zara shop 17 times a year, compared with the industry average of three times per year, showing how Zara listens to customers and builds its operations around them.[20]

Customers change, markets change and economies go through cycles of boom and bust regularly.[21] Each cycle creates challenges for marketers and it is important for marketing to respond swiftly and decisively to changes in economic health. Understanding economies and purchasing power is critical to ensure that marketing spend counts and is aligned to customer needs. See Figure 1.1.

Purchasing power in Europe is not uniform, with northern European countries more prosperous than southern regions, as shown in Figure 1.1.

Marketing managers have to constantly rethink and reorientate their marketing efforts to deliver customer satisfaction within competitive markets. Many market leaders realise that they cannot afford to relax their marketing effort with leadership challenges from fast and agile competitors – Nokia, the market leader, lost out to Samsung and Apple by being too myopic and complacent. Successful European companies such as Zara, Nestlé, Siemens, Santander, L'Oréal, HSBC, Unilever and Bayer really understand marketing and how to satisfy changing consumer needs.[22]

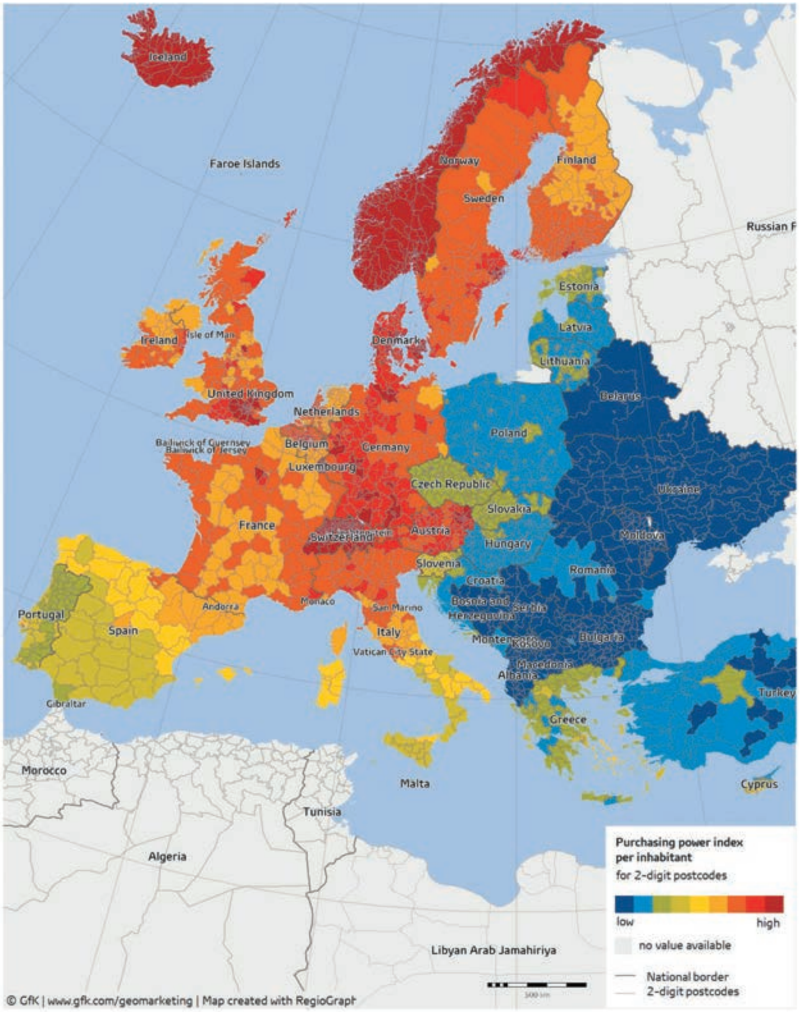


Figure 1.1 European purchasing powerin 2017
Source: © GfK: GfK Purchasing Power 2017. http://www.gfk.com/insights/news/map-of-the-month-gfk-purchasing-power-europe-2017/.

Skilful marketing is a never-ending pursuit. As Jay Conrad Levinson, author of *Guerrilla Marketing*, noted: 'Marketing is not an event, but a process . . . It has a beginning, a middle, but never an end, for it is a process. You improve it, perfect it, change it, even pause it. But you never stop it completely.'[23]

Some successful companies were founded during downturns/recessions/depressions – think Wikipedia, IBM, CNN, Burger King, Microsoft and UPS. Though some well-known companies have failed during economically challenging times (think Kodak), others such as Ryanair, grew customer numbers to over 100 million by expanding routes, dropping prices and increasing their marketing expenditure. What is critical is a focus on marketing and understanding customers and concentrating your marketing effort on them. See the 'Marketing in practice' box.

Marketing in practice

Marketing: a winner in a crisis

A European-based study showed how critical marketing is in times of crisis, as this is a period where companies can win – or lose – market share very rapidly. Companies often respond incorrectly during a recession, with marketing budgets being slashed when the company's management and shareholders call for savings to be made. This study analysed the behaviour of 700 brands after the collapse of the dotcom bubble.

The most important results were:

- 54 per cent of companies recorded that growth in sales and market share during the collapse had maintained or raised their marketing budgets.
- Market shares shift faster during times of recession than in times of growth.
- The losers are often brands in the mid segment, as they cannot increase their marketing expenditure.
- 63 per cent of winners introduced new products or services and innovations, compared with just 19 per cent of the losers.

The clear winners were those companies that did not reduce their marketing budgets but instead invested anti-cyclically. They were able to achieve significantly higher growth than in normal times.[24]

Marketing's role in creating demand

Marketers must be skilled at stimulating and managing demand. **Demand** is the willingness and ability of buyers to purchase different quantities of a product or service, at different prices, during a specific time period. Both willingness and ability must be present; if either is missing, there is no demand. Great marketing is when you see an unfulfilled need and launch an appropriate offering, and the offering matches this need and there is demand and ultimately profitable sales of your offering. Consider Innocent.

Innocent Drinks

Innocent Drinks, founded by three Cambridge University graduates, has surfed the wave of consumer distaste for artificial ingredients and tapped into the consumer demand for fresh ingredients on the go. Innocent Drinks has been one of the marketing success stories of the decade, with simple drinks based on crushed fruit. They distribute over 2 million smoothies a week across Europe, doubling to become the top smoothie brand in Europe in terms of market share.[25] Innocent saw year-on-year sales grow by 35 per cent as the market for healthy drinks continues to grow.[26] Though now 90 per cent owned by Coca-Cola, Innocent's vision, in the words of co-founder Richard Reed, was 'to be Europe's favourite little juice company'.

Marketing managers seek to influence the level, timing and composition of demand to meet the organisation's objectives. Marketers must identify the underlying cause(s) of the demand state and then determine a plan of action to shift the demand to a more desirable state. Demand is linked to needs and wants. Needs are basic human requirements such as air, food, water, clothing and shelter. Humans also have strong needs for recreation, education and entertainment. These needs become wants when directed to specific objects that might satisfy the need. A German consumer looking for a snack may choose a sandwich, while a Dutch consumer may choose raw herring. Wants are shaped by our society. Demands are wants for specific products or services backed by an ability to pay. Buyers may want a Mercedes; only a few are able to buy one. Companies must measure not only how many people want their offering but also how many are willing and able to pay for it.

These distinctions shed light on the frequent criticism that 'marketers create needs' or 'marketers get people to buy things they don't want'. Marketers do not create needs: needs pre-exist marketers. Marketers, along with other societal factors, influence wants. They might promote the idea that a Mercedes would satisfy a person's need for social status. They do not, however, create the need for social status.

Some customers have needs of which they are not fully conscious or that they cannot articulate. What does it mean when the customer asks for a 'powerful' lawnmower or a 'quiet' hotel? The marketer must probe further. We can distinguish five types of needs:

1. Stated needs (the customer wants an inexpensive car).
2. Real needs (the customer wants a car whose operating cost, not initial price, is low).
3. Unstated needs (the customer expects good service from the dealer).
4. Delight needs (the customer would like an onboard GPS navigation system).
5. Secret needs (the customer wants friends to see them as a savvy consumer).

Responding only to the stated need may short-change the customer.[27] Companies need to be innovative and creative and be ahead of consumer needs and wants. Consider Fitbit.

The next section reviews European marketing challenges.

Fitbit

Fitbit entered the wearable technology market in 2007 right when the demand for healthier, more active lives was growing, and thus tapped into a health-and-fitness craze. Fitbits empowered customers by providing them with the data to guide and inspire them to reach their goals. As one of the leading global wearable brands, Fitbit designed wrist-based products that helped customers to manage their own health and activity experiences. The company has over 25 million active users monthly and is the top seller on Amazon in the health-and-fitness sector. The steep rise and growth of Fitbit reflects the trend towards wearable technologies in general, and also self-management through self-monitoring. Fitbit is also looking to develop this market further by moving into the smart watch market by developing an advanced fitness tracker and smart watch in the Fitbit Ionic. The Fitbit is designed to provide customers with engaging experiences and to support and motivate them on their health-and-fitness journey.[28]

European marketing realities

The European marketplace is dramatically different from what it was ten years ago, with new consumer online and offline behaviours and business and societal opportunities and challenges.[29] Despite its success, the European Union as – the world's largest economy, with a GDP per head of €25,000 for its 500 million consumers – faces immense complexity, contradiction, changes and challenges from Brexit and others wanting to change or leave and others wanting more integration and external challenges on the borders for more people, including refugees and migrants challenges of refugees and migrants on the borders. Europe is an area of diversity with embedded cultural, political, historical and geographic characteristics – from the powerful nations at the centre such as Germany and France to the more peripheral nations such as Greece, Ireland and Portugal.

In this text we focus on three transformative forces: technology, globalisation and social responsibility.

Technology

The heartbeat of modern marketing is technology focused on data activation, personalisation, building a digital culture and having an integrated simplified technology operating model. As Ahmad Azhar Yahya, chief digital officer of Telekom Malaysia, noted – 'Going digital is not about one big idea – it's about solving 1,000 small problems together as one synchronized company.'[30]

Web, mobile and social are core technologies that are now dominant within society. However, adoption across Europe is not uniform – see Figure 1.2 for internet adoption figures from ten European countries.

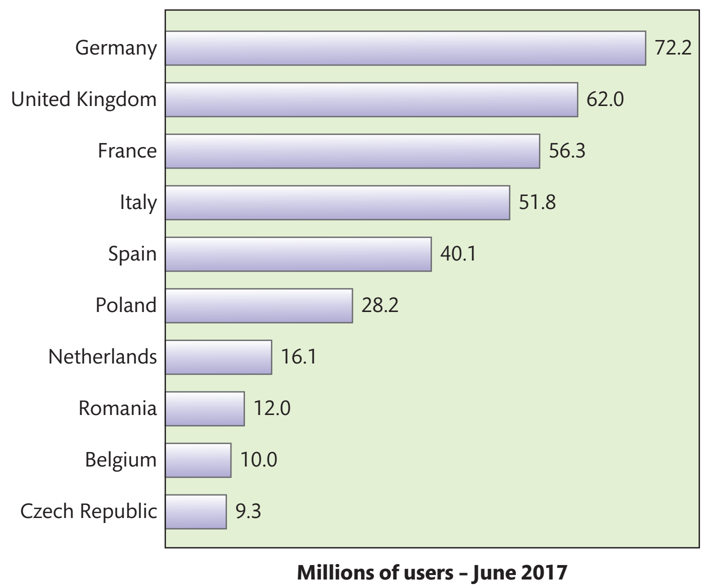


Figure 1.2 Internet adoption across top ten countries in Europe
Source: International World Stats, www.internetworldstats.com/stats9.htm.

Beyond the rapid rise of the **internet**, **smartphones** and **social media** is an ever-increasing range of innovative technologies that could be impactful for marketing. They include the Internet of Things (IoT), augmented and virtual reality, robotics, wearable technologies, data analytics, machine learning, artificial intelligence and more (see Chapter 4). The pace of change and the scale of technological growth is staggering. As Ronald Rust and his colleagues note: 'Never before have companies had such powerful technologies for interacting directly with customers, collecting and mining information about them, and tailoring their offerings accordingly. And never before have customers expected to interact so deeply with companies, and each other, to shape the products and services they use.'[31]

Marketing managers need to understand and embrace the current range of digital technologies, both internally and externally, and also monitor new and innovative technologies that are coming down the pipeline.[32] As digital technology weaves itself deeper into the fabric of our lives, marketers need to be forward looking and interweave digital tools such as mobile and web-based connectivity with all aspects of marketing, so that the technology becomes invisible. Marketers now think of **three 'screens'** or means to reach consumers: internet, mobile and TV. Surprisingly, the rise of digital options did not initially depress the amount of TV viewing, in part because, as one Nielsen study found, three out of five consumers use two screens at once.[33]

Technology is a driver of the sharing economy that has said goodbye to the old credo 'information is power', giving way to the new idea that 'sharing information is power.'[34] German-based software giant SAP's online community has more than 2 million customers and partners – many contributing feedback and product and service development ideas.[35] Swiss drug-maker Roche increased sales force efficiency internally through iPads linked to its sophisticated customer relationship management (CRM) software system. With iPads, the sales teams enter data in real time, improving the quality of the data sharing and freeing up time for other tasks.[36]

Globalisation

The continuing integration of world trade and the world's major economies, coupled with technological advances in transportation and communications, has made it easier for companies to market and easier for consumers to buy products and services from all over the world. We can have kiwis from New Zealand and oranges from South Africa, with worldwide access to money and phone calls. Politically and economically, global business operates with poverty amidst plenty, on-going economic and political crises, conflicts and social unrest around the world, and particularly in the Middle East, and unprecedented stock growth and decline.[37] Globalisation has also made countries increasingly multicultural.

Businesses in the twenty-first century have multiple product and service lines and operate in multiple geographies with millions and even billions of customers, sometimes with revenues the size of small economies. Take Unilever, the Anglo–Dutch company: in any given day, 2.5 billion people use its products.[38] The average market capitalisation of the top 100 global companies is a staggering €117 billion. Interestingly, only 22 of the top 100 global companies are European, and from just nine countries.[39]

Many companies are now using **marketing glocal** – operating both globally and locally by managing customers locally within their area, nationally within their borders and also globally on the world stage. Consider Manchester United Football Club.

Manchester United

Local and, more importantly, global football audiences have created mega global brands of what were traditionally local clubs. Real Madrid – previously the most valuable football brand in Europe valued at over €1 billion – has been replaced by Manchester United as the world's most valuable soccer team, worth $3.69 billion, showing how a national culture has become a global brand. The team's return to the top spot is a testament to their powerful brand and marketing acumen. Manchester United generated revenue of $850 million, which is $162 million more than both Barcelona and Real Madrid.

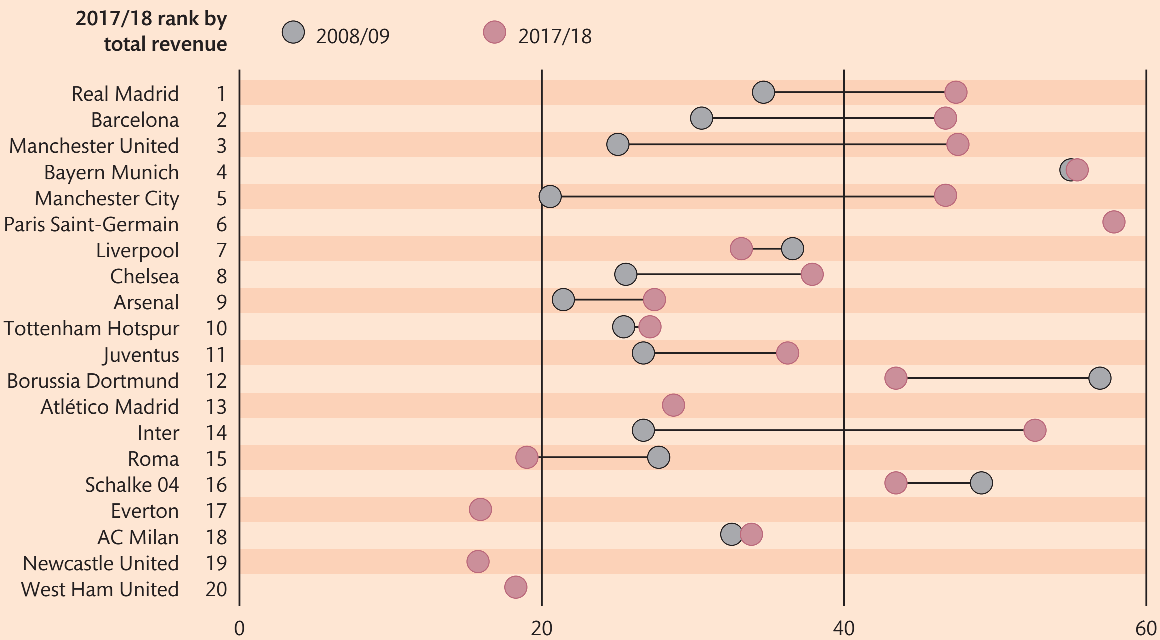
Manchester United is a global marketing success, taking a local company global.
Source: PjrStudio/Alamy Stock Photo.

Online, the three clubs Real Madrid, Barcelona and Manchester United are very close, with 159 million social media followers of each of the two Spanish clubs and Manchester United in third place with 97 million followers.[40]

Much of the revenue comes from club merchandising, such as football-shirt sales and image rights, mainly in the Asian market. 'Jersey sales represent the core business of many clubs and are often responsible for around 50 per cent of merchandising revenue', said Andreas Ullmann, a senior consultant at Sport1Markt. The top ten clubs ranked by retail revenue were: Real Madrid, Barcelona, Manchester United, Bayern Munich, Manchester City, Paris Saint-Germain, Liverpool, Chelsea, Arsenal, Tottenham Hotspur.[41] See Table 1.1.

Table 1.1 Commercial gain: elite football clubs exploit new income sources

Share of total revenue from commercial income* for world's top 20 clubs (%)



* Income from sponsorship, merchandise, stadium tours and other commercial operations

Source: Deloitte © *FT*

More global companies exist now than at any other time in the history of the world. Many companies are **born global** – a business that, from inception, seeks to derive significant competitive advantage from the use of resources and the sale of outputs in multiple countries – or with what can be called a borderless worldview from the start.

Social responsibility

Companies have a **corporate social responsibility** (CSR) to understand how their actions impact on the planet and the sustainability of human life. Capitalism and other economic systems can cause major social issues such as wealth concentrations, poverty, pollution, water shortages, climate change and wars. These issues require attention and discussion.[42]

Because marketing's effects extend to society as a whole, marketers must consider the ethical, environmental, legal and social context of their activities (see Chapter 21).[43] The 'Marketing insight' box describes how companies need to change to do that. The **marketing task** is thus to determine the needs, wants and interests of target markets and satisfy them more effectively and efficiently than competitors while preserving or enhancing consumers' and society's long-term well-being.

Marketing insight

Getting to Marketing 3.0 and onwards to Marketing 4.0

Marketing 3.0 adds a human spirit dimension to marketing. Philip Kotler, Hermawan Kartajaya and Iwan Setiawan believe today's customers want marketers to treat them as whole human beings and acknowledge that their needs extend beyond pure consumerism. Successful marketing is thus distinguished by its human or emotional element. A third wave of thinking, values driven and heralded as 'Marketing 3.0', has moved us beyond the product-centric of the past, these authors say.

Its three central trends are increased consumer participation and collaborative marketing, globalisation and the rise of a creative society:

- We live with sustained technological development – low-cost internet, cheap computers and mobile phones, open-source services and systems. Expressive and collaborative social media, such as Facebook and Wikipedia, have changed the way marketers operate and interact with consumers.
- Culturally relevant brands can have far-reaching effects. A cultural brand might position itself as a national or local alternative to a global brand with poor environmental standards, for instance.
- Creative people are increasingly the backbone of developed economies. Marketing can now help companies tap into creativity and spirituality by instilling marketing values in corporate culture, vision and mission.

These authors believe the future of marketing will be horizontal: consumer-to-consumer. Due to distrust in the marketplace, customers now increasingly turn to one another for credible advice and information when selecting products and services. The next iteration, Marketing 4.0, will bring in digitalisation and human-to-machine and machine-to-machine (see Chapter 4).

Sources: P. Kotler, H. Kartajaya, and I. Setiawan (2017) *Marketing 4.0: Moving from Traditional to Digital*, New Jersey: Wiley; P. Kotler, H. Kartajaya and I. Setiawan (2010) *Marketing 3.0: From Products to Customers to the Human Spirit*, Hoboken, NJ: Wiley; M. Krauss (2011) Evolution of an academic: Kotler on Marketing 3.0, *Marketing News*, 30 January; V. Kaul (2012) Beyond advertising: Philip Kotler remains one of the most influential marketing thinkers, *The Economic Times*, 29 February.

As consumers grow more socially conscious, some companies incorporate social responsibility as a way to differentiate themselves from competitors, build consumer preference and achieve notable sales and profit gains.[44] Though Europe was the first continent to convert to the CSR movement, it is adopted differently across the region with many challenges and numerous successes, but also some major failures (see Chapter 21).[45] Failures of CSR, such as the horse meat scare, oil spills and VWs emission scandal, all raise concerns about whether companies pay lip service or really engage with this. André Spicer, a professor at City University London, noted that 'after the initiate public fury passes, companies seemingly forget their own wrongdoing'– what he called 'corporate amnesia'.[46]

A dramatically changed marketplace

These three forces – technology, globalisation and social responsibility – have dramatically changed the marketplace, bringing consumers and companies new capabilities.

New consumer capabilities

Across Europe, a generation of digital natives exists, who grew up with technology and are the first generation for which the internet, mobile technology and social media are not something they have had to adapt to.[47] They have no memory of (or nostalgia for) pre-internet history; they take the internet for granted, accept and expect to have Snapchat, WhatsApp, email, Wikipedia, search engines, Skype and social media such as Facebook and YouTube as normal. This is the most connected generation ever, with several European countries, including the UK, having more mobile phones than people. Though internet usage is high in Europe, at over 600 million people, it lags far behind adoption in Asia – see Figure 1.3.

Europe also has a range of adoption levels for social media, with the British the third most enthusiastic nation for using **social networking** tools in Europe, behind the Spanish and the Italians – see Figure 1.4. This shows that digital engagement exists across age groups, with 'digital immigrants' and the 'grey population' embracing technology.[48]

Expanded mobility, communication, information and technology enable customers to make better choices and share their preferences and opinions with others around the world. At the same time, consumer engagement is a huge challenge. This is a complex phenomenon, and understanding

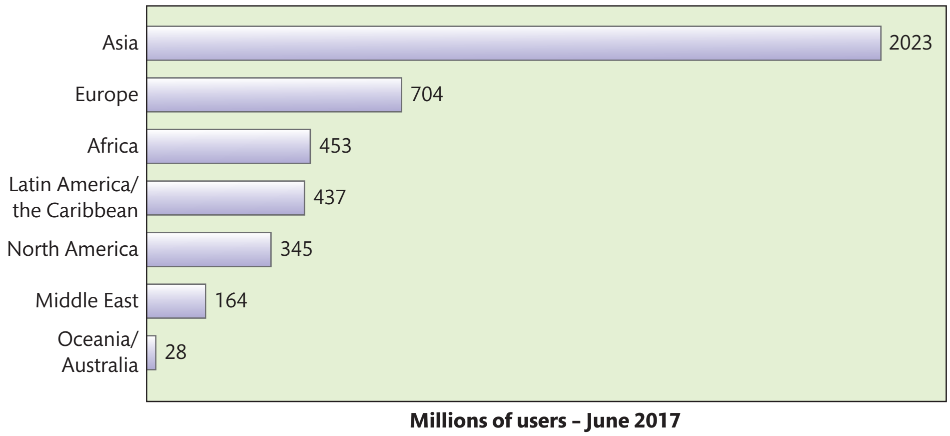


Figure 1.3 Internet users globally by geographic regions, 2017
Source: https://www.internetworldstats.com/stats.htm © Miniwatts Marketing Group.

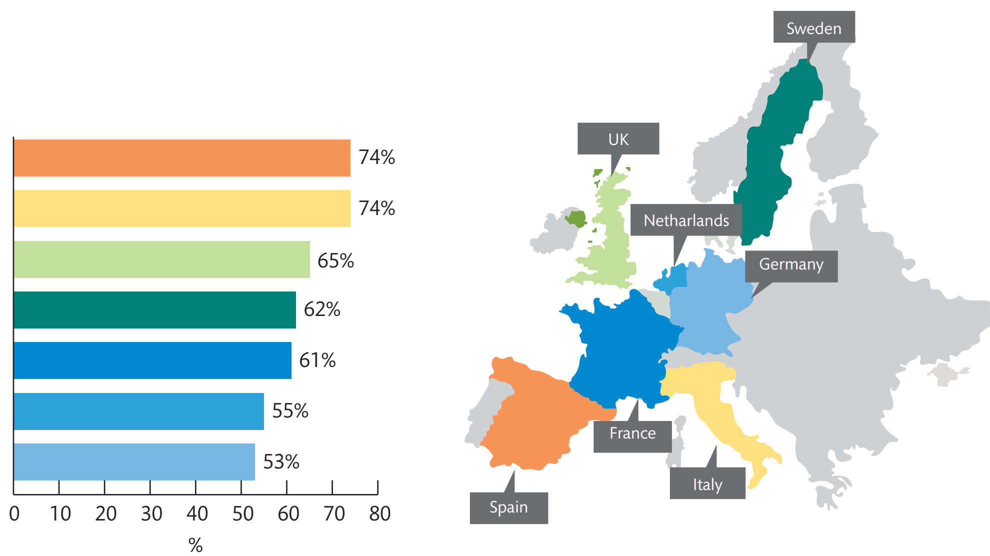


Figure 1.4 Who are the main users of social media across Europe?
Source: https://www.computerweekly.com/blog/Computer-Weekly-Data-Bank/UK-is-third-in-Europe-for-Social-Networking

the underlying dynamics that facilitate its development, particularly in the virtual environment, is important due to its ability to influence value creation for customers and organisations, and because it introduces ongoing and multifaceted challenges to marketers.[49]

Major consumer challenges exist and Table 1.2 summarises some of the new consumer capabilities, which we explore next.

Table 1.2 Consumer capabilities

Consumers: use the internet as a powerful information, interaction and purchasing aid.
Consumers: embrace mobile – searching, communicating and purchasing on the move.
Consumers: tap into social media and the sharing economy.
Consumers: can reject marketing practices they find inappropriate.

- **Consumers use the internet as a powerful information, interaction and purchasing aid.** From the home, office or mobile phone, consumers can compare prices and features, consult user reviews and order products and services online from anywhere in the world, 24 hours a day, 7 days a week. They can also engage in **showrooming**: comparing products in stores but buying online. The 'always-on consumer' (AOC) uses three connected devices every day, goes online multiple times a day and does so from at least three different locations. Such consumers could account for up to 50 per cent of the population. Marketing departments need to ensure that their operations can cater for this through allocating budgets across multiple technologies and contact points – wherever their consumers are chatting, connecting, listening or watching.[50]
- **Consumers embrace mobile.** Consumers increasingly integrate smartphones and tablets into their daily lives, with the majority of European smartphone owners using their devices to research products and make purchases.[51] With one mobile phone for every two people on the planet, the number of phones sold each day outnumbers babies born daily.[52] With smartphones, barcodes and QR (quick response) codes to access a brand's website and other information, consumers can purchase on the go anywhere. Tesco, trading under the name Home Plus, has virtual stores in South Korean train stations aligned to home delivery for the busy Korean consumer.
- **Consumers tap into social media.** Beyond the four distinctive roles a consumer plays in the marketplace – seeker, buyer, payer and user – there is a fifth consumer role: evangeliser.[53] Personal connections and **user-generated content** thrive on social media sites such as Snapchat, Twitter, Instagram, Pinterest, WhatsApp, Facebook, Flickr, Wikipedia and YouTube. Sites such as TripAdvisor for holidays, Dogster for dog lovers and Moterus for bikers bring together consumers with a common interest. Marketers tap into this by engaging with their customers online. Mini, the car manufacturer, asked people to upload images and videos to Tumblr or to share with the hashtag #MININOTNORMAL and, within six weeks, 230,000 people engaged with the campaign on social media, with 2,217 pieces of content shared, over 30,000 new followers recruited and 3,853 people having visited the campaign hub to look for a new Mini.[54]
- **Consumers reject marketing practices they find inappropriate.** Consumers today can be less tolerant about undesired marketing practices. They can choose to screen-out online messages, fast-forward through commercials and avoid advertising appeals on internet or mobile. Almost two-thirds of consumers reported that they disliked advertising.[55] Consumers are more marketing savvy today, and many are cynical about advertising efforts – inundated with hundreds of advertising pitches a day and increasingly suspicious of business promises.[56] A study of UK customers on brand content online, to identify how UK consumers perceive branded content, showed growing consumer cynicism with 44 per cent of those surveyed feeling that brands used content to convince them their brand was better than others. Sandra Peat, strategy director at content marketing agency The Moment said, consumers are firmly in the driving seat as they can be cynical about brands, company communications marketing managers must work hard to ensure that their content adds real value to their customers, while aligning with brand objectives.[57]

New company capabilities

At the same time, technology, globalisation and social responsibility have generated a new set of capabilities to help companies cope with and respond to the consumer challenges (see Table 1.3).

Table 1.3 New company capabilities

Companies: use the internet as a powerful information and sales channel for personalisation and customisation.
Companies: use data analytics as a core and to gain richer insights about markets, customers and competitors.
Companies: embrace mobile and location-dependent engagement.
Companies: are moving to increase cost and efficiency through automation, robotics and the Internet of Things(IoT).

- **Companies can use the internet as a powerful information and sales channel with increased personalisation and customisation.** While websites showcase products and services, history, business philosophy, job opportunities and other information of interest to consumers worldwide, online sales can often be a large or even larger revenue generator for firms. Think of the travel industries and booking.com, or entertainment – think Netflix and music streaming of Consider Spotify.

Spotify

Spotify, the Swedish entertainment company, has personalised digital listening, which sees consumers change from owning music to renting on subscription with extensive and immediate choice. Spotify customers, for a small fee, can access their music across multiple devices and personalise their music with playlists that can be shared. Spotify even provides a musical map of the world, so customers can hear what others are listening to around the world. For many years the music industry struggled, but internet music streaming is expected to become the largest source of global recorded music sales with revenues surpassing sales of downloads from sites such as iTunes, as well as, CDs and vinyl records. According to Shannon Bond of the *Financial Times*:

> 'The growth of streaming reflects how it's become a preferred business model and user experience for most consumers. They like the combination of on-demand access to content [and] they like the convenience of having the jukebox in the sky that has been realised because of widespread broadband availability.'[58]

Many different products, such as M&Ms, can now be customised by consumers.
Source: Steve King Photography/Shutterstock

Thanks to advances in factory customisation, computer technology and database marketing software, companies can allow customers to buy M&M sweets customised with short messages and by colour with their names on them (see **www.mymms.com**).[59]

- **Companies use data analytics for richer insights about markets, customers, prospects and competitors.** Using data analytics skills, marketers can track and trace information about individual customers' purchases, preferences, demographics and profitability. Netflix collects information on its more than 104 million users (29 million in Europe) and about 50 billion hours' worth of programming, with customers averaging 1 hour and 33 minutes of Netflix time a day – every move of which they track, including rewinds, fast forwards and pause content. The company tracks all ratings per day and the millions of searches. Netflix' s algorithms recommendations are used by 75 per cent of customers, who value the input and select movies based on the company' s recommendations. Popular European-based thrillers that support the binge-watching culture include *Suburra: Blood on Rome, Babylon Berlin and La Mante made in France* and *The Fall from Britain* – all developed through understanding data and, importantly, people analytics.

- **Companies embrace mobile and location-dependent information.** GPS technology can pinpoint consumers' exact location, letting marketers send them location-specific messages. Location-based advertising is attractive as it reaches consumers closer to the point of sale. Consider Adidas.

Adidas

Adidas, iProspect and Google worked together to align mobile searches from the Adidas app with in-store traffic. Adidas provides a store locator page for consumers searching for a store. iProspect studied Adidas' internal data and estimated that one in every five clicks on the store locator led to an in-store visit. Working on the assumption that 20 per cent of in-store visits end in a purchase averaging €70, this resulted in each store locator click being worth €2.27 and resulted in a 680 per cent increase in return on investment (ROI) on the store locator page.[60]

- **Companies are moving towards increased automation, robotics and the Internet of Things (IoT).** The internet and mobility have introduced increased efficiency and lowered costs and the next generation of technologies will continue to open new avenues. The Internet of Things (IoT) at its most basic is where 'things' communicate with 'things', so that data and information is transferred from product to system to product over the internet without the need for human intervention, merging the physical and the digital world. With the Internet of Things farmers can use GPS and soil-monitoring systems to ensure efficiencies in growing and harvesting while tracking this information from their own homes. Also, increased use of automation and robotics will change how consumers and organisational processes are managed. Being human in the age of artificial intelligence (known as Life 3.0) can change many operations, such as the use of drones to deliver products or smart-connected products that can self-monitor, self-manage and self-repair, or Google assistants like Alexa supporting decision making in the home and various robotics that can support work place and manufacturing efficiencies.[61] (see also Chapters 4 and 19).

Marketing philosophy: production, selling, marketing and holistic marketing philosophies

Given these new marketing realities, what philosophy should guide a company's marketing efforts? Let's first review the evolution of the marketing philosophy.

The production philosophy

The **production philosophy** is one of the oldest concepts in business. It holds that consumers prefer products that are widely available and inexpensive. Managers of production-orientated at businesses concentrate on achieving high production efficiency, low costs and mass distribution. This orientation has made sense in developing countries such as China, where the largest PC manufacturer, Legend (principal owner of Lenovo Group), and domestic appliances giant Haier have taken advantage of the country's huge and inexpensive labour pool to dominate the market. Marketers also use the production concept when they want to expand the market.

The product philosophy

The **product philosophy** proposes that consumers favour products offering the most quality, performance or innovative features, and companies with this focus overemphasis the development of the product or service, always searching for improvements. However, managers are sometimes caught in a love affair with their products or services. They might commit the 'better mouse trap' fallacy, believing a better product will by itself lead people to beat a path to their door. As many start-ups have learned the hard way, a new or improved product or service will not necessarily be successful unless it's priced, distributed, advertised and sold properly and, critically, actually aligns with customer needs. Consider Kodak.

Kodak

Despite years of business success, Kodak had to file for bankruptcy in 2012 and is now only struggling in a market it once dominated. What happened? An over-focus on product and a lack of focus on the customer. There are few corporate blunders as staggering as Kodak's missed opportunities in digital photography – a technology that it surprisingly enough invented. The over-focus on film (the product) and lack of focus on the customer meant that the company continued to invest in film (product) long after the market had moved on to digital photography, which destroyed its film-based business model.

Kodak, which employed over 140,000 people and had a market value of €22 billion, saw its market position taken by a newcomer, Instagram. Kodak was slow to move from a product philosophy. The essence of marketing is asking first, 'What customer are we in business for and how can we satisfy them?', not 'How do we sell more products?'. Kodak made a classic mistake: it didn't ask the right questions. It focused on selling more products instead of the business that it was in, and the consumer need it was satisfying which was as part which is part of the sharing economy – sharing memories.[62]

The selling philosophy

The **selling philosophy** holds that consumers and businesses, if left alone, won't buy enough of the organisation's offerings. It is practised most aggressively with unsought offerings – an offering buyers don't normally think of buying, such as insurance and cemetery plots – and when firms with overcapacity aim to sell what they make, rather than make what the market wants. Marketing based on hard selling is risky. It assumes customers coaxed into buying an offering or service will not complain online or offline but might even buy it again. The films *Tin Man* and *Glengarry Glen Ross,* show sales reps putting pressure on customers to buy products they do not need, examples of hard-sell antics and the dangers of an over-focus on sales.

The marketing philosophy

The **marketing philosophy** emerged in the mid-1950s as a customer-centred, sense-and-respond philosophy – a total company effort to achieve customer satisfaction at a profit. Dell, for example, doesn't manufacture a PC or laptop for its target market but rather, it provides product platforms on which each person customises the features he or she desires in the machine. The marketing philosophy holds that the key to achieving organisational goals is being more effective than competitors in creating, delivering and communicating superior customer value to your target markets, and that everyone in the organisation has the customer as the focus of their operations and plans.

Harvard's Theodore Levitt explores the contrast between the selling and marketing philosophies:[63]

> **Selling focuses on the needs of the seller; marketing on the needs of the buyer. Selling is preoccupied with the seller's need to convert his product into cash; marketing with the idea of satisfying the needs of the customer by means of the product and the whole cluster of things associated with creating, delivering, and finally consuming it.**

Some companies find it challenging to become more marketing focused and to move on from the old-fashioned product or selling philosophies that have dominated since the 1900s.

Marketing in action

The key characteristics of the production, sales and marketing philosophy eras

Production era (1870–1930)

1 Demand exceeds supply. There are shortages and intense hunger for goods.
2 There is little or no competition within markets (between firms selling the same goods to the same markets).
3 The company, not customers, is the centre of focus.
4 Businesses produce what they can produce and focus on solving production problems.
5 Businesses produce limited product lines.
6 Products sell themselves. Wholesalers and retailers are unsophisticated in their selling and marketing.
7 Profit is a by-product of being good at production.

Sales era (1930–1950)

1 Supply exceeds demand.
2 There is competition within markets.
3 Businesses are conscious of consumers' wants and some market research is done.
4 Businesses must dispose of the products they produce and therefore focus on selling.
5 Businesses produce limited product lines.
6 Hard selling is necessary, backed by advertising.
7 The primary goal of the firm is sales volume; profit is a by-product.

Marketing era (1950 onwards)

1 Supply exceeds demand.
2 There is intense competition within markets.
3 The customer is at the centre of a company's business; the purpose is to satisfy customers' needs and wants.
4 Customers determine what offerings are provided. Businesses focus on marketing problems.
5 Businesses produce extensive product lines.
6 A wide range of marketing activities are used and coordinated to satisfy customers' needs.
7 Businesses focus on profit rather than sales volume.

Source: N. Ellis, J. Fitchett, M. Higgins, J. Gavin, L. Ming, M. Saren and M. Tadajewski (2011) *Marketing: A Critical Textbook*, London: Sage, modified from D. G. B. Jones and A. J. Richardson (2007) The myth of the marketing revolution, *Journal of Macromarketing*, 27(1), 15–24.

The holistic marketing philosophy

Without question, the trends and forces that have defined the new marketing realities in the first years of the 21st century are leading firms to embrace a new set of beliefs and practices, but there are still challenges of orientation and perception to the reality of a customer focus. Table 1.4 shows two different focuses – a marketing customer focus and a non-customer focus.

Many departments who are not directly involved with the customer can forget that ultimately businesses only succeed because they have customers. Leadership is core to interdepartmental

Table 1.4 Customer-focused and non-customer-focused departments

Customer-focused departments – marketing and holistic marketing philosophy	Non-customer, inward-looking departments – production or sales philosophy
Finance is aware that each decision can ultimately affect the customer and profitability is aligned with the customers' needs and the marketing plan.	*Finance* is inward focused on keeping costs low, regardless of the effect on marketing plans and the customer.
Production is focused on producing the agreed product or service in a timely manner aligned to the stated goals of marketing.	*Production* has a speed and cost focus, which cuts corners and compromises on quality – not concerned if the offering does not fulfil needs.
Sales are customer focused and only promise what they can deliver, looking to the lifetime value of the customer rather than the short-term objective. Sales is seen as working with the customer.	*Sales* are always thinking of making the sales and their sales target, and their own daily or weekly figures. Even if the customer does not need the product/service they will pressurise them in order to make the sale.

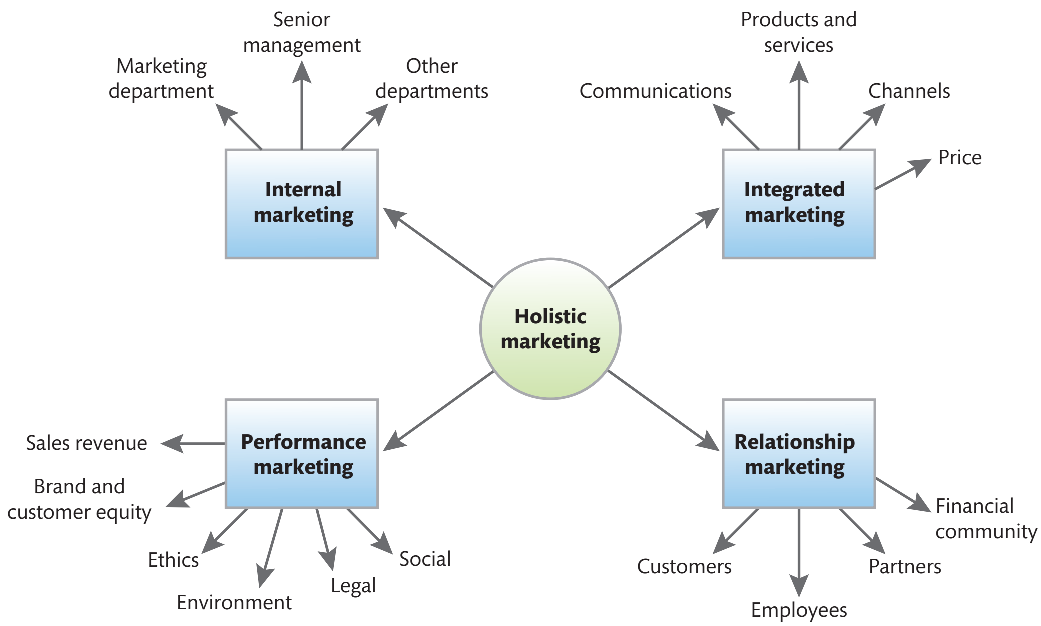


Figure 1.5 Holistic marketing

harmony and a customer focus, so senior management must clearly practice, communicate and integrate a vision of how critical the customer is and that their marketing philosophy is to serve customers at a profit – to all staff, not just front-line staff. As Mahatma Gandhi said:

> **A customer is the most important visitor on our premises; he is not dependent on us. We are dependent on him. He is not an interruption in our work. He is the purpose of it. He is not an outsider in our business. He is part of it. We are not doing him a favour by serving him. He is doing us a favour by giving us an opportunity to do so.**

Companies can sometimes lean towards a focus on their own internal operations rather than on the customer and pay lip service to customer satisfaction.

The **holistic marketing philosophy** is an extension of the marketing philosophy and is based on the development, design and implementation of marketing programmes, processes and activities that recognises their breadth and interdependencies. Holistic marketing acknowledges that everything matters in marketing – and that a broad, integrated perspective is often necessary. It recognises and reconciles the scope and complexities of marketing activities.

Figure 1.5 provides a schematic overview of four broad components characterising holistic marketing: relationship marketing (Chapter 11), integrated marketing (Chapters 2 and 21), internal marketing (Chapter 21) and performance marketing (Chapter 22). We will examine these major themes throughout this text. What is needed is for marketing to work within and through other departments and for all to accept the marketing philosophy that places the customer at the centre of the organisation – see the 'Marketing in practice' box below.

Marketing in practice

Amazon – creating the best customer experience

Amazon was one of the first companies to create a tailored and authentic online shopping customer experience, placing its customers' needs central to its operation. Amazon has over 250 million active accounts worldwide and a high percentage of the growing e-book market. Bill Price, Global VP of Customer Service, confirms that from the beginning, the focus was on offering customers compelling value. 'We set out to offer customers something they simply could not get any other way . . . we brought them much more selection than was possible in a physical store and presented it in a useful, easy-to-search and easy-to-browse format, in a store open 365 days a year, 24 hours a day. We maintained a dogged focus on improving the shopping experience.'

Amazon understands the holistic marketing philosophy and has placed the customer at the heart of its business, with every aspect of its operation focused on the customer and creating value for them.[64] Each year Amazon re-evaluates its customers' needs and decides what changes are required. Its current focus is on proximity to customers – building warehouses closer to customers so that the shipping time and cost go down and the customer experience goes up.

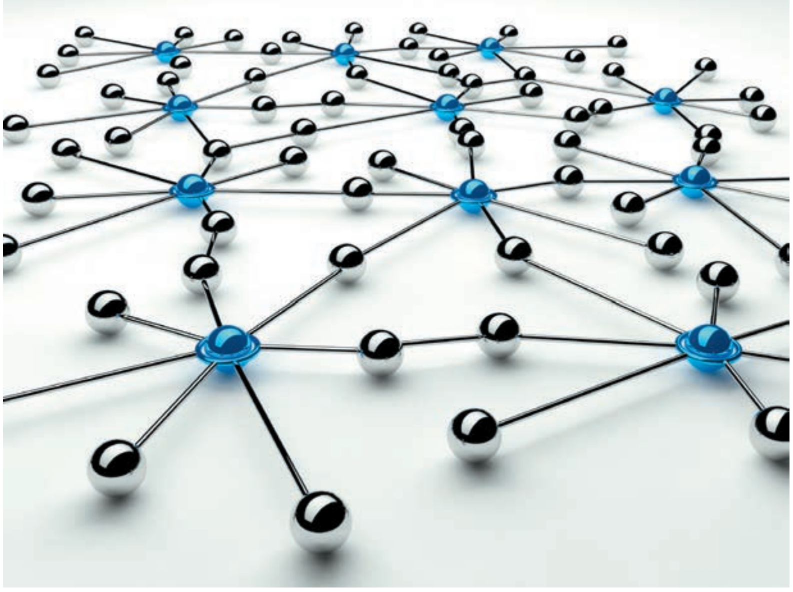
Founding CEO Jeff Bezos confirms the marketing philosophy, saying: 'We select people who when they wake up in the morning . . . are thinking about how to invent on behalf of the customer. We find our culture intensely fun. We have an explorer mentality. Our job at Amazon is to create the best customer experience we can.'[65]

Relationship marketing

A key goal of marketing is to develop deep, enduring relationships with people and organisations that directly or indirectly affect the success of the firm's marketing activities. **Relationship marketing** aims to build mutually satisfying long-term relationships with key constituents in order to earn and retain their business.

Four key constituents for relationship marketing are customers, employees, partners (channels, suppliers, distributors, dealers, agencies) and members of the financial community (shareholders, investors, analysts). Marketers must create prosperity among all these constituents and balance the returns to all key stakeholders. To develop strong relationships with them requires understanding their capabilities and resources, needs, goals and desires.

The ultimate outcome of relationship marketing is a unique company asset called a **marketing network**, consisting of the company and its supporting stakeholders – customers, employees, suppliers, distributors, retailers and others – with whom it has built mutually profitable business relationships. Many companies choose to own brands rather than physical assets, and subcontract activities to firms that can do them better and more cheaply while retaining core activities in-house. The operating principle is simple: build an effective network of relationships with key stakeholders, and profits will follow:



More and more companies now operate in networks rather than as stand alone entities.
Source: Leszek Glasner/Shutterstock

Customer relationship marketing (CRM) involves using technology to shape separate offers, services or messages to groups or even individual customers, based on information about their past transactions, demographics, psychographics, media and distribution preferences. By focusing on their most profitable customers, offerings and channels, these firms hope to achieve profitable growth, capturing a larger share of each customer's expenditures by building high customer loyalty.

Integrated marketing

Integrated marketing is critical, as a marketer must devise marketing activities and programmes to create, communicate and deliver value for consumers such that 'the whole is greater than the sum of its parts'. Two key themes are that (1) many different marketing activities can create, communicate and deliver value and (2) marketers must design and implement any one marketing activity with all other activities in mind (see 'Marketing in practice' box on the 7Ps of the marketing mix and target market alignment). When Bayer promotes their hospital equipment they have a consistent message to buyers and also manage the distribution to the hospital and provide the installation, maintenance and training services to go with the purchase. Every communication, channel decision, pricing and all aspects of marketing must contribute on their own and also support and improve the effectiveness of the others. Each must also deliver a consistent brand message at every contact point.[66] Consider Iceland (the country, not the retailer).

Iceland

For Iceland, the unexpected eruption of the dormant volcano Eyjafjallajökull in April 2010 resulted in a wave of negative press and bad feelings. As tourism generates around 20 per cent of the country's foreign exchange and holiday bookings were plummeting, government and tourism officials decided to plan an integrated marketing approach called 'Inspired by Iceland'. This plan was based on the insight that 80 per cent of visitors to Iceland recommend the destination to friends and family. The country's citizens were recruited to tell their stories and encourage others to join in via a website or Twitter, Facebook and Vimeo, with 22.5 million stories created by people all over the world, and ensuing bookings were dramatically above forecasts. They also used a tourist tax and other process measures to ensure that their natural beauty is shared and also valued. The integrated combination of a rebranding strategy and tourism incentives worked wonders for Iceland, as did the Icelandic football team and their outstanding performance in the world cups.

The Icelandic Tourist Board understands that a rapidly maturing destination must be managed holistically and sustainably and be aware of how tourism affects its residents and the environment. Their integrated marketing was a huge success, with global travellers flocking to see its Northern Lights, waterfalls and other natural wonders in ever-increasing numbers: from 490,000 in 2010 to 1.8 million in 2016, with over 2.2 million in 2017.[67]

Iceland's fully integrated holistic marketing really worked and increased visitors to the country
Source: Islandsstofa/Promote Iceland

Internal marketing

Internal marketing is a core aspect of holistic marketing that focuses internally on company employees. Internal marketing is inward-facing marketing and is the plan for how marketing will ensure that all staff are aware of and aligned to the vision and marketing plan of the company. Internal marketing supports and motivates staff to want to serve customers and to manage their roles in a consumer-focused way. Apple is a great example of a company where all staff understand, reflect and practise the vision and brand message in everything they do.

The following example highlights some of the potential challenges in internal marketing:

The marketing manager of a major European airline wants to increase the airline's traffic share. His strategy is to build up customer satisfaction by providing better food, cleaner cabins, better-trained cabin crews and lower fares, yet he has no authority in these matters. The catering department chooses food that keeps food costs down; the maintenance department uses inexpensive cleaning services; the human resources department hires people without regard to whether they are naturally friendly; the finance department sets the fares. Because these departments generally take a production or cost point of view, the marketing manager is stymied in his efforts to create an integrated marketing programme.

Ensuring that the vision, the ethos and the operations are all customer focused and that all staff understand, appreciate, agree to and support the total marketing effort needs constant work. As Jan Carlzon, former chief executive of the SAS Group, famously noted:

If you're not serving the customer, your job is to be serving someone who is.

Performance marketing

Performance marketing requires understanding of the critical metrics, both financial and non-financial, that are measures of the marketing activities and programmes, and is often referred to as marketing metrics (see Chapter 22). Top marketers must go beyond sales revenue to examine the marketing scorecard or dashboard metrics and interpret what is happening to **market share**, customer-loss rate, churn rates, social media and web analytics, customer satisfaction and other measures aligned with managerial insights.[68] They must also consider the legal, ethical, social and environmental effects of marketing activities and programmes.

When they founded Ben & Jerry's, Ben Cohen and Jerry Greenfield embraced the performance marketing concept by dividing the traditional financial bottom line into a 'double bottom line' that also measured the environmental impact of their products and processes. That later expanded into a 'triple bottom line' to represent the social impacts, negative and positive, of the firm's entire range of business activities. Many firms have failed to live up to their legal and ethical responsibilities, and consumers are demanding more responsible behaviour.[69]

Marketing in practice

The 7Ps of the marketing mix and target market alignment

Many years ago, McCarthy classified various marketing activities into marketing-mix tools of four broad kinds, which he called the 4Ps of marketing: product, price, place and promotion. However, given the breadth, complexity and richness of marketing and the changing market and societal environment, clearly these 4Ps are not the whole story any more. Reflecting the holistic marketing concept, we arrive at a more representative set that encompasses modern marketing realities to include three extra Ps: people, processes and physical evidence (Chapter 20), illustrated as in Figure 1.6. This aligns with a service-dominant (S-D) logic–a meta-theoretical framework for explaining value creation, through exchange, among configurations of actors where consumers co-create their competences within service exchanges.[70] S-D logic suggests the need to (1) take a service ecosystems perspective and a more holistic, dynamic and systemic perspective of value creation and (2) emphasise institutional arrangements as coordination mechanisms in such systems.[71]

Marketing is practised when a target market(s) is selected and aligned to a brand positioning and each marketing mix activity is designed to satisfy that target market through a total company effort, resulting in a profit.

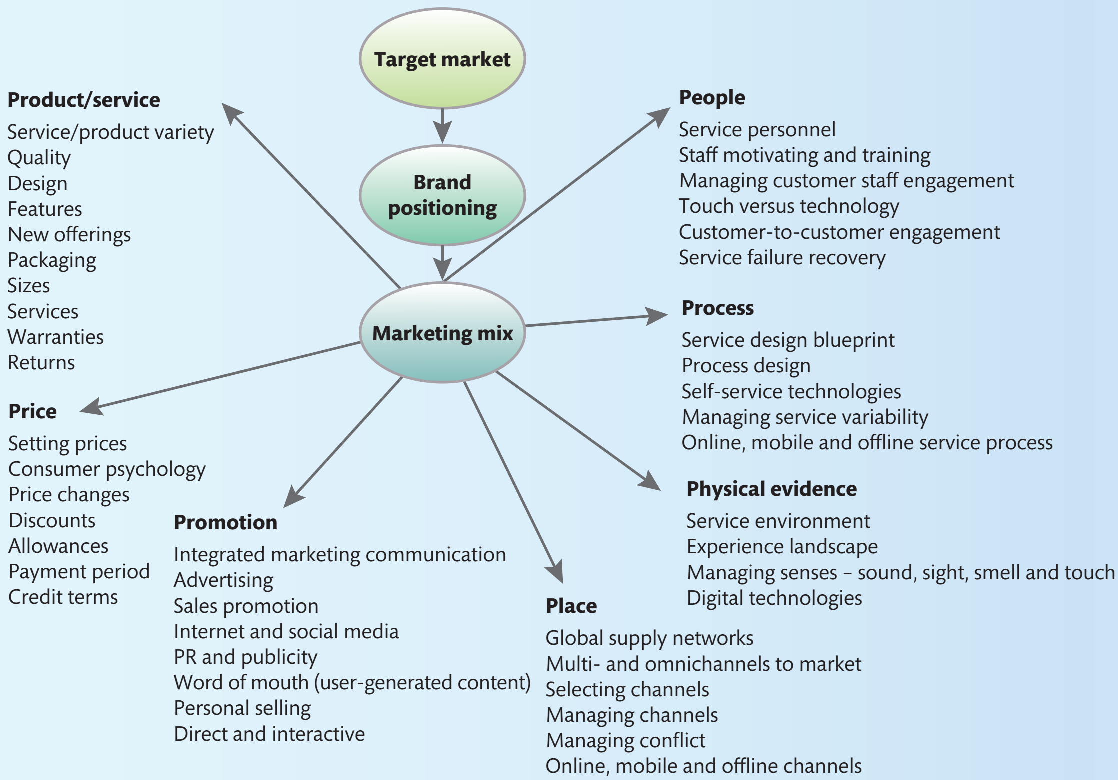


Figure 1.6 The 7Ps, components of the marketing mix, must be aligned to the target market

Overview of Marketing Management

This section, Figure 1.6 and Figure 1.7 provide an overview of the text. The 'Marketing memo: Marketers' frequently asked questions' is a good checklist for the questions marketing managers ask, all of which we examine in this text.

Marketing memo

Marketers' frequently asked questions

1. How can we spot and choose the right target market(s)?
2. How can we differentiate our offerings?
3. How should we respond to customers who buy on price?
4. How should we best use technology internally and at the customer interface?
5. How far can we go in customising our offering for each customer?
6. How can we grow and manage our business?
7. How can we build stronger brands?
8. How can we reduce the cost of customer acquisition?
9. How can we keep our customers loyal for longer?
10. How can we tell which customers are more important?
11. How can we measure the payback from different types of marketing communications?
12. How can we improve sales force productivity?
13. How can we establish multiple channels and yet manage channel conflict?
14. How can we ensure that all departments are customer-orientated?

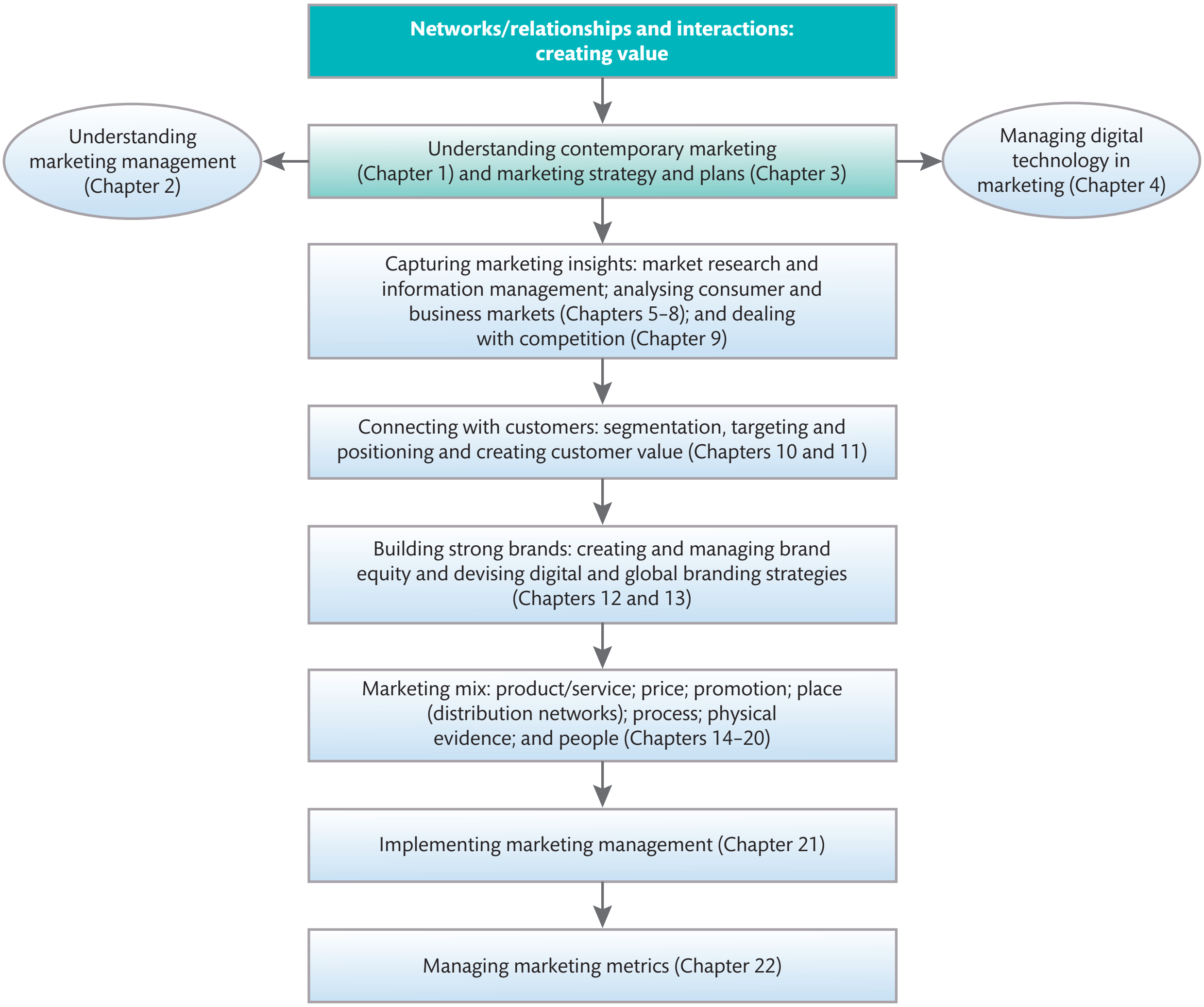


Figure 1.7 An overview of marketing management activities, reflecting the main chapters in the text

Case study of marketing management

We can identify a specific set of tasks that make up successful marketing management and marketing leadership. We'll use the following case study to illustrate these tasks in the context of the plan of the text.

Zeus, Inc. (name disguised), is a global business operating in several industries, including cameras, film and chemicals. Corporate management is considering what to do with Atlas – the camera division that produces a range of 35mm and digital cameras. Although Atlas has a sizeable market share in the camera market with good revenue, the 35mm market itself is declining rapidly and Atlas's market share is slipping. In the faster-growing digital camera segment, Atlas faces strong competition, has been slow to gain sales and technological challenges abound (Chapter 1). Corporate management wants Atlas's marketing management (Chapter 2) to produce a strong turnaround marketing plan for the division (Chapter 3).

Understanding marketing management

The marketing strategy must reflect the changing customer perspectives and European marketing realities (Chapter 1). The marketing team must have the skills needed to change the direction of the organisation and to manage both an internally and externally challenging environment, locally, within Europe or across the globe (Chapter 2).

Developing marketing strategies and plans

The first task facing Atlas is to identify its potential long-run opportunities given its market experience and core competences. Atlas must define its customers' needs and then it can design its cameras to match those needs. It could also look to other customer needs and make a line of video cameras, or it could use its core competency in optics to design a line of binoculars and telescopes. Whichever direction it chooses, it must develop a concrete marketing plan that specifies the marketing strategy and tactics going forward (Chapter 3).

Managing digital technology in marketing

Atlas needs to review the digital technologies within its organisation and at the customer interface. Other camera manufacturers are embracing technology and have a range of self-service devices, both in shops and at home. It needs to decide how to use technologies such as social networking, the internet or digital channels innovatively (Chapter 4).

Capturing marketing insights

Data analytics and a reliable marketing information system are needed to monitor closely its marketing environment, and it needs to understand its internal database information to find answers to the market situation (Chapter 5). The marketing manager needs a reliable marketing research system that will provide figures for market potential, forecast demand and support decision making about marketing expenditures and activities (Chapter 6). The marketing manager must deeply research the consumer market, understanding who buys cameras and why they buy (Chapter 7). Atlas also sells 35mm cameras to business markets, including large corporations, retailers and government agencies, and needs to gain a full understanding of how organisational buyers buy (Chapter 8). Atlas must also pay close attention to competitors, anticipating its competitors' moves and knowing how to react quickly and decisively. It may want to initiate some surprise moves, in which case it needs to anticipate how its competitors will respond (Chapter 9).

Connecting with customers: segmentation, targeting and positioning

Atlas must reconsider the segmentation in the market and how best to create value for its chosen target markets, and it must decide how to position in the market (Chapter 10). Should it position itself as the 'Mercedes' brand, offering superior cameras at a premium price with excellent service? Should it build a simple, low-priced camera aimed at more price-conscious consumers? Or something in between? How should it develop strong, profitable, long-term relationships with customers (Chapter 11)?

Building strong brands

Atlas has a range of marketing mix elements that it must integrate and use to create and maintain its business customers, networks partners and other stakeholders, and a strong, favourable and unique brand image in the eyes of its consumers (Chapter 12). Atlas will have to manage its digital and global branding issues (Chapter 13).

Creating value – shaping the market offerings

Once the target market has been chosen and the brand positioning decided, at the heart of the marketing programme is the product/service – the firm's tangible and intangible offerings to the market, which includes the product quality, design, features and packaging (Chapter 14). Based on its positioning, Atlas must initiate new-product or service development, testing and launching as part of its long-term view (Chapter 15).

A critical marketing decision relates to price. The marketing team have to decide on wholesale and retail prices, discounts, allowances and credit terms. Price should align well with the offering's perceived value and positioning (Chapter 16).

Communicating value

Atlas must adequately communicate to the target market the value embodied by the brand through an integrated marketing communication programme that maximises the individual and collective contributions of all communication activities (Chapter 17). Atlas needs to set up a communication plan that could consist of advertising, sales promotion, internet, social media, publicity and public relations, personal communications, direct and interactive marketing, as well as how to hire, train and motivate salespeople (Chapter 18).

Delivering value

The marketing team must design a global supply network and a multichannel strategy, including digital and retail channels, to deliver to the market using a network of companies and channel members or intermediaries (Chapter 19). They also need to plan an innovative service process, any physical evidence that creates or confirms the brand image and also explore the impact of people (either staff or other customers) during all customer interactions (Chapter 20).

Implementing marketing responsibly for long-term success

Finally, Atlas must build or maintain a marketing organisation that is capable of implementing the marketing plan (Chapter 21). Atlas will need feedback and control mechanisms to understand the efficiency and effectiveness of its marketing activities and how it can improve them. The marketing team must report back to the corporate board to discuss the marketing metrics and to measure the returns and the effectiveness of their marketing strategy and tactics (Chapter 22).

Marketing focuses on understanding the customer and honing in on their current and, more importantly, their future needs so that the total company effort is towards customer satisfaction at a profit.

SUMMARY

1. Marketing is a philosophy of business and a set of processes for creating, communicating and delivering value to customers and for managing customer relationships in ways that benefit the organisation.
2. Marketers are skilled at managing demand. They must also understand, and try to satisfy, customer needs and wants, mindful of the societal and environmental impacts.
3. The European marketplace has societal forces including technology, globalisation and social responsibility that have created many opportunities but also many critical challenges.
4. There are five competing philosophies under which organisations can choose to conduct their business: the production philosophy, the product philosophy, the sales philosophy, the marketing philosophy and the holistic marketing philosophy. The first three are of limited use nowadays.
5. The marketing philosophy states that marketing should be a total and integrated company effort. Everyone in the company needs to understand and focus on the customer experience.
6. Holistic marketing recognises that everything matters and that a broad, integrated, company-wide perspective is necessary. Four components of holistic marketing are relationship marketing, integrated marketing, internal marketing and performance marketing.
7. The set of tasks necessary for the successful marketing environment includes developing marketing strategies and plans, capturing marketing insights, choosing target markets and positioning within these markets, building strong brands by using the marketing mix activities for creating, delivering and communicating value, and creating long-term growth.
8. Following implementation of marketing programmes, marketing managers use marketing metrics to ascertain the success or otherwise of the marketing effort.

APPLICATIONS

Marketing debate

Companies must adopt the holistic marketing philosophy to succeed in the current European marketplace. The marketing philosophy is accepted within an organisation when the total company effort is towards customer satisfaction at a profit. Some companies struggle to embrace this and instead focus on production, product or selling philosophies.

Take a position. Holistic marketing philosophy is critical for companies *versus* it is still acceptable for companies to have a selling or product philosophy.

Marketing discussion

Consider the key forces driving the new marketing realities. How are they likely to change in the future? What other major trends or forces might affect marketing?

FURTHER READING

V. Kumar (2015) Evolution of marketing as a discipline: What has happened and what to look out for, *The Journal of Marketing*, 79, 1–9.

This paper explores the evolution of marketing through the ages, and through the lens of academic research it provides a valuable overview of the evolution of marketing thought and practice to the present day. The author notes that the emerging paradigm for marketing seems clear: it must be an integral part of the organisation's decision-making framework. It is also evident that marketing as a discipline now occupies a much more central role in organisations. This elevated position provides the discipline with new ways to expand its horizons and bring in interdisciplinary knowledge. Many new forces continue to shape the field of marketing, including technological advances, data analytics, increased accountability and metrics, investment decisions, globalisation and the challenges of international markets.

For a research perspective he notes: 'The need of the hour is for the discipline to be in perfect synchrony with this dynamic landscape and stay updated accordingly. In light of these changes, we must remain cognizant about the dynamics in the marketing environment – that is, look out for the questions that need to be answered and the issues that need to be solved – to empower ourselves with the knowledge we seek.'

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[70]S. L. Vargo, and R. F. Lusch (2004) Evolving to a new dominant logic for marketing, *Journal of Marketing*, 68(1), 1–17.

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CHAPTER 2
Understanding marketing management within a global context

In this chapter, you will learn about the following topics:

1 The critical aspects of management

2 How marketing management is practised

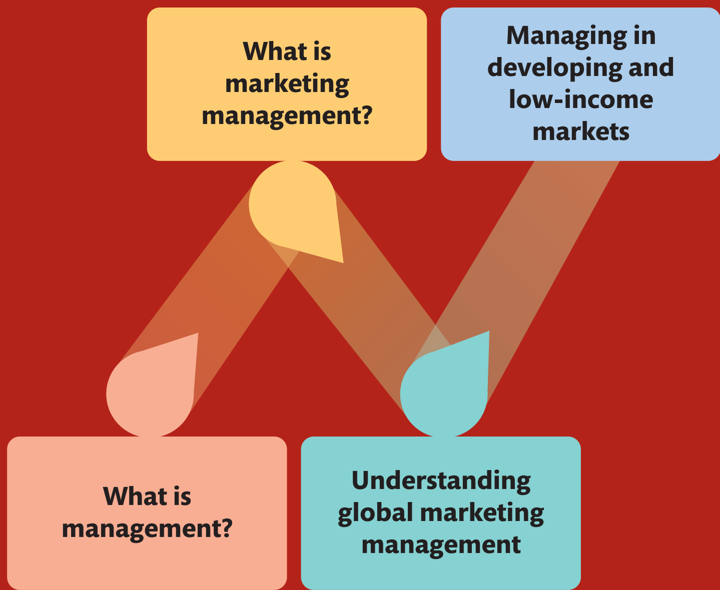
3 How global marketing management is practised

4 The major methods for going global or entering foreign markets

5 Managing in developing and low-income markets

Strong marketing management and a marketing team that listens to its customers ensures Zara's success
Source: © Jochen Tack/Alamy.

Chapter Journey



Marketing management is a challenging and rewarding career choice, a core management function central to all company efforts, connecting, inspiring, focusing and organising.[1] Marketing management's major task is to manage the fulfilment of customer needs, matched to profit or other objectives, within digital, changing and complex internal and external environments, nationally, internationally and globally.[2] Consider Zara.

The global success of Spain's Indetix – which owns and manages eight fashion retail brands (including Zara Massimo Dutti, Bershka, Oysho, Pull & Bear, Stradivarius, Tempe and Uterqüe), over 7,000 stores and a huge digital presence – is supported by Zara's marketing management expertise. The company maintains tight control of internal operations by synchronising its online and offline operations, aligned to a deep customer understanding and desire for fast fashion at affordable prices.[3] Zara, once described by Louis Vuitton's fashion director Daniel Piette as 'possibly the most innovative and devastating retailer in the world', redefined the rules of retailing with a management focus on customer needs.[4] Under the management leadership of its founder, Amancio Ortega Gaona, Zara became a global market leader with over 2,200 stores in 93 countries and over 40 online markets with revenues of over €7 billion annually.

Its marketing team coordinates a highly engaged workforce with superior data analytics and dashboard information, aligned to up-to date design with just-in-time production and delivery, which has customers flocking to its shops on average three times more often than for its competitors. It has a customer-centric marketing focus on pulling people in, not pushing products out. While its competitors focus on outsourcing and creating sophisticated advertising campaigns, Zara's 'fast fashion' strategy focuses on managing and understanding customers. Within its Spanish headquarters, departments such as design, production and distribution all rub shoulders, creating formal and informal relationships between departments and thus minimising bureaucracy and allowing for speed and responsiveness to customer fashion needs and trends. Its ability to operate a two-week new-fashion turnaround against an industry average of six months has been called 'mind-spinningly supersonic'.

A combination of strong marketing management and a marketing team that listens to its customers, together with an ability to plan, organise, lead and control, has moved Zara from a small Spanish store into a worldwide success and an industry icon.[5]

What is management?

Management in today's business world is demanding. The globalisation of business, the political and financial challenges across Europe and beyond, the massive increase in and spread of digital technologies, the development of supply networks spanning the globe, climate change concerns and changing consumer and business priorities are all contemporary challenges for marketing managers. Managers must also be aware of the major disruptions in the marketplace, such as technological and population growth dynamics, global and social challenges and economic realities, which can greatly impact on marketing management practices – see 'Marketing insight'.

Marketing insight

Thinking about Management Responsibilities

Views of management are not always positive and in many ways movies and TV shows do management no favours. Think of Ricky Gervais's sitcom 'The Office' which is a big hit but is a clear portrayal of poor management, which demeans and undermines staff. Also think of the boss in Dilbert who is self centred, lacks any empathy and again is an example of unacceptable management practices. There is even a call for changing the name to leader or coach. Some people consider that what is needed is to reinvent or rethink management. To many people management is viewed as a system of control, judgment, reviews and budgeting. Telling people what to do and ensuring that they do it within a strict budget. When management is focused on control it overlooks the challenges of complexity, it also overlooks the benefits of change and it does not allow for new and more complex means of thinking about management. So is there a wider role for management? Is there a more humane role for management? Could we reach the era when school children would admire and choose management as a career? Yes if we see management as thinking about what you do and why you do it and the wider implications of same and of following that perspective each and every day and for each and every decision.

What is needed is innovations in management what could be called better ideas for how businesses are managed now and into the future. Over the decades we have moved from ideas like Total Quality Management in the 1970, to Just in Time in the 1980s and in more recent decades to open innovation or lean management and other models of management but there is a need to move beyond these. Underpinning all these is dominant focus on capitalism across much of Europe – the focus on profit. Some societies – mainly in a few Nordic countries – have a more balanced viewed of private enterprise and social purpose with market economies called capitalism with a conscience or capitalism with a heart but in general profit or capitalism reigns supreme.

There must be a widespread move beyond the mechanistic culture in organisations, the view of the organisational machine aligned to industrial engineering. What is needed is a focus on management as multifaceted and worthy of incredible investment and support. What does the messy reality of management really look like and how can managers best be supported to carry out this challenging role? Many businesses still assume a linear role for managers when the focus should be on co-creation, co-operation, consensus and challenging people from every area of the business to understand their actions and the intended consequences and handling the unintended consequences. Many companies now have autonomous, motivated and engaged teams able to continuously generate new knowledge rather than hierarchical rigid systems of control. The core idea is that there is no perfect fit or model for every situation but there must be a model for management that respects people, respects the planet and understands and confronts the challenges of our society.

What is needed in society is that managers who take their responsibilities seriously and that the privileged, in this case, managers, realise that there is critical importance to how they act and what they do. It is the responsibility of management education to ensure this. Educators must be reminded of their responsibilities to support students in developing their ability to make responsible and accountable decisions.

Remembering that the long term good of companies, of societies and of this planet should be central to all that they do – that managers have a social function and responsibilities to society. Quite a tall order but needed in this challenging era with rampant inequality, workers under siege, surges in automation, companies not covering their social costs, environment exploitation, rapidly changing business cycles, and economic and global instability. The focus on narrow self interest or short termism for either managers or companies will not create and nurture the type of society that supports the good of all – their material wealth and also the spiritual well being of humans – all living on this one small revolving and sadly declining planet.

Source: Fellenz, M.R. (2019). A Deeper malaise: Rejoinder to "The Menace of Misinformation: Faculty Misstatements in Management Education and Their Consequences". *Journal of Management Education*, April 13, 1–7.
Kingston William, (2017 *How Capitalism Destroyed Itself: Technology displaced by financial innovation*, Edward Elgar.
Kotler, Philip (2015) *Confronting Capitalism, Real Solutions for a Troubled Economic System*, Amacon.
Mowles, C, (2016) Rethinking Management, Routledge 1st edition.
Küpers, W., Sonnenburg, S. Zierold, M. (Eds.) (2017) Rethinking Management: Perspectives and Impacts of Cultural Turns and Beyond, Springer Fachmedien, Wiesbaden GmbH.
Birkinshaw, J. (2010) Reinventing Management, Smarter Choices for getting work done, Wiley, San Francisco.

Many marketing management roles have changed, from managing small to medium-sized national companies to managing global companies spanning continents. Ferrero Spa, the chocolate manufacturer famous for Nutella, Ferrero Rocher, Kinder Surprise and Tic Tac, was founded in 1946 in Alba, a small town in Italy, and started as a small pastry shop using local hazelnuts as a chocolate substitute. Now a global success employing 22,000 people, with 18 factories, a huge distribution channel and operations including owning the Thorntons chain in the UK, they enjoy annual revenues of more than €6 billion from sales in over 100 countries. What was once a small Italian company now purchases approximately 25 per cent of the world's supply of hazelnuts.[6,7]

The process of management

Management is the ability to use organisational resources to achieve organisational **goals** through the functions of planning, organising, leading and control.[8] **Managers** are the people within the organisation charged with running the organisation on behalf of the owners.[9] Management therefore can be viewed as:

- a process or series of continuing and related activities;
- the achievement of organisational goals by working through and with people;
- the responsibility to combine and use organisational resources to ensure that the organisation achieves its purpose.

Management is neither an art nor a science but a process, with four basic pillars in that management process: planning, organising, leading and controlling – all guided by the goals that the company needs to achieve in order to gain the desired result (see Figure 2.1).

1. **Planning** establishes the direction of the organisation.
2. **Organising** divides activities among work groups, allocating the people, technological, physical, financial and information services required to achieve tasks.
3. **Leading** motivates employees to achieve organisational goals.
4. **Control** measures and evaluates organisational performances.[10]

1 Planning

Planning is the process of establishing goals and objectives and selecting a future course of action in order to achieve them. In planning, a manager looks to the future – pointing out what management wants to achieve and how they are going to achieve it. Decision-making is a central component of planning because choices need to be made over what activities and goals are part of the plan.

The importance of planning cannot be overstated. As the saying goes: *if you don't have a plan to succeed, you really have a plan to fail.* Although business and marketing plans may overlap in some areas, what sets a marketing plan apart is its focus on the customer. According to Sir George Bull, former chairman of Sainsbury: 'The marketing plan starts with the customer and works its way around the business.'[11]

Marketing managers must be able to manage the effective design and implementation of a customer-focused *marketing plan* for the organisation. A good marketing plan has to be clear and convincing and show how the recommendations will actually work. The power of a great

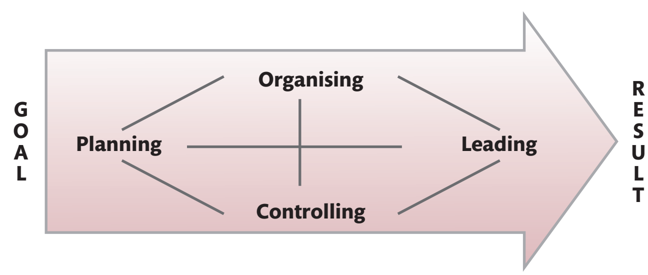


Figure 2.1 The process of management
Source: J. Martin and M. Fellenz (2017) *Organisational Behaviour and Management*, Fifth Edition, Hampshire: South Western Cengage Learning.

marketing plan is that it clearly presents the core ideas, creates consensus and drives execution. In today's fast-moving world, managers cannot hide behind fancy charts and complicated analyses; they have to make smart choices and execute plans. A clear marketing plan, grounded in goals, strategic initiatives and tactics, can help make this happen.[12] (See Chapter 3 for how to design marketing plans).

2 Organising

Organising is the process of making sure the necessary human, physical, technological, financial and informational resources are available to carry out the plan to achieve the organisational goals.[13] **Organisational design** is the process by which managers select and manage aspects of an organisation's structure and culture to coordinate the activities necessary to achieve organisational goals.[14] Most organisations follow the traditional pattern of a **functional structure** – setting up departments, most of which are stand-alone units reporting hierarchically to the top of the organisation. This often leads to department silos, which can separate rather than join departments.

Organisations are normally divided into functions, departments and multifunctional activities (teams). **Functions** are a distinct group of staff serving as specialists in achieving a set of given objectives and carrying out corresponding activities, and they are usually permanent within organisations. Examples are the operations function and the accounting function. *Functional initiatives* are activities where an individual or function has minimal or no contact with personnel from other functions; these are often called functional-specific activities.

Departments are at a higher level and encompass many functions. The *marketing department*, for example, can contain the market research function and the sales function. The main responsibility of the marketing department is to act as the 'boundary spanner' between the company and its customers. While there is a need for a separate marketing department, the philosophy of the company should be a marketing philosophy. It is not an either/or but a both/and perspective that is needed.

Multifunctional or **cross-functional activities** occur when work is carried out by employees from different functions or departments, with a preselected team leader. They are now a **team** comprising a group of people, linked through a common purpose. Teams are especially appropriate for conducting tasks that are high in complexity and have many interdependent subtasks.

Marketing managers must unite all departments under a common focus of satisfying customer needs at a profit.
Source: Creatas/PunchStock/Getty Images.

The marketing department is required to integrate all departments, processes, teams, technologies and activities towards the customer.[15] See the 'Marketing in action' box.

Marketing in action

Three challenges for high-performing marketing departments

In research by Harvard Professor De Swaan Arons and his colleagues, which examined what separated high-performing marketers from the rest, they found that high performers excelled in three areas:

1. Integrating data about what customers are doing with an understanding of why they are doing it.
2. Communicating a brand purpose (the functional, emotional and societal benefits of the offering).
3. Delivering a 'total experience' to customers.

To provide this kind of experience, high-performing marketing departments must break down department silos and enlist the help of the entire organisation. That means they must link marketing strategy tightly to business strategy and to other functions, inspire employees across the company with the brand's purpose, focus and align around a few key priorities, set up nimble, cross-functional teams and build internal capabilities through extensive training at all levels. Surprisingly, few companies have been able to put all these pieces together. Only half of even high-performing organisations excel on some of these capabilities. The authors suggest that this shouldn't be discouraging; rather, it just illuminates where there's work to do.

Source: M. de Swaan Arons, F. van den Driest and K. Weed (2014) The ultimate marketing machine, *Harvard Business Review*, July, 92(7/8), 54–63.

Because of the importance of the marketing department as a key driver of business strategy, top management should focus on the work of this department above all.[16] There can be three key problems with marketing departments:

1. The marketing department lacks the resources needed to get its primary job done.
2. The marketing staff do not have the management skills or power to unite all the departments in the company towards the customer.
3. There is constant friction between marketing and other departments in the company.

Any combination of these three can spell doom for even the smallest of companies.

3 Leading

Leading means influencing other people to achieve organisational objectives. It involves energising, directing and persuading others, and creating a vision. **Leadership** is the process of influencing others to understand and agree about what needs to be done and how to do it, and the process of facilitating individual and collective efforts to accomplish shared objectives.[17] Leadership includes many interpersonal processes: motivation, communicating, coaching and showing people and groups how they can achieve their goals. While management is accomplishing work through people, leadership focuses on inspiring people so that they trust and are inspired. As Angela Ahrendts, former CEO of Burberry, noted: 'When you have trust and you get that trust in place throughout the company, people are empowered – people are free. Everyone talks about building a relationship with your customer. I think you build one with your employees first.'[18]

Recent research suggests that the core leadership skills are the ability to:

- build leadership teams to think and act for the whole organisation;
- understand the underlying systems that produce the performance outcomes;
- be patient with people as they transition;
- display extremely high levels of self-awareness;
- understand and incorporate the wider change context;
- set tangible measures for the achievement of change.[19]

Leaders have different styles and have to choose the best style for themselves and their organisation – see 'Marketing in practice'.

Marketing in practice

Management and leadership styles

What exactly is a management style?

Management and leadership style is the general and consistent approach that a manager uses: for example, how they run their decision-making process and how they treat their employees. Each style has its own set of positive and negative characteristics, and reflects the manner in which tasks are managed and completed. There are many management styles in business – the following is a brief discussion of the main ones:

- Democratic: In a **democratic management style**, the manager usually delegates power to the subordinates and leaves the decision-making process to them. It is important that those given the responsibility are those who are efficient in executing the tasks. This business leadership style is most suitable and effective in a situation where the manager wants to teach employees the process of decision making.
- Autocratic: In an **autocratic management style**, the manager is fully responsible for making the decisions. Hence, other employees are left out of the decision-making process. This is most effective in a condition where prompt decisions are required. This leadership style, however, can easily demotivate employees and dampen their productivity level.
- Participative: In a **participative management style**, the manager gives staff and subordinates the chance to be involved in the decision-making process. Believed to be one of the best methods of boosting the motivation of employees, this style will make employees feel valued by the management. However, while there is a sense of collective decision making, the manager will have the final say.
- Laissez-faire: A **laissez-faire management style** sets the tasks and gives staff complete freedom to complete them as they see fit. There is minimal involvement from the manager. The manager, however, does not sit idle and watch them work. They are there to coach or answer questions, and supply information if required. There are benefits: staff take responsibility, which may lead to improved motivation. However, with little direct guidance from the manager, staff may begin to feel lost and not reach the goals originally set.

Choosing the best style

Ultimately, the best management style is one that can get the job done effectively. A leader is expected to adopt roles, rules and concepts according to the situation and condition of the company, as well as the skills and mindset of their employees.

Sources: D. Goleman and R. Boyatzis (2008) Social intelligence and the biology of leadership, *Harvard Business Review*, September, 1–8; D. Goleman (2007) *Social Intelligence: The New Science of Human Relationships*, New York: Bantam; Premier Training (2011) *Selecting the Best Management Style for Your Business*, Huntingdon; J. Purcell and B. Ahlstrand (1994) *Human Resource Management in the Multi-divisional Company*, Oxford: Oxford University Press.

Leaders need to develop a sense of shared purpose within organisations. They also must show that they can execute their visions. Consider Matti Alahuhta, CEO of Kone, the Finnish elevator and escalator company – a previous winner of the 'European Manager of the Year Award' – who emphasised the need for creating a positive spirit and energising staff, particularly during challenging times:[20]

> **The key challenge for leaders in difficult times is to see this phase as an opportunity. Instead of emphasising costs only, such an approach requires the development of a positive spirit and getting people to direct their energy towards a clear common goal. It also requires the continuing active development of people and overall competitiveness of the company. Finally, it requires a high level of activity directed towards customers and a lot of internal communication concerning markets, the company's own actions, targets and business progress.**

(Organising is explored in greater depth in Chapter 21).

4 Controlling

Controlling generally involves comparing actual performance to a predetermined standard and evidence of significant difference between actual and desired performance should prompt a manager to take corrective action. Controlling is closely associated with planning because planning establishes goals and the methods for achieving them and controlling investigates whether planning was successful.

The role of data analytics and online and offline tracking has changed both the speed and the level of controls available. Supported by technological developments, the role of data analytics,

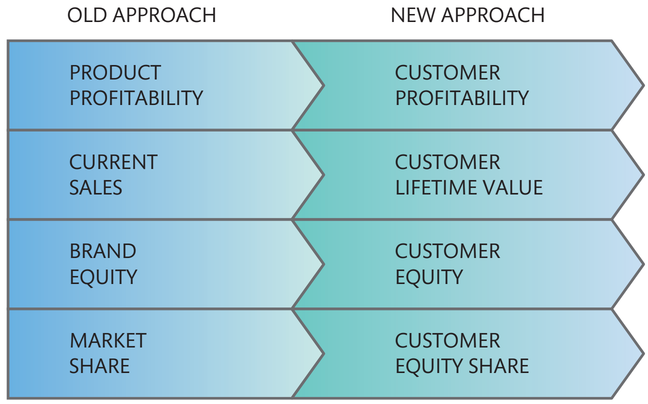


Figure 2.2 New marketing management approaches to controlling and measuring customer satisfaction, value and loyalty

Source: Reprinted by permission of *Harvard Business Review*. From R. Rust, C. Moorman and G. Bhalla (2010) Rethinking marketing, *Harvard Business Review*, Jan.–Feb. Copyright © 2010 by the Harvard Business School Publishing Corporation. All rights reserved.

dashboards and online and offline tracking has changed both the speed and the level of controls available. Traditional financial controls – sales revenues and profit – are now augmented by digital track-and-trace systems such as Google Analytics, which can provide real-time customer information to support decision making and control.[21]

A move to a more customer-focused or a marketing philosophy (new approach) away from a product/production philosophy (old approach) means controls such as customer profitability, customer lifetime value and customer equity are now central[22] – see Figure 2.2.

Building an effective internal control system requires three steps:

- First, the goals must be set.
- Second, the performance standards (control measures) used for problem solving, rather than blaming or punishing, must be set.
- And third, reward should be tied to performance.

The control process sets standards, measures actual performance, compares actual performance to standards and suggests corrective action if necessary.

Why is management difficult?

Management complexity arises due to uncertainty and variety within businesses and markets. It is introduced by two main influences: people and organisational context (see Figure 2.3).

People management is the art of giving direction to people. Managing people or employees introduces major challenges. Goals are achieved through people and, more fundamentally, without people there would be no organisations. A manager's most important, and often most difficult, role can be to manage people. Managers must lead, motivate, inspire and encourage people. Sometimes they also have to hire, fire, discipline and evaluate employees. Finding the right staff and giving them the right skills can be a major challenge, as can retaining and motivating them to produce results. Marketing managers often have to manage people outside of their own organisations, including distributors, retailers, agencies and networks of companies.

Technological challenges are expanding this role with automation and robotics as major workplace disruptors, with managers having to ensure that robots and automation along with next-generation technologies are well managed. The McKinsey Global Institute estimates that nearly half of all work could be automated with current technologies.[23] Klick, a digital agency of 700 people, automated its internal operating system tracking all billable hours, workflow and employee attendance, as well as managing recruitment and training.[24] Could people be managed by robots? A study found that 46 per cent of people obeyed a robot command over a human command and that they treated the robot as if it were human.[25]

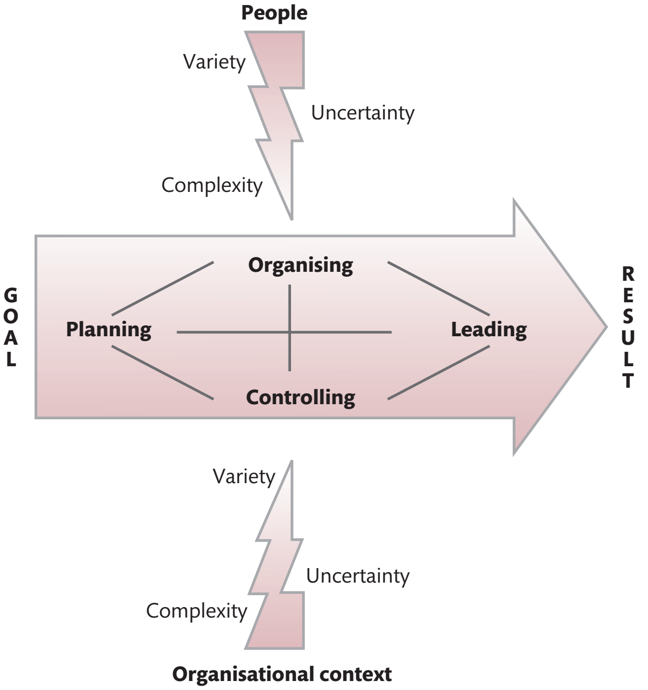


Figure 2.3 Why is management difficult?
Source: J. Martin and M. Fellenz (2017) *Organisational Behaviour and Management*, Fifth Edition, Hampshire: South Western Cengage Learning.

The **organisational context** includes the way the organisation is structured and how it operates, focusing on the structures, resources and departments as well as the behaviours and culture within the organisation. The organisational context is different for different companies. People and organisational context (as well as external context) inevitably introduce additional challenges because of their complexity, uncertainty and variety.

How will the increased use of robots effect management?
Source: Olena Yakobchuk/Shutterstock

- **Complexity.** A large number of potentially relevant factors may have a bearing on the intended outcomes. Businesses and markets are complex entities.
- **Uncertainty.** There may be insufficient information about the nature and likelihood of certain events that may have a bearing on the intended outcome. It is hard to predict the future and how companies and markets will react. An example is the uncertainty when a member state such as the UK votes to leave the European Union and how each company must manage within that new reality.
- **Variety.** Different and potentially expected and unexpected events may be encountered as part of the process. For example, an economic downturn can have unexpected consequences.

There is a reciprocal relationship between management, people and organisations, as Figure 2.4 shows. The diagram highlights the core issues and processes associated with:

- **Individuals.** Individual members of the organisation have different personalities, different styles of thinking and different levels of physical and cognitive ability (e.g. intelligence) and thus will perform at different levels. This also relates to how individuals select and use information and what motivates them to achieve their own and organisational goals.
- **Interactions.** This refers to the interactions among people, whether as individuals, functions or groups. They include leadership and management styles; group and team dynamics; communication among people; and the use of information for decision making. The elements of conflict and negotiation are also relevant, particularly due to the need to collaborate to achieve results.
- **Formal systems.** These include the formal systems for control, evaluation and reward. In business it is often felt that what gets measured gets managed – so these formal systems can have a large impact on what occurs within an organisation. Many are now automated formal controls, tracking and tracing work practices and processes.
- **Social systems.** These relate to the culture and shared norms and expectations within an organisation, and the use of power and influence. They also reflect the informal networks or social relationships among organisational members. Fairness and trust are important aspects of the social system, aligned to what is expected from people and how they experience the operation of management.

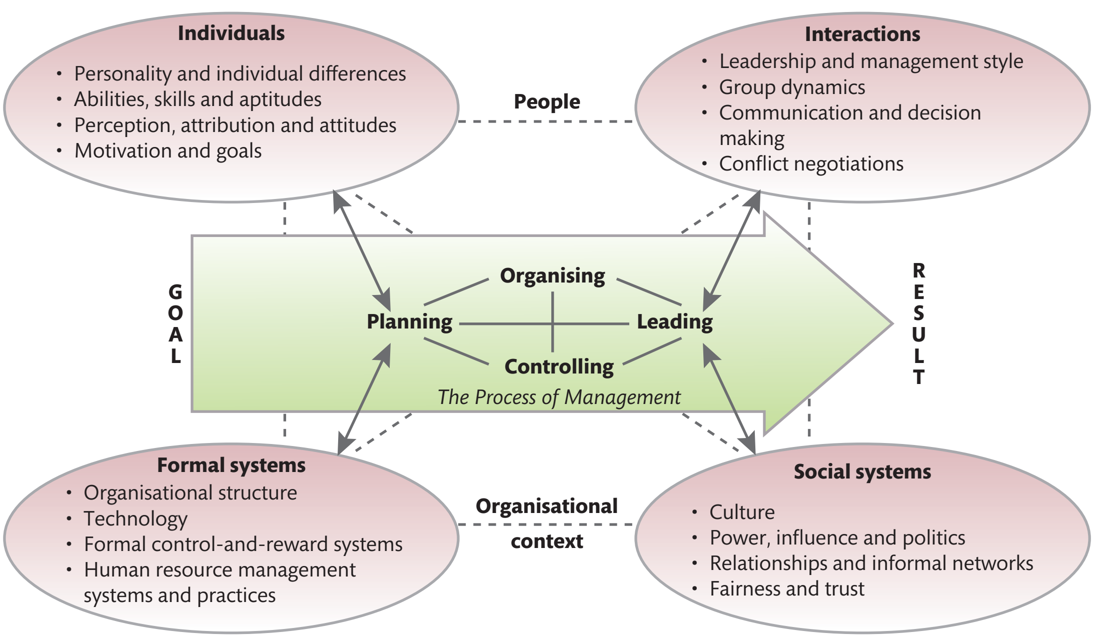


Figure 2.4 Managing in organisations
Source: J. Martin and M. Fellenz (2017) *Organisational Behaviour and Management*, Fifth Edition, Hampshire: South Western Cengage Learning.

Multiple managerial tasks

The nature of marketing management work often means that managers race around from task to task, with 'brevity, variety and fragmentation' as core characteristics of their work.[26] Much of management theory assumes that managers spend their time reading and analysing data to support their considered decision making. Though they do spend time doing this, studies have revealed that much of management is involved with interpersonal and communication issues. For example, managers spend a lot of time operating as a figurehead, making speeches, interacting with people and getting and receiving information from conversations and meetings. Many managers spend a lot of time away from their desk, running day-to-day operations, rather than on the long-term strategic needs of the company.

Both focuses are needed – see 'Marketing in action'.

Marketing in action

Burberry: A lesson on management and leadership

Burberry, the UK-based fashion empire, is one of the most widely recognised brands in the world. Angela Ahrendts, one of its former chief executives, took the company into the digital age without compromising the brand's soul – or her own. She won businessperson of the year by increasing revenues by more than 40 per cent and profits by more than 30 per cent. She also led the company into the FTSE 100 – the first British fashion house to be listed.

Her core management style is to lead from the top. She also understands the benefit of planning and of having a vision of what she wants to create. 'I don't look at Gucci or Chanel or anyone,' she says. She leads by working with and through people. A previous colleague noted that 'People want to work for her because she's completely unadorned and she has a life. She's all talent and no pretension.'

Her ability to react to uncertainty, complexity and variety is shown clearly in her reaction to the 2008 recession. At the time, the management team was euphoric as earnings were up 20 per cent, but in a single quarter revenues would drop by 14 per cent. Ahrendts immediately announced that she would cut €50 million in expenses and travel. Anything that would not be evident to the consumer was slashed but she invested into the customer-facing aspects of the business. For her, speed was crucial; swift surgery would leave less time to bleed and stop morale from deteriorating. In the end, her management team was galvanised.[27] As she left Burberry for Apple she noted that: 'After years of hiring and fostering the best talent, as well as constantly evolving the organisation to optimise the opportunities available to the brand, the team and the culture have never been stronger.'[28, 29]

The next managerial challenge is linking Burberry's AI and machine learning. A senior VP, David Harris, said: 'We certainly see the potential for machine learning to improve and automate a number of our support processes – dev ops, testing, etc. We are formulating our AI strategy now . . . we believe that AI can deliver business value through making better products, faster, cheaper processes and more insightful analysis.'[30]

What is marketing management?

Marketing management is a business discipline that achieves goals through the practical application of marketing techniques and the management of the total firm's marketing resources and activities. It is the planning, organising, leading and control of the analysis of the market, the choice of target market(s) and brand positioning and the use of the marketing mix activities required to manage products and services, price, distribution, promotion, process, people and all physical evidence to keep satisfied customers. All this must be managed to achieve organisational objectives – normally profit and a total company commitment to the customer. As George Day, Professor of Marketing, noted:

> **Marketing will realise its full potential only when viewed simultaneously as an organisation-wide commitment to putting the customer first, a strategic management responsibility for shaping the customer value proposition, and a functional responsibility to sense and respond to the market.**[31]

The success factors for top marketers are many and varied. Nowadays, marketing managers must have strong technology and digital orientation, quantitative skills but also well-honed qualitative skills; they must have an independent, entrepreneurial attitude but also work in close harmony with other departments such as sales and production; and they must capture the 'voice' and point of view of consumers, yet must have a keen understanding of profit impact and of how marketing creates value within their organisation.[32]

A survey of 200 senior marketing executives that looked into which innate and learned qualities were most important for marketing managers showed a mix of both are needed:

Innate:

- risk-taker
- willingness to make decisions
- problem-solving ability
- change agent
- results-oriented.

Learned:

- global experience
- multichannel expertise
- cross-industry experience
- digital focus
- operational knowledge.

The 'Marketing insight' box discusses the current and also the future marketing management skill requirements.

Marketing is not a 'one size fits all' discipline, and the variety and challenges of each situation are unique. Marketing managers need a range of skills to be able to use the full expanse of techniques available to them in creative and imaginative ways, while always monitoring the financial outlays and returns needed.

Marketing insight

Marketing skills

In a recent study of MBA graduates, a number of skills were recognised as being needed for those going into marketing.[33] The four most important were:

1 **Decision making under uncertainty:** ability to adapt to new situations; ability to make decisions with imperfect information; ability to integrate information from a wide variety of sources.

2 **Communication skills:** oral and written communications skills.

3 **Data collection and analysis:** information-gathering skills; quantitative skills.

4 **Strategic/analytical thinking:** ability to think strategically; ability to think analytically.

MBA alumni reported greatest usage of their interpersonal skills and oral and written communication skills. Integrating information from a wide variety of sources was also high on the list, as were analytical thinking, creative problem-solving skills and strategic thinking. The skills used least involved financial analysis (conducting cost-benefit analyses of proposed changes and preparing budgets) and direct staff management (recruiting, managing and maintaining staff).

The future

In relation to the skills and abilities needed by marketers in the future, six underlying dimensions were suggested:

1 **Information analysis and strategic planning:** developing a strategic plan; strategic thinking; developing creative problem-solving skills; integration of information from a wide variety of sources; analytical thinking.

2 **Communication skills:** oral and written communication skills; interpersonal skills; leadership skills.

3 **Statistical and financial analysis:** conducting financial analyses and preparing a budget; analysing, organising and interpreting statistical data; conducting cost-benefit analyses of potential changes.

4 **Organisation management:** recruiting, managing and maintaining staff; stress management; managing change.

5 **Career management:** managing own career; networking skills.

6 **Marketing-specific skills:** technical skills for marketing specialities – for example, developing web-based marketing, designing and conducting market research and understanding databases.

Valuing marketing within organisations

For many companies, marketing is successful; the department is well defined and there is agreement on the scope and contribution of marketing to the business. Unfortunately, despite the fact that marketing affects business and financial performance, marketing does have a poor image within some companies – underrepresented at board level, and a financial, production or sales philosophy dominating rather than a marketing philosophy.[34]

Marketing management in organisations can be at a disadvantage because of organisational and environmental pressures. These can include:

- uncertain definition of the term 'marketing' and the lack of understanding of marketing by some people;
- the tyranny of the profit-and-loss or financial focus of companies – often a myopic view focusing on short-term gain to the detriment of long-term sustained growth;
- the difficulty in directly measuring marketing returns;
- shifts in channel power and the loss of manufacturing control;
- increased demands of customers;
- the limiting of marketing's role within top management;
- marketing managers not having the same status as managers in other areas, such as finance, engineering and sales;
- moving staff from other areas into marketing without formal marketing training and expecting them to learn while there;
- not providing marketing with ample resources;
- lack of alignment between marketing strategy and business strategy.

Characteristics differ along key dimensions for companies that adopt a marketing philosophy and those that do not embrace a marketing philosophy. These are shown in Table 2.1.

Table 2.1 Characteristics of companies at the two extremes of marketing's influence

Marketing plays an influential role in corporate strategy in most companies – with the companies seeing and building marketing competence as a source of competitive advantage.

Key dimensions	Characteristics when marketing is not influential in corporate decisions	Characteristics when marketing is influential in corporate decisions
Definition of marketing	Wide disagreement and ambiguity about the role and importance of marketing and customer orientation	Clear and shared understanding of the role of marketing: strong customer orientation in the corporate culture
Top-management objectives	Focused on current stock price, earnings per share (EPS), cost reduction, market share, sales volume	Focused on long-term growth in revenue, profitability, EPS and cash flow
Orientation and functional background of CEO	Little or no marketing experience; focused on financial community	Deep understanding of marketing; compelling vision of customer value; advocate for the customer
Top-management priorities	Cost reduction and labour productivity	Customers, resellers and key accounts; market information and tracking data are key management tools
Growth strategy	Growth achieved through mergers and acquisitions	Growth achieved through serious commitment to research and development, product innovation
Role of brands	Strong brands used as cash cows to fund acquisitions, growth strategy	Substantial investment to build and maintain brand equity
Focus of new product/ service development	Product, service and technology focused	Customer analysis is hard-wired into product/service development
Portfolio strategy	Managed for cash flow; pricing used to achieve volume goals	Customer portfolio analysed and managed for loyalty and profitability

Source: F. Webster, A. Malter and S. Ganesan (2005) The decline and dispersion of marketing competence, *MIT Sloan Management Review*, 46(4), 35–43.

For many companies, the Anglo-Saxon model of business with its financial philosophy still dominates. A *financial philosophy* is where finance and financial models are used to evaluate business, and as such decisions are made predominantly through financial analysis and with profit maximisation as the main goal. Marketers in the past could have been perceived to be 'unaccountable' by finance – unable to demonstrate a return on investment from their activities, many of which are hard to evaluate in strict financial terms. This is changing rapidly with the advent of online metrics, which track and trace every aspect of company operations.[35] As marketing has become more digitalised, scientific and specialised, marketing practitioners are increasingly turning to advanced statistical techniques for dissecting segments, managing services and selecting prices and managing resources and profit.

Marketing needs to have a match of intuitive and creative ideas that can be tried and tested along with techniques that can be measured and monitored. The failure of many companies, especially during economic upheavals, can be attributed to an over focus on profit maximisation. Companies such as Waterford Crystal, HMV and Woolworths forgot about the customer in their rush to gain high profits and to expand and grow their share value.

Managing across the entire organisation

Marketing is a boundary-spanning operation because marketing must affect every aspect of the customer experience; marketing must include all possible touchpoints, such as store layouts, package designs, product functions, customer service and many more roles that are not the obvious domain of the marketing department such as production schedules, supply-and-demand networks and so forth. Marketing must also be influential in key general management activities, such as manufacturing, product and service innovation, service provision and new business development. To create a strong marketing organisation, marketers must think like executives in other departments, and executives in other departments must think more like marketers.[36]

Marketing managers manage through and with other departments and functions, and therefore interact and collaborate with other departments and functions in order to achieve objectives. The ability of marketing to unite with other departments such as sales, production and finance is crucial to gaining the acceptance and enthusiasm of other departments concerning marketing and the marketing mix programme.

Take, for example, new product or service development engineers – they must work with marketing before they start, during and after, rather than bringing marketing in only after they have developed a new product or designed a new service, which is the production or product philosophy (see Chapter 1). This involves using marketing only for the advertising or promotional area and ignores all the rest of marketing. 'Tick-box' marketing is when marketing is brought in *after* the product or service has been developed and for promotions only – ticking off the promotional items such as brochures, point-of-sale displays and advertising without any understanding of the other aspects of marketing. Such a mindset contributes to product and service failure because there is often a lack of clear understanding of consumers' needs.

Leading companies have developed an innovative approach to their marketing management that focuses on the seams between marketing and the other functions it interacts with, such as IT, new product development sales, finance. It is at these seams that communication most often breaks down and processes stall. Typically, three categories of marketing-related decisions cross organisational seams:

1. Strategy and planning
2. Execution
3. Operations and infrastructure.[37]

When marketing works closely with other units to execute key decisions, it can get things done far more quickly and effectively than in the past. But divergent assumptions or a lack of alignment and shared commitment between functions can get in the way. When staff in marketing and other relevant units were asked what roles they played in a decision, the answers were diverse and lacked consistency. In a classic example, both marketers and product developers in one car manufacturer's European division believed that they had the final say on which features to include in a new model. The focus must be on the decision process at the boundaries between functions or departments, and identifying and changing how important decisions at the seams are made to increase the impact of the total marketing operation.[38]

Managing outsourced activities

Marketing has long outsourced much of the creative right-brain marketing activities, such as advertising and promotion campaigns, but nowadays marketing departments also outsource many of the critical left-brain marketing activities, such as website management, customer database and database analysis.[39]

The most commonly outsourced tasks that must be monitored by marketing are website management, data analytics, call centres, website design, direct-mail programmes and database management, along with the more traditional advertising agencies and market research.[40] Some of these are crucial to the company, as they are the gateway to customers; for example, the website and the customer database are really important assets. There are also more digitalised outsourced practices, such as biometric testing, which allows companies to track and trace customers or augmented reality firms creating content.

Many companies should reconsider whether outsourcing of these areas is the right method. An alternative would be to build that skill-set in-house and invest in those skills that will be needed over the long term, with many more such as machine learning and artificial intelligence on the horizon.

Managing networks and relationships

Much of marketing management operates within a networked world – so a relational and networked approach is needed, demanding the coordination of networks of suppliers, customers and service providers at a range and level never before witnessed in business history. The Scandinavian network school of management suggests that companies have a multitude of relationships. **Relationship marketing** is the practice of building long-term satisfying relations with key parties. This is the move from competition to collaboration, from hierarchies to networks. Increasingly, competition is not between companies but rather between whole networks, with the prize going to the company that has built better networks. The ultimate outcome of relationship marketing is a unique company asset called a **network**, consisting of the company and its supporting stakeholders – customers, employees, suppliers, distributors, retailers and others – with whom it has built mutually profitable business relationships. The operating principle is simple: build an effective network of relationships with key stakeholders, and profits will follow.[41]

Viewing companies as virtual organisations – a fluid network of relationships and interactions, some internal and others external to the company, normally linked technologically – is the suggested model for today's business world. This moves away from hierarchical entities – a system in which members of an organisation are ranked according to relative status or authority. This virtual organisation is more organic, integrative, network-based and process-oriented, with groups of separate enterprises linked together for a common purpose. The network model of business has an enduring, profound, radical and pervasive effect on marketing, leading to a 'society of networks'.[42] Think of the hotel sector and how reliant it is on companies such as TripAdvisor and Booking.com, which channel so much business to the hotels but are not under their control at all and can quote prices that do not reflect the company. Managing entities within the network over which you have no control is challenging.

Achrol and Kotler have referred to **marketing networks** as 'interdependent systems of organisations and relations that are involved in carrying out all of the production and marketing activities involved in creating and delivering value in the form of products and services to intermediate and final customers'. They add that networks are not accepting of traditional mechanisms, such as authority and control, but rather focus on relational control.[43] **Network marketing** aims to build mutually satisfying long-term relationships with key constituents in order to earn and retain their business.[44]

Managing the diversity of operations, departments and situations inside and outside of companies and coordinating the resources and activities from outsourced suppliers means that marketing management skills are needed to coordinate teams to concentrate on the same goal over time – similar to the skills sets used in online game challenges. See the 'Marketing insight' box.

Marketing insight

Gaming – simulating managing networks

The dynamic marketing landscape means that decision making is often distributed throughout organisations, needing managers to respond rapidly. A lot of work is done by global teams, partly composed of outsourced companies and network partners – people from outside the organisation, over whom a marketing manager might have no or limited formal authority. These network players are often critical to the organisation, as in supply network partners, or they could be assembled for a single project such as the design of the website or the CRM system, and then disbanded. Collaboration within these local or geographically diverse groups is a necessity that can occur through digital or face-to-face interaction. The management challenges of managing these teams could be emulated within the massively multiplayer online games:

> The answers may be found among the exploding space stations, grotesque monsters, and spiky-armored warriors of games such as Eve Online, EverQuest, and World of Warcraft. Despite their fantasy settings, these online play worlds – sometimes given the moniker MMORPGs (for 'massively multiplayer online role-playing games') – in many ways resemble the coming environment and thus open a window onto the future of real-world business leadership.

Gamers have six key characteristics that are useful in a workforce: they are orientated towards the bottom line; they understand the need for diversity; they understand that one cannot achieve something alone; they are excited by change; they see learning as something enjoyable; and they think laterally:

> Leading 25 guild members in a six-hour raid on Illidan the Betrayer's temple fortress is hardly the same as running a complex global organization. For starters, the stakes are just a bit higher in business. But don't dismiss online games as mere play. The best ones differ from traditional video games as much as universities do from one-room schoolhouses. In fact, these enterprises are actually sprawling online communities in which thousands of players collaborate with and compete against one another in real time within a visually three-dimensional virtual world – one that persists and evolves even while a player is away.

Take Everest, a web-based simulation that uses the dramatic context of a Mount Everest expedition to reinforce student learning in group dynamics and leadership. Players are assigned one of five roles on a team attempting to summit the mountain. The simulation lasts six rounds totalling about 1.5 hours of seat time. In each round, team members analyse information on weather, health conditions, supplies, goals or hiking speed, and determine how much of that information to communicate to their team mates. They then collectively discuss whether to attempt to reach the next camp en route to the summit. The team must decide how to distribute effectively the supplies and oxygen bottles needed for the ascent – decisions that affect hiking speed, health and ultimately the team's success in summiting the mountain. Failure to communicate and analyse information accurately as a team has negative consequences on team performance.

Digital game-based learning can help even when gamers don't win, as they learn to manage failure, hone their skills and learn how to perform better the next time.

Sources: Adapted from S. Chang and L. Sunny (2014) Team knowledge with motivation in a successful MMORPG game team: A case study, *Computers and Education*, 73, 129–140; B. Reeves, T. W. Malone and T. O'Driscoll (2008) Leadership's online labs, *Harvard Business Review*, July, 59–66; M. A. Roberto and A. C. Edmondson (2007) Leadership and team simulation: Everest, web-based simulation product, *Harvard Business Review*, September, 4; see also J. S. Brown and D. Thomas (2008) The gamer disposition, in HBR list 'Breakthrough ideas for 2008', *Harvard Business Review*, February, 12–13. M. Brady, A. Devitt, M. Lamest and S. Gomez (2015) Winner takes all? The Role of Gamification in Learning and Higher Order Processing, Academy of Marketing Conference (UK & Ireland), 1–5.

Four key constituents in network marketing are customers, employees, marketing partners (channels, suppliers, distributors, dealers, agencies) and members of the financial community (shareholders, investors, analysts). Marketers must respect the need to create prosperity among all these constituents and develop policies and strategies to balance the returns to all key stakeholders through competent collaboration. Marketing management increasingly focuses on collaboration through close relationships with customers and partners to co-create solutions to complex problems or jointly to pursue marketplace opportunities. Within the network, all need to collaborate together to the mutual benefit of all.

Marketing managers need to ask the following questions when considering collaborations:

1. Can the company recognise when collaboration is needed on marketing projects?
2. Does the company have the commitment of senior management to invest the necessary time, resources and effort for managing this collaboration?
3. Can the company improve on whom they select as collaborators in marketing projects?
4. Does the company have the capabilities to learn from collaboration partners?
5. Is the marketing manager committed to collaborating in ways that improve relationship quality with partners? Consider H&M.

H&M

According to *Vogue*, Swedish retailer H&M should win the 'most genius collaborator' award because H&M, a retailer that usually sells affordable, street-style clothing, has a unique and impressive history of collaborating with luxury fashion designers to bring its designs to the masses. Over the decades H&M has worked with many music stars like Madonna and also working with huge, often hard-to-reach brands such as Versace, Balmain and Alexander Wang. Like clockwork, H&M has released one or two fashion-designer collaborations a year since 2004, including Stella McCartney, Balmain, Marni, Kenzo and Versace. H&M worked with these companies and a network of outsourced and in-house support to find new ways to reimagine its haute aesthetics for the high street. And, their success has been outstanding with, the majority of these collections selling out in hours and prices within the secondary market for two or three times the price of the originals. H&M's creative advisor, Ann-Sofie Johansson, said that the partnership with Mosihino is 'the perfect collaboration for fashion right now' and mixes 'pop, street culture, logos and also glamour'.

For its campaigns H&M works with its own and other teams of experts across multi-digital platforms to produce a campaign that is 'radically innovative TV concepts enmeshing social and traditional media to create a multi-platform takeover – a captivating new "zapping" experience for the digital world'. Its multitude of collaborations pays off, with satisfied customers, engaging in high levels of social media chatter and high revenues.[45]

Swedish retailer H&M collaborates with fashion designers like Moschino (pictured above) and is considered a 'most genius collaborator';.
Source: Gregory Pace/REX/Shutterstock

The European market is particularly suited to networks, relationships and interaction models of marketing and business because it has an interdependence view of markets, where companies do not operate alone but rather in groups or networks.[46]

The relentless challenges of globalisation are discussed in the following section.

Understanding global marketing management

A decade ago, the chance to become a major player on the world stage was reserved almost exclusively for large and powerful companies, with many small companies finding it too costly and time-consuming to conduct any kind of global business besides basic exporting. Nowadays, the ways to compete, whether digitally or physically, are numerous – though the challenges are significant. Countries are increasingly multicultural and products and services developed in one country are finding enthusiastic acceptance in others. A German businessman may wear an Italian suit to meet an English friend in a Spanish tapas bar and at home will drink Scottish whisky and watch Netflix on a Korean TV.

Many companies have long been successful global marketers – firms such as Shell and Bayer. For many iconic or luxury goods, such as jewellery, watches and handbags, a global profile is essential, as the addressable market is relatively small – think of firms such as Prada, Gucci and Louis Vuitton. But global competition is intensifying in more product and service categories as new and established firms make their mark on the international stage. In China's fast-moving mobile-phone market, Motorola found its once-promising share drop to the point where it was only the eighth-ranked competitor behind a slew of new entrants.

The principal impact of the increasingly complex and globalised world on marketing practices is that all managers, whether they operate nationally, internationally or globally, are impacted by the globalisation of the business world. **Globalisation** is a business orientation based on the belief that the world is becoming more homogeneous and that distinctions between national markets not only are fading but, for some offerings, will eventually disappear. The underlying principle of globalisation is that consumer preferences and requirements are similar across countries.[47] The situation is continuously changing, and nowadays more discussion and debate abounds and even trade wars, changing trading partners and tariffs challenges exist – see the 'Marketing insight' box.

Marketing insight

Attitudes towards globalisation

In the aftermath of Brexit and the Trump election, there appears to be a growing movement of people who are sceptical about wider integration of the global economy. In a study by *The Economist*, YouGov surveyed 19 countries to gauge people's attitudes towards immigration, trade and globalisation. Interestingly, support for globalisation ranges from 37 per cent (France) all the way to 91 per cent (Vietnam), representing a very diverse array of attitudes. There appears to be a split within areas, and also between emerging markets and the West, which is increasingly turning its back on globalisation (see Figure 2.5). For many reasons, less than half of respondents in the USA, Britain and France believe that globalisation is a 'force for good' in the world. Westerners also say the world is getting worse. Even Americans, generally an optimistic lot, are feeling blue: just 11 per cent believe the world has improved in the past year.

In a study by the EU, more than half of Europeans (51 per cent) thought the word 'globalisation' has positive connotations, while 36 per cent (−4) perceived it negatively, and 13 per cent (+1) expressed no opinion. This is a high score, and very close to the record score of 2009

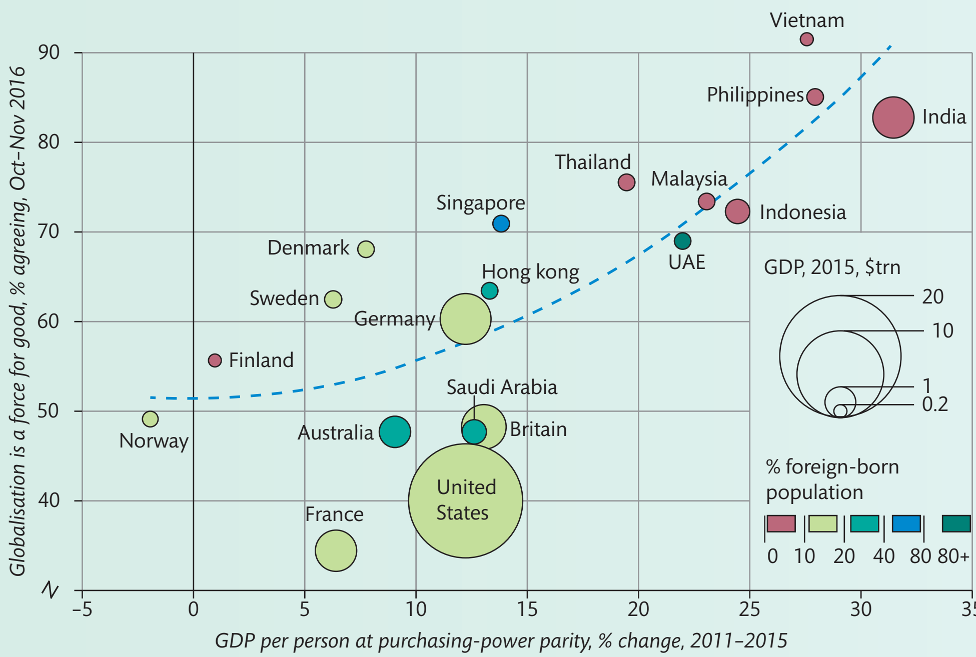


Figure 2.5 Enough to go around? Attitudes towards globalisation againt change in GDP per person
Sources: Economist (2016) What the world thinks about globalisation, https://www.economist.com/graphic-detail/2016/11/18/what-the-world-thinks-about-globalisation

(52 per cent). There is no uniform agreement though, with a majority of respondents in 21 member states seeing the term positively, with Denmark (78 per cent) and Sweden (76 per cent) highest, while respondents who viewed this mostly negative are in seven EU member states, in particular in Greece (67 per cent) and France (51 per cent).

Positive perceptions of globalisation as a driver of growth are therefore now at their highest level since 2008 (see Figure 2.6).

Source: European Commission (2017) Standard Eurobarometer 88 Autumn 2017, Report Public opinion in the European Union, https://www.google.ie/search?q=Standard+Eurobarometer+88+Autumn+2017&oq=Standard+Eurobarometer+88+Autumn+2017&aqs=chrome..69i57.656j0j1&sourceid=chrome&ie=UTF-8; *The Economist* (2016) What the world thinks about globalisation, https://www.economist.com/graphic-detail/2016/11/18/what-the-world-thinks-about-globalisation; J. Desjardins (2017) What people think of globalization by country, http://www.visualcapitalist.com/globalization-by-country/.

Figure 2.6 Globalisation as an opportunity for economic growth, 2009–16
Source: Rawpixel.com/Shutterstock.

Some organisations will remain national, operating within national borders, while many others are international companies operating in more than one country; but they are not necessarily global. Ryanair operates across Europe but not outside Europe, unlike a global company such as Lufthansa, which is a worldwide airline. Think of Starbucks or Visa – global brands. What is crucial is that the company understands the challenges of each market and really understands its customer base.

Marketing managers, when deciding to go international or to go global, must make a series of management decisions, shown in Figure 2.7. We will examine some of these decisions here.

Deciding whether to go abroad

In a **global industry**, competitors' strategic positions in major geographic or national markets are affected by their overall global positions. A **global firm** operates in more than one country and captures R&D, production, logistical, marketing and financial advantages not available to purely domestic competitors. **Internationalisation** is the process through which a firm moves from operating solely in the domestic or home marketplace to operating in international markets. Many companies now look to the global market rather than simply remaining in their domestic market. Outside the domestic market, marketing managers need to understand different consumers,

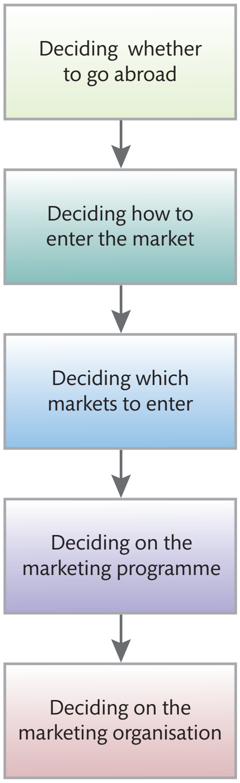


Figure 2.7 Major decisions in international marketing

different languages and different laws, deal with volatile currencies, face political and legal uncertainties, protective legislation or the need to redesign or modify their products or services to suit different customer needs and expectations. Consider B&Q.

B&Q stumbles in China

B&Q, the UK home-improvement store, tried several options in China but had to change plans and merge with a Chinese operation by selling 70 per cent of its B&Q stake in China to a Chinese firm. As a B&Q chief executive noted, 'they needed to be more Chinese in China'. With a population of 1.3 billion, a rapidly growing property market and few major rivals, China appeared to be an untapped opportunity for B&Q. However, after heavy losses, downsized operations and embarrassing store closures, it is quite clear that selling home-improvement products to the Chinese is not quite as straightforward as it may have seemed. B&Q management did not fully understand that, unlike in the UK and Ireland, DIY tasks are not viewed as leisure tasks and that the concept of do-it-yourself in China is not culturally acceptable. The Chinese prefer to hire migrant workers to do this work. This meant that stores did not need to be so large and product ranges could be reduced without much impact. More importantly, stores needed to be service-orientated, with a focus on the finished look rather than the tools required to create it. Ultimately, smaller service-orientated stores would be more profitable than the costly big stores. B&Q is scaling back in China and concentrating on markets in Europe, where its management skill lies.[48]

Several factors draw companies into the international arena:

- Some international markets present higher profit opportunities than the domestic market.
- The company needs a larger customer base to achieve economies of scale.
- It wants to reduce its dependence on any one market.
- The company decides to counter-attack global competitors in their home markets.
- Customers are going abroad and require international service.

Before making a decision to go abroad, the company must be aware of and weigh up several risks:

- The company might not understand foreign preferences and could fail to offer a competitively attractive product or service.
- The company might not understand the foreign country's business culture, even if they are geographically close.
- It might underestimate foreign regulations and incur unexpected costs.
- The company might lack managers with international experience.
- The foreign country might change its commercial laws or trade rules or start trade wars, devalue its currency or undergo a political revolution and expropriate foreign property – think of the trade battles from the Trump regime in the US and its impacts across Europe and particularly on German car manufacturing. President Trump told French President Emmanuel Macron he would pursue German car makers until there were no more Mercedes-Benz cars rolling down New York's Fifth Avenue, the magazine *Wirtschaftswoche* reported. The German auto industry makes up one-fifth of Germany's total exports, and the US is its second-biggest destination after China, so any move by the Trump administration could have far-reaching consequences.[49]

Deciding how to enter the market

Once a company decides to target a particular country, it must determine the best modes of entry. Broadly these are: go it alone; find a partner; or acquire a company. Finding a partner offers a few choices – **indirect exporting**, **direct exporting**, **licensing** or **joint ventures** – while to go it alone means that the company will enter the market themselves (a direct investment). Figure 2.8 shows how each succeeding strategy entails more commitment, risk, control and profit potential.

Indirect and direct exporting

Companies typically start with export, specifically *indirect exporting* – that is, they work through independent intermediaries. *Domestic-based export merchants* buy the manufacturer's products and then sell them abroad. *Domestic-based export agents*, including trading companies, seek and negotiate foreign purchases for a commission. Cooperative organisations conduct exporting activities for several producers, often of primary products such as fruits or nuts. *Export-management companies* agree to manage a company's export activities for a fee.

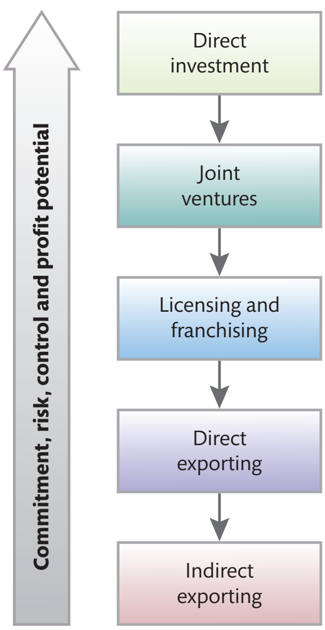


Figure 2.8 Five modes of entry into foreign markets

Indirect exporting has two advantages. First, there is less investment: the firm does not have to develop an export department, an overseas sales force or a set of international contacts. Second, there is less risk: because international marketing intermediaries bring know-how and services to the relationship, and should make fewer mistakes because of their knowledge of the market. Many companies use direct or indirect exporting to 'test the waters' before building a plant and manufacturing their product overseas.

Direct exporting is when companies decide to handle their own exports, where the investment and risk is somewhat greater but so is the potential return. Direct exporting happens in several ways:

- **Domestic-based export department or division.** A purely service function may evolve into a self-contained export department operating as its own profit centre.
- **Overseas sales branch or subsidiary.** The sales branch handles sales and distribution, and perhaps warehousing and promotion as well. It often serves as a display and customer-service centre.
- **Export sales representatives.** Home-based sales representatives travel abroad to find business.
- **Foreign-based distributors or agents.** These third parties can hold limited or exclusive rights to represent the company in that country.

Licensing and franchising

Licensing can be a simple way to engage in international marketing, where the licensor issues a licence to a foreign company to use a manufacturing process, trademark, patent, trade secret or other item of value for a fee or royalty. The licensor gains entry at little risk; the licensee gains production expertise or a well-known product or brand name. Licensing arrangements vary. Companies such as Accor Hotels, which manages a huge network of over 3,700 hotels worldwide including its premier brand the Sofitel hotels, uses *management contracts*. In *contract manufacturing*, the firm hires local manufacturers to produce the product. Volkswagen has a contract agreement with the GAZ Group where GAZ will build the Volkswagen Jetta, Skoda and Octavia models in the Russian city of Nizhny Novgorod for the Russian market, planning for 110,000 cars per year.[50]

A company can enter a foreign market through **franchising** – a more complete form of licensing where the franchisor offers a complete brand concept and operating system and, in return, the franchisee invests in and pays certain fees to the franchisor. Netherlands-based Spar is in the top 10 of European franchises, along with McDonald's, Subway, 7-Eleven and KFC – all familiar, quick-service franchised operations. Franchising can help to ensure operations that are culturally relevant. McDonald's handpicks its global partners carefully to ensure success and to find 'compulsive achievers' who will make the desired effort.

Joint ventures

Foreign investors join local investors in a joint venture company in which they share ownership and control to reach more geographic markets and to diversify investments and risk. A joint venture may be necessary or desirable for economic or political reasons. The foreign firm might lack the financial, physical or managerial resources to undertake the venture alone, or the foreign government might require joint ownership as a condition for entry.

Joint ownership has drawbacks. The partners might disagree over investment, marketing or other policies. One might want to reinvest earnings for growth, the other to declare more dividends. Joint ownership can also prevent a multinational company from carrying out specific manufacturing and marketing policies on a worldwide basis. However, the value of a partnership can extend far beyond increased sales or access to distribution. Good partners share 'brand values' that help maintain brand consistency across markets.

Direct investment or acquisitions

Direct investment could be considered the ultimate form of foreign involvement, sometimes called direct ownership or foreign direct investment (FDI): the foreign company builds its own manufacturing or service facilities – what is often called a full 'greenfield' operation. Alternatively, they can consider a merger-acquisition, which is buying a full or part interest in a going concern or local business already in operation.

Marketing memo

Direct Investment (DI) and Brexit?

Direct investment (DI) is more important to the UK than to any other G7 economy. Foreign-owned companies in the UK account for approximately:

- 30 per cent of UK gross value added
- half of UK business R&D spending
- half of UK manufacturing investment
- one-third of UK manufacturing employment.

There are over 23,000 foreign-owned companies in the UK, which in 2014 had turnover (revenues) of £1.3 trillion. The top-three countries with the highest UK turnover were:

- US-owned companies, with a turnover of nearly £350 billion
- French-owned companies, with a turnover approaching £200 billion
- German-owned companies, with £120 billion turnover.

The UK government has a potentially strong negotiating position vis-a-vis the EU, US and other governments, given the huge importance of the UK to 'their' companies.

The UK has outperformed all the major economies of Europe, attracting nearly 40 per cent of greenfield capital investment in the EU by foreign investors and one-quarter of all greenfield FDI projects in the European Union (EU) in 2015.

An unknown and critical issue in 2019 is the potential impact of Brexit on direct investment into the UK, which is difficult to quantify as current DI investment strategies by FDI companies might be impacted as well as consequences for the companies, particularly EU companies, that are already in the UK.

Source: https://www.wavteq.com/articles/Henry-Loewendahl-CEO-of-WAVTEQ-gives-evidence-to-UK-Parliament/ (Accessed January 2019)

If the market is large enough, direct investment offers distinct advantages. First, the firm can secure cost economies through cheaper labour or raw materials, government incentives and freight savings. Second, the firm strengthens its image in the host country because it creates jobs. Third, the firm deepens its relationship with government, customers, local suppliers and distributors, enabling it to adapt its products or services to the local environment. Fourth, the firm retains full control over its investment and therefore can develop manufacturing and marketing policies that serve its long-term international objectives. Fifth, the firm assures itself of access to the market, in case the host country insists that locally purchased goods have domestic content. The main disadvantage of direct investment is that the firm exposes a large investment to risks such as blocked or devalued currencies, trade wars, changing market conditions, or even expropriation. If the host country requires substantial severance for employees, reducing or closing operations can be expensive.

Using networks to gain market entry

Network theory suggests that the internationalisation process is far more complex and less structured than the stages described above. Findings from a study of five small Norwegian computer software firms suggest that network relationships affect which foreign-entry method firms choose and, to some extent, which markets they decide to enter.[51] This study found that a company may choose one entry form in one market and a different one in another, similar market – very much depending upon the options available in terms of their network relationships and the mechanism for market entry that suits their partners.[52]

Deciding which markets to enter

In deciding to internationalise, the company's marketing objectives and policies need to be defined. What ratio of international to total sales will it seek? Top management usually begins to pay more attention to global opportunities when more than 15 per cent of revenues come from international markets.[53] Some companies start small when they venture abroad. Some plan to stay small; others have bigger plans, with many firms 'born global'. Increasingly, firms – especially technology-intensive firms – are born global and market to the entire world from the outset.[54] Think Facebook, Twitter and Google.

The marketing manager must decide how many countries to enter and how fast to expand. Typical entry strategies follow the waterfall approach – that is, gradually entering countries in sequence; or the sprinkler approach – namely, entering many countries simultaneously. BMW, Benetton and The Body Shop followed the *waterfall* approach. This strategy allows firms to plan expansion carefully and is less likely to strain human and financial resources. When first-mover advantage is crucial and a high degree of competitive intensity prevails, the *sprinkler* approach (which allows the company to enter all markets quickly) can be good. The main risk is the substantial resources needed and the difficulty of planning entry strategies into many diverse markets at the same time. Microsoft is a company that enters numerous markets at the same time.

The marketing manager must also decide on which countries to consider. Their attractiveness is influenced by the customer base, the product or service itself and the geography, income, population and political climate of the countries involved.

Evaluating potential markets

Although the world is becoming flatter for globalised organisations, there is still some 'uniqueness' among countries. However much nations and regions integrate their trading policies and standards, each nation still has unique features. A country's readiness for different products and services, and its attractiveness as a market, depend on its economic, political, legal and cultural environments.

Suppose a marketing manager has assembled a list of potential markets to enter. How do they choose among them? Many companies prefer to market to neighbouring countries because they understand these countries better and can control their costs more effectively. It is not surprising that, traditionally, Germany's largest trading partner for five decades to 2015 was France, but it is interesting to note that its second-largest trading partner, the US, overtook France as the main trading partner in 2015. Germany's main trading partners in 2017 were the US, followed by France, China, the UK, the Netherlands and Italy.[55] At other times, *psychic proximity* determines choices. Many US firms prefer to sell in Canada, England and Australia because they feel more comfortable with the language, laws and culture. Swedish companies are another example and often choose their Scandinavian neighbours – Finland and Norway.

Companies should be careful, however, in choosing markets according to cultural similarities. Besides overlooking potentially better markets, firms may perform a superficial analysis of some very real differences among countries and adopt predictable marketing actions that put them at a disadvantage.[56] Consider Disneyland Paris.

Disneyland Paris – cultural challenges

How could a company such as Disney get it so wrong when it expanded out of its domestic market in Florida, USA to open in Paris, France? Disney overlooked European cultural issues when it first introduced EuroDisney – now called Disneyland Paris – to France. It overlooked many customer holiday behaviours, preferences and needs. Disney assumed that European customers would plan a week's holiday to Disneyland and organised all its packages and promotion around this type of a visit. Unfortunately this did not align with what its customers wanted, which was a shorter three- or two-day visit that could be added on to their holiday. The company had to learn quickly and redeveloped most of its marketing, including its service process design, staffing and pricing. Disneyland Paris is now one of Europe's biggest tourist attractions, with more visitors than the Eiffel Tower. One DisneyLand executive noted, 'when we first launched there was a belief that it was enough to be Disney. Now we realise our guests need to be welcomed on the basis of their own culture and travel habits'.

Other cultural mistakes were:

- they did not serve wine at lunch – expected by Europeans;
- lunch was served at 11.00 or 14.00, but Europeans like to eat at 13.00–13.30;
- Originally, staff were asked not to wear jewellery or to have facial hair – both requirements that annoyed its European staff members.

Marketers need methods to evaluate different countries to decide on which markets to enter. In general, a company prefers to enter countries:

1. that rank high on market attractiveness;
2. that are low in market risk; and
3. in which it possesses a competitive advantage.

Many European and global companies trade within the European Union, as described in the 'Marketing insight' box.

Marketing insight

European marketing management challenges

Europe is the world's second-smallest continent by surface area, covering about 2 per cent of the Earth's surface and about 6.8 per cent of its land area and representing about one-third of the world's wealth. The European Union is in second place, generating $19.9 trillion in economic output and trailing China as the world's largest economy, which produces $23.1 trillion, followed in a very close third place by the United States producing $19.4 trillion.[57]

Marketing managers must know and understand their market and customers, which within the European Union means 27 countries and over 44 official languages and a large variation of wealth. with the richer states tending to be in the West. Many of the Eastern European economies are still emerging from years of stagnation and the collapse of the Soviet Union and Yugoslavia. Countries in Europe but not in the European Union include Albania, Armenia, Belarus, Gibraltar, Iceland, Kosovo, Lechtenstein, Macedonia, Norway, Russian Federation, Switzerland, Turkey, and Ukraine.

Companies marketing in Europe face 2,000 years of historical and cultural differences, and a daunting mass of local rules. Italians eat chocolate for breakfast, the French croissants, the Germans cheese and ham, the Polish *chleb* (bread) and an assortment of *szinki* (cold meats), while the English often enjoy a fry-up with eggs, bacon, sausages and baked beans. A study found that people in Italy – a country where society is based more on personal contacts with consumers – were far less likely to accept self-service and automatic machines for customer contacts than people in northern Europe, where customers were more accepting of distance in the service process and welcomed automated channels and self-service technologies.[58]

The EU creates an additional set of legal considerations for marketers. Essentially, firms are regulated by the EU and the member states in which they operate. From a marketing perspective, EU legislation aims to impose uniform quality, safety and operating practices. It is important for marketers to be familiar with the different categories of legislation. EU law can affect marketers in many ways, including data storage and use (think of General Data Protection Regulation (GDPR), the EU regulators' directive on data protection), market research, planning, product and service strategy, promotion and pricing, among others.

Before engaging in strategic marketing planning, companies must examine the relevant EU policy. The EU has restrictions in relation to competition law, personal data, research and segmentation, product liability and product safety, metric labelling, promotion and communication, including online and web standards, as well as regulations relating to distribution and pricing.[59] Marketers may unintentionally create marketing plans that run counter to legal and ethical standards. The high cost of failing to comply with competition law was evident when Dutch brewers Heineken, Grolsch and Bavaria were fined €273 million by the EU for operating a beer cartel in the Netherlands.[60]

Deciding on standardised or adapted marketing

Digitalisation and the vast penetration of the internet, smartphones, the spread of cable and satellite TV channels, and social media have led to a convergence of lifestyles. Increasingly, shared needs and wants have created global markets for more standardised products and services, particularly among the young middle class.

Marketing managers must decide how much to adapt their marketing strategy to local conditions. At one extreme are marketing managers who use a globally *standardised marketing mix* worldwide. Standardisation of all marketing mix activities, including the product/service design, communication and distribution channels, promises the lowest costs. At the other extreme is an *adapted or localised marketing mix,* where consumer needs are different and therefore the marketing mix activities are tailored to each target group. Toyota's Corolla car model exhibits some differences in styling across its markets. For example, its European models are sold as the Corolla GT with DOHC engines and fixed Levin-style headlights. The Middle East received the same basic model as the North American market, with pop-up headlights and the regulated 5 mph (8 km/h) bumpers. Even Coca-Cola is sweeter or less carbonated in different countries.

Some offerings, particularly in the service area but also many technological companies, cope without adaptation – think Google, eBay, Twitter and Facebook – and make quick progress around the world. Although many companies have tried to launch their version of a world product or service, most offerings require at least some adaptation. When both forces prevail to some extent, a **glocal strategy** that standardises certain elements and localises others can be the way to go. French brand L'Oréal specially formulated their mascara for the Japanese market, where eyelashes are short and straight. Many marketers seek a blend of centralised global control from corporate headquarters with input from local and regional marketers. **Glocal marketing**

Table 2.2 McDonald's global menu variations

Country	Noteworthy menu items
United States	Big Mac, Chicken McNuggets, Filet-o-Fish, Egg McMuffin, Fries
India	McVeggie, Chicken Maharaja-Mac, McSpicy Paneer
France	Le McBaguette, Le Croque McDo, Le Royal Cheese
Egypt	Beef N Pepper, McArabia (grilled kofta), McFalafel
Israel	McKebab, McFalafel, Big New York and Big Texas (hamburgers)
Japan	Ebi Filet-O, Mega Teriyaki Burger, Bacon Egg and Lettuce Wrap, Shaka Shaka Chicken
China	Prosperity Burger, Taro Pie, McWings, McNuggets with Chili Garlic Sauce
Brazil	Banana Pie, McNífico Bacon, Cheddar McMelt, Big Tasty
Mexico	Big Mac, McChicken, Fries, etc.

Sources: Discover McDonald's around the world, www.aboutmcdonalds.com/mcd/country/map.html, (accessed October 2018); D. Griner (2013) McDonald's 60-second meals in Japan aren't going so well, *Adweek*, 7 January; R. Vines and C. Connan, McDonald's wins over French chef with McBaguette Sandwich (2015) www.bloomberg.com, 15 January; S. Poirier (2012) McDonald's Brazil has big plans, *The Rio Times*, 8 April; S. Postlewaite (2001) McDonald's McFalafel a hit with Egyptians, *Advertising Age*, 19 June.

recognises that there often needs to be a balance between local and standardised or global marketing activities – this is the concept of *thinking globally and acting locally*. Glocal marketing understands the conflicting desires of consumers for products and services that are global but that reflect local lifestyles – which have a 'local soul'.[61] Take McDonalds, which customises not just its product range – see Table 2.2 – but also its distribution – with scooter deliveries in traffic-plagued cities such as Manila, Jakarta and Cairo.

Companies must make sure their brands are relevant to consumers in every market they enter. Consider how Amazon and Netflix illustrate how companies can struggle and compete in global markets.[62]

Amazon and Netflix – a global battle in Europe

Two of the most successful companies in recent years, Amazon and Netflix, internationalised to fuel their rapid growth, but they are also finding themselves butting heads as they both seek to become the European market leader for digital movie downloads. The older of the two, Amazon has been overseas longer, finding much success in the UK, Germany and other parts of Europe. Amazon used an acquisition strategy acquiring LoveFilm, a European DVD rental and movie-streaming business, to compete with Netflix. It also used direct investment in a massive media R&D centre in London and expanded its Android-based Appstore distribution business to cover 200 countries.

Netflix used a sprinkler effect, expanding aggressively overseas, starting with Canada in 2010 and Latin America in 2011 and then the UK, Ireland and Nordic countries in 2012. Although its European use base is almost 30 million, the company faces heavy local and regional competition and has to negotiate with local broadcasters and distributors for its streaming TV licences. To attract new users, Netflix is emphasising breadth of content and original programming, much of which is European based.

Sources: P. Sonne, (2012) Netflix streams into UK, Ireland, *Wall Street Journal*, https://www.wsj.com/articles/SB10001424052970204124204577150763689936718; M. Garrahan (2018) Why television's bogeymen are here to stay, *Financial Times*, 24 August; *The Guardian* (2016) Netflix announces it will launch in 130 more countries, https://www.theguardian.com/technology/2016/jan/06/netflix-availability-country-added-china-english-north-korea-ces.

Managing in developing and low-income markets

One of the sharpest distinctions in global marketing is between what has been called the developed world and the less or developing world. Also called low- and middle-income countries (LMIC), less-developed countries, less economically developed countries (LEDC), less mature markets, or even lean, low and high income replacing first, second and third world there is a confusing array of terms and debate. The Human Development Index (HDI) is a statistical composite index of life expectancy, education and per capita income indicators, which is used to rank countries into four tiers of human development – see Figure 2.9.

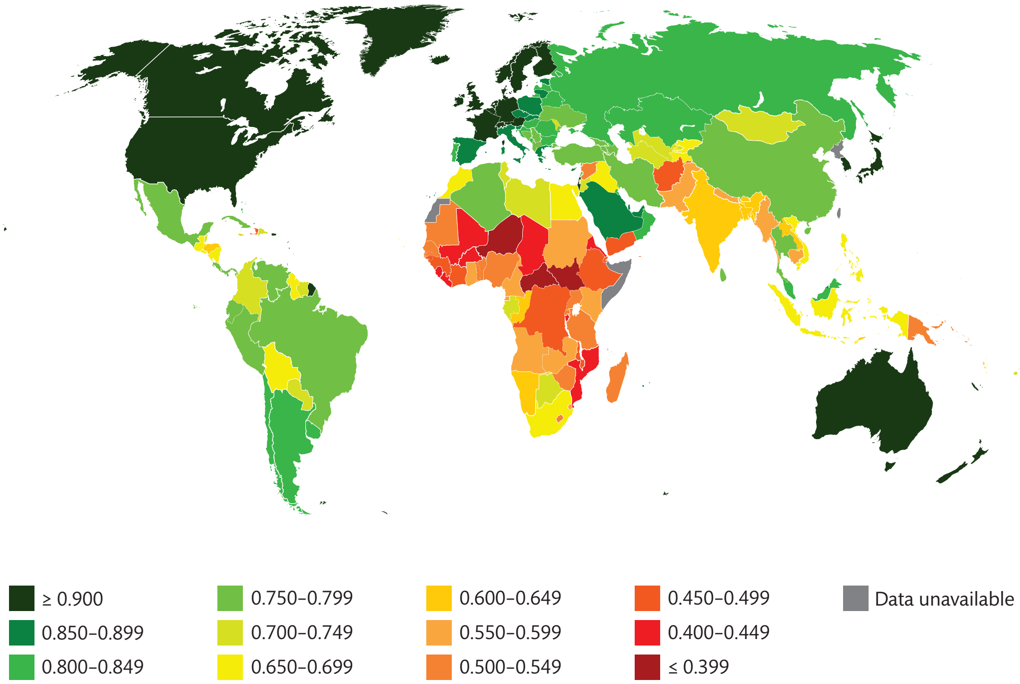


Figure 2.9 World map of Human Development Index categories by country, based on 2015 and 2016 data
Source: United Nations Human Development Report, https://en.wikipedia.org/wiki/Developing_country#/media/File:2016_UN_Human_Development_Report_(Quartiles).svg

Even though global poverty rates have been cut by more than half since 2000, one in ten people in developing regions still lives below the international poverty line, mostly based in two regions: Southern Asia and sub-Saharan Africa.[63]

Developed nations and the prosperous parts of developing nations account for about 20 per cent of the world's population. Can marketers serve the other 80 per cent, which has much less purchasing power, and living conditions ranging from mild deprivation to severe deficiency?[64] The unmet needs of the emerging or developing world represent huge potential markets for food, clothing, shelter, consumer electronics, appliances and many other products and services. Eight out of ten people in the world now live in developing countries, a number that will increase to nine in less than 20 years. This so-called **bottom of the pyramid** includes more than 4 billion people, or about 60 per cent of the world's population. Many of these people have only about €1.40 a day in disposable income and could be considered invisible, but their sheer numbers translate into immense purchasing power.

Vital branding tools such as market research, technology links, supply networks and media development are still in their infancy in the developing world. Although the markets of developing countries have grown rapidly in recent years, companies still struggle to get reliable information about consumers, particularly about those consumers with low incomes. It can be difficult to find the deep databases on consumption patterns that allow for the segmentation of consumers that exists in more developed markets. Marketers also need to change their view of consumers based on disposable income and reinvent consumer value propositions when operating in the developing world:

- In Brazil, fast-moving consumer goods giant Unilever has developed Ala, a brand of detergent created specifically to meet the needs of low-income consumers who want an affordable yet effective product for laundry that is often washed by hand in river water.
- In India, Unilever successfully markets Sunsil and Lux shampoo sachets sold in units of 2–4 cents, Clinic All Clear anti-dandruff shampoo sachets at 2.5 rupees each and 16-cent Rexona deodorant sticks. In Tanzania, Keys soap is sold in small units for a few cents.
- Whirlpool has adapted its washing machines for three different markets in Brazil, India and China. In Brazil, customers want to see the machine operate, so Whirlpool made a transparent acrylic lid. In China, where washing machines are considered status symbols and are often placed in living rooms due to lack of space, extra attention was paid to small, sleek and stylish looks. In India the washing machine is often placed in a position of pride in the home, but because people like to move them around, washing machines in India have wheels on them.

Africa has become known as the 'mobile continent,' with half of its 1 billion population owning a mobile phone
Source: Benedicte Desrus/Alamy

The acceptance of local and global brands and the country of origin of a brand can be very important in developing countries. Brands coming from the West are generally held in high esteem, especially in developing countries where status is important culturally.[65] Consider how the following companies pioneered ways to serve these 'invisible' consumers:[66]

- Italian car manufacturer Fiat designed a supermini low-cost, low-specification car for this market – the Palio.
- In India, German consumer products maker Henkel sells miniature packages of its 'Pril' dish-washing detergent for 1 rupee apiece, or a little less than 2 cents.
- Orange works in mobile banking in Kenya – a country with only 500 bank branches but with over 300 million mobile phones.
- Nokia developed a mobile phone with a dust-resistant keypad, a long battery life and an inbuilt torch for the Indian market.

These marketers capitalise on the potential of developing markets by aligning their marketing practices to consumer needs.[67] Marketing in developing areas cannot be 'business as usual' – economic and cultural differences abound, a business infrastructure may barely exist and local competition can be surprisingly stiff.[68] Fritz van Dijk, director of emerging markets at Nestlé, which generates more than €3 billion of sales from Africa, says that the Swiss group is always adapting to local tastes.[69]

Competition is also growing from companies within developing markets including Tata of India, Cemex of Mexico and Petronas of Malaysia. All have emerged from developing markets to become strong multinationals, selling in many countries.[70]

Many consumers in emerging markets buy their products from tiny bodegas, stalls, kiosks and small shops not much bigger than a closet, called 'high-frequency stores'.

Smaller packaging and lower sales prices are often critical when incomes and housing space are limited. Unilever's 4-cent sachets of detergent and shampoo have been a big hit in rural India, home to 70 per cent of the country's population. When Coca-Cola moved to a smaller, 200 ml bottle in India, selling it for 10–12 cents in small shops, at bus stop stalls and at roadside eateries, sales jumped.[71]

Consider Danone, for which sales from the developing markets are close to 50 per cent.

The vast majority of consumers in emerging markets buy their product from tiny bodegas, stalls, kiosks and stores that might be no bigger than a closet – called *Kirana* stores in India
Source: SIBSA Digital Pvt. Ltd Das/Alamy

Danone

Twice a week after work, Senegalese webmaster Demba Gueye treats himself to a snack: a 10-cent tube of Dolima drinkable yogurt. It is a splurge considering his €2-a-day food budget, and the 50-gram sachets are 'teeny'. But the 25-year-old says they are delicious. 'I'm crazy about it,' he says.

With a growing middle class in many emerging markets, many firms are assembling product portfolios to tap into different income segments. French food company Danone has many high-end healthy products, such as Danone yogurt, Evian water and Bledina baby food, but it also sells much

Danone targets customers in low-income economies with a long-life yogurt milk priced at 10 cents.
Source: baon/Shutterstock

lower-priced products, targeting consumers with 'dollar-a-day' food budgets. In Indonesia, Danone is targeting 10-cent drinkable yogurts with a six-month shelf life, neutral ph milk beverage Milkuat, at the poor, whose average per-capita income is about £10 a day.

The company has had some challenges – for example, when it originally entered the Chinese market with its yogurt brand, with a standardised global strategy it found that few Chinese people had a fridge and they eat with chopsticks (very difficult to eat yogurt that way!). Also, most Chinese people tend to be lactose intolerant. Having reviewed these issues, a new marketing programme was introduced. Danone began by creating multiple joint ventures with local firms, buying local dairy facilities and entering the market by paying attention to China's idiosyncratic distribution networks. It also offered free fridges, attached spoons to the yogurt pots and developed products with reduced lactose. Following these changes, which showed a better understanding of the consumer and the market, the Danone Group is now in second place in the Chinese dairy market.

Danone is among a vanguard of European multinationals staking much of their future on the world's poor. They target customers who live on euro-a-day food budgets, trying to sell nutritious foods to very poor people. 'The objective is to do business, not just with the top of the pyramid', says chief executive Franck Riboud.

Source: C. Passariello (2010) Danone expands its pantry to woo the world's poor, *Wall Street Journal*, June 25th;

The marketing challenge is to think creatively and ethically about how marketing can fulfil the aspirations of most of the world's population for a better and sustainable standard of living – whether in the developed or the developing world.

Chapter 13 expands this theme and explores global brands and how to manage them.

SUMMARY

1 Management is a process that involves the major functions of planning, organising, leading and controlling resources in order to achieve goals.
2 Planning is the process of establishing goals and objectives and selecting a future course of action in order to achieve them. In planning, a manager looks to the future – pointing out what management wants to achieve and how it is going to achieve it.
3 Organising divides organisational activities among work groups, allocates the people required to achieve tasks and coordinates results.
4 Leading motivates employees to achieve organisational goals while the fourth aspect, management control, measures and evaluates organisational performances.
5 Controlling manages achievements and provides insights into what worked and for what return. Data analytics and online and offline metrics often provide real-time monitoring.
6 Marketing management must coordinate within and outside of the company, align with internal departments and external partner companies, managing a network of relationships with customers, suppliers and partners, as marketing affects every aspect of the company's operations.
7 When companies go global there are many global marketing decisions, including how to enter the market and how many markets to enter.
8 Modes of entry include indirect exporting, direct exporting, licensing, joint ventures and direct investment. Each succeeding strategy involves more commitment, risk, control and profit potential.
9 The developing and low-income world provides unique opportunities but also challenges for marketing managers, who must be aware of and cater to the local needs of these populous but very low-income consumers.

APPLICATIONS

Marketing debate

Take a position: marketing managers need to be internal managers only *versus* marketing managers must manage internally and also externally across a network of companies.

Marketing discussion

Driven by increased access to technology, is the world coming closer together? Many social commentators maintain that societies across the globe are becoming more similar. Others point out the differences between cultures, which they suggest far exceed similarities. Do you think that consumers around the world are becoming more similar, demanding similar products, services and technologies?

FURTHER READING

E. Gummesson (2017) From relationship marketing to total relationship marketing and beyond, *Journal of Services Marketing*, (1), 16–19.

This paper synthesises relationship marketing and other developments to focus the conversation and management attention on the complexity, instead of focusing on the fragmented bits of marketing. The study is a discourse based on new theoretical developments, literature and personal reflection, which finds that relationships, networks and interactions constitute the core of marketing. When complexity is better understood, it boils it down to actionable simplicity in the form of mid-range theory.

The authors suggest that research in marketing is there to be used in real life; it is not and should not be an academic parlour game. The paper addresses complexity instead of shunning it, searching for the core of marketing and offering simplification as mid-range theory (checklists, heuristics, etc.) and with a focus on decisions, action and results. The originality and value of the paper is in the way it moves from the current fragmented approach of marketing to a holistic and theory-based approach, linking theory with practice.

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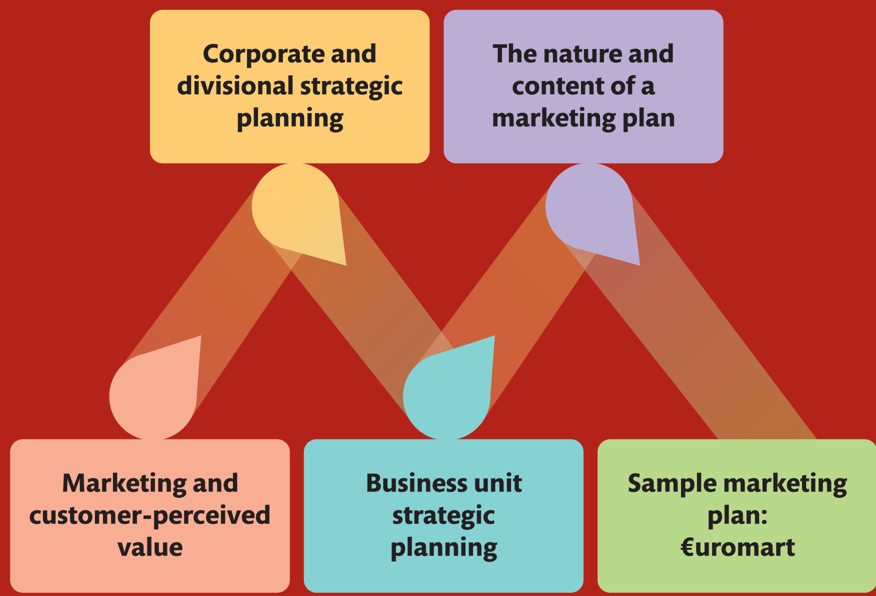
CHAPTER 3
Developing marketing strategies and plans

In this chapter, you will learn about the following topics:

1. How marketing affects customer-perceived value
2. How corporate and divisional strategic planning is conducted
3. How business unit strategic planning is carried out
4. What is involved in developing a marketing plan

Siemens AG is a leading energy company focused on a growth strategy
Source: Courtesy of Siemens AG/Agency: Publicis-München.

Chapter Journey



Marketing strategies and plans that guide marketing are key activities of the management process. Developing the right marketing strategy over time requires a blend of professionalism, discipline and flexibility. Businesses need to adopt a strategy and constantly seek ways to improve it to be successful in today's highly competitive markets. The main task of marketing is to develop strategies that deliver customer-perceived value.

A successful business-to-business marketer, Siemens, for instance, must continually design and implement marketing activities in many markets and for the many business units of the organisation.

Siemens AG (Berlin and Munich) is a global powerhouse in electronics and electrical engineering, operating primarily in the energy and healthcare sectors. For more than 160 years, Siemens has stood for technological excellence, innovation, quality, reliability and internationality. In the tax year ending 30 September 2017, its revenue was €83 billion and its net income was €6 billion. At that time, Siemens had around 372,000 employees worldwide on the basis of continuing operations.[1]

This chapter begins by examining the main strategic marketing implications in creating customer-perceived value. This is followed by a review of the relationship between corporate strategy and divisional marketing strategy. Once the divisional marketing strategy has been set, it is up to marketers in the operating parts or business units to develop marketing plans that will be both effective (in that they deliver the right customer-perceived value) and efficient in terms of resources. The chapter ends with some advice on how to draw up a formal marketing plan, which is keyed into the architecture of this text.

Marketing and customer-perceived value

Many view marketing from a product-orientated and transactional standpoint, while in Europe practitioners have traditionally tended to place a greater emphasis on customer relationship concepts. Both viewpoints in basic economic terms emphasise the importance of satisfying customers' needs and wants. The UK's Chartered Institute of Marketing (CIM) defines marketing as 'the management process of anticipating, identifying and satisfying customer requirements profitably'. In today's highly competitive global buyers' **markets**, the task of any business is to form lasting relationships with customers by delivering **customer-perceived value** at a profit. In hyper-competitive economies, following the **paradigm change** from supply-dominated markets (where demand exceeds supply) to buyer-dominated markets (where supply exceeds demand), marketers are challenged with the task of positively differentiating their business activities for increasingly rational buyers faced with an abundant choice of providers. Companies succeed by fine-tuning the customer-perceived value delivery process.

Business environment paradigm change

The main consequences for organisations of the transition from sellers' to buyers' markets include the following:

- There is competition that really bites.
- Customers usually demand more (perceived value) for their money.
- Customers have a choice of possible providers.
- A transformation occurs in the concept of value, which is now heavily influenced by buyers who demand that providers meet their perceived-value expectations.
- Customers really do become the true focus of business activities.
- Customer relationships become vital.
- Traditional separate 'product' and 'service' approaches to marketing activity need to be replaced by a customer-perceived value-dominant logic that combines 'product' and 'service' attributes/benefits to develop successful customer-perceived value offerings.
- Markets fragment into segments that appeal to customers who have distinct perceived-value requirements.

In **sellers' markets** (Figure 3.1) businesses traditionally strive to increase the volume of goods and services supplied and to reduce costs as much as possible. This has been termed the *least-cost production paradigm* or the pursuit of *efficiency*. This understanding of the business process will not be as successful in buyers' markets. Wise competitors seek to be *effective* by discovering through market research what customers value and then using their resources as efficiently as possible to supply it. Effective competitors acknowledge the need to deliver customer-perceived value successfully. This realisation has inspired a new view of business processes, which places marketing at the *beginning* of corporate planning. Instead of emphasising making and selling, companies now see themselves as part of a process that delivers personalised, customer-perceived value, market product/service offerings.

The value delivery process

A common view of marketing is that a firm makes something and then sells it. In this view, marketing takes place in the second sequence of the process. Companies that hold this belief have

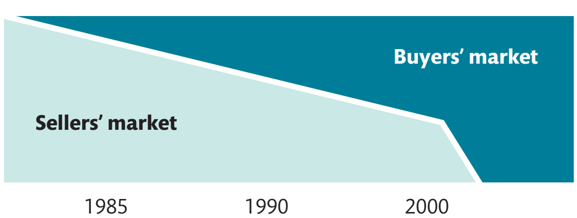


Figure 3.1 Paradigm change from sellers' to buyers' markets
Source: M. R. V. Goodman, Durham University.

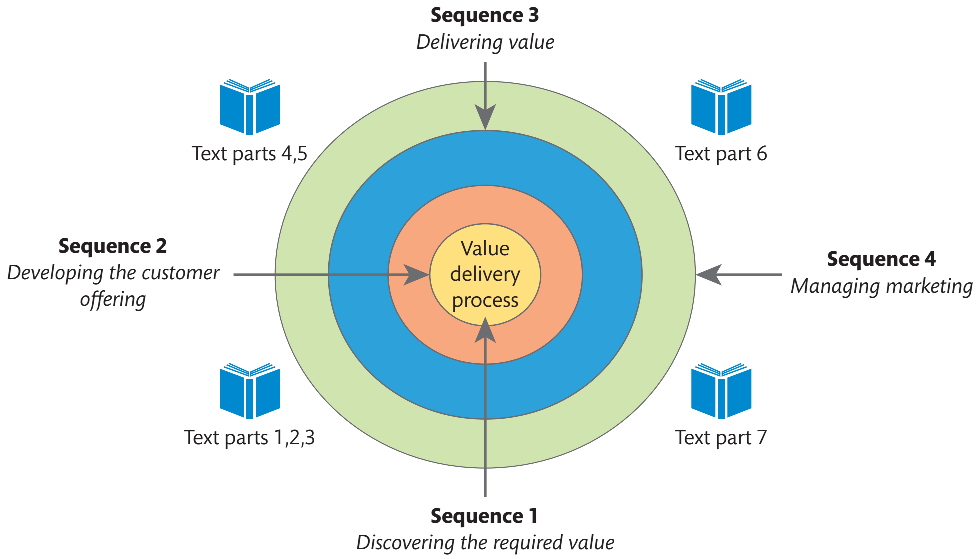


Figure 3.2 Repetitive sequences of the value delivery process
Source: M. R. V. Goodman, Durham University.

the best chance of succeeding in economies marked by goods shortages (sellers' markets), where consumers are not fussy about quality, features or style.

As Figure 3.2 shows, the value delivery process involves four sequences. The first sequence, discovering the required value, represents the research that marketing must do before any marketable value offering exists. Marketing practitioners segment the market, select the appropriate target market and develop their offering's *customer-perceived value* positioning. Market customisation, i.e. segmentation, targeting and positioning (STP), is the essence of strategic marketing. Once the business unit has discovered the customer-perceived value, the second sequence involves developing and communicating a suitable customer offering. Marketers put together a package of specific product and service benefits (market offerings) at appropriate price levels. The third sequence concerns delivering the customer-perceived value packages. The final sequence is about successfully managing the customer-perceived value offerings to targeted customers. As buyers' markets are highly competitive, these sequences need to be held in balance and repeated continuously if a company is to achieve a lasting market advantage.

Following nearly two generations of sellers' markets, businesses have suddenly become exposed to buyers' markets. The stable conditions of sellers' markets (unsaturated markets) have given way to the challenging conditions posed by rampant **buyers' markets**.

Gale[2] sees marketing as a business process that identifies and delivers high levels of market-perceived value, which he defines as *market-perceived quality* relative to *market-perceived price*. Kotler is in agreement with this view but refers to it as *customer-perceived value*. Marketing is ultimately about firms successfully answering the question: why should customers buy from them?

Adidas: delivering value

Critics of Adidas often complain that its shoes cost almost nothing to make, yet are expensive to buy. The raw materials and manufacturing costs of training shoes account for about 21 per cent of the final list price and marketing an additional 8 per cent. Other expenses such as freight, insurance, customs duty, taxes and overheads account for a further 19 per cent of the list retail purchase price. On a typical basis of a 50 per cent retailer margin, this results in Adidas making a net profit of less than 3 per cent. The retailer therefore pays roughly £47 to put a pair of Adidas with a list price of £100 on the shelf. Factoring-in overheads (covering human resources, lease and equipment), a discount discretion of 20 per cent of the retail purchase price along with a ten per cent profit, a £100 pair of trainers can cost the customer *circa* £80.

Question: With such a low net profit on trainers, how do you think that Adidas make so much money?

Source: Adapted from SoleReview (2016), https://www.solereview.com/what-does-it-cost-to-make-a-running-shoe/.

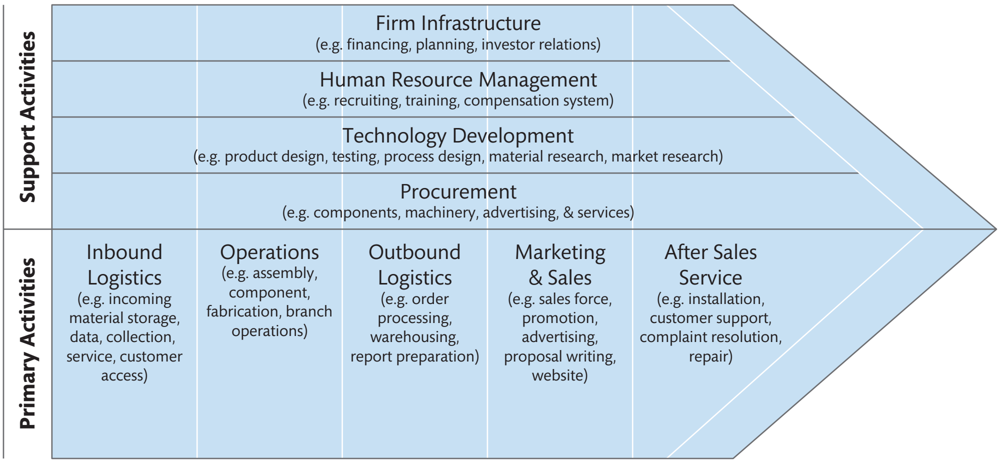


Figure 3.3 The generic value chain
Source: Adapted with the permission of Free Press, a Division of Simon & Schuster, Inc., from Michael E. Porter (1998) *Competitive Advantage: Creating and Sustaining Superior Performance*, Copyright © 1985, 1998 by Michael E. Porter.

The value chain

Porter has proposed the **value chain** as a tool for identifying ways to create more customer-perceived value (see Figure 3.3).[3] According to this model, firms are a synthesis of activities performed to design, produce, market, deliver and support the final market offering. The value chain identifies nine strategically relevant activities – five primary and four support activities – that create value and cost in a specific business.

The *primary activities* consist of inbound and outbound logistics. *Inbound logistics* refers to bringing materials into the business's operations and converting them into final customer-perceived value packages (blends of products and service operations). *Outbound logistics* include shipping out final products, marketing them, and sales and servicing support activities. The *support activities* – procurement, technology development, human resource management and firm infrastructure – are handled in specialised departments. The firm's infrastructure covers the costs of general management, planning, finance, accounting, legal and government affairs.

Whether a firm is large or small, its task is to examine its costs and performance in each value-creating activity and seek ways to make improvements. Managers should estimate their competitors' costs and performances as *benchmarks* against which to compare their own costs and performance. Additionally, they should go further and study 'best practice', as exhibited by Europe's most successful companies such as Arla, BP, Bosch, Ericsson, Groupe Danone, Royal Dutch Shell and Unilever.[4]

Arla Foods

Over 70 per cent of the leading dairy companies in Europe are cooperatives. Arla Foods is a leading global cooperative with a turnover in 2016 of €9.6 billion and with membership of 11,922 dairy farms in Europe. Its most well-known brands include Arla, Lurpak and Castello. Its main branded products recorded a brand share of 44.5 per cent. Arla owns and controls the full value chain. Its farmers produce milk, which it buys and then sells or turns into other dairy products, which it markets worldwide. Quality and provenance are not issues – and this is very powerful in the food industry.

Source: Arla company report (2016), http://docs.arla.com/annual-report/2016/EN/?page=1.

A firm's success depends on how well each functional department performs its work and how well the company coordinates departmental activities to conduct **core business processes** that include:[5]

- **The market sensing process**: all activities involved in gathering market intelligence, disseminating it within the organisation and acting on the information.
- **The new market offering realisation process**: all the activities for researching, developing and launching new high-quality offerings quickly and within budget.
- **The customer acquisition process**: all the activities necessary when defining target markets and prospecting for new customers.
- **The customer relationship management process**: all the activities in defining target markets and prospecting for new customers.
- **The fulfilment management process**: all the activities involved in receiving and approving orders, shipping on time and collecting payment.

Strong companies are re-engineering their work flows and building cross-functional teams to be responsible for each process.[6] Successful firms also seek competitive advantages beyond their own operations, in the value chains of suppliers, distributors and customers. Many have partnered with specific suppliers and distributors to create a superior value delivery network.

Core competencies

Traditionally, companies owned and controlled most of the factors of production that shaped their businesses – land, labour and capital. Prahalad and Hamel[7] have urged managers to look also at the unique skills and knowledge embedded in their organisations and concentrate on what they do best.[8] However, this efficiency argument was open to question soon after it entered the business arena, as it failed to fully account for the impact of emerging global buyers' markets and the internet. This has led to a fundamental change in business architecture. Companies and suppliers have increasingly begun to collaborate to form value chains to deliver researched customer-perceived-value market offerings.

One important key, is to own and nurture the resources and competencies that make up the *essence* of the business. Adidas, for example, does not manufacture its own shoes, because Asian manufacturers are more cost efficient in this task. Instead, it nurtures its superiority in shoe design and merchandising, which are its two core competencies. A **core competency** has three characteristics:

1. it is a source of competitive advantage and makes a significant contribution to customer-perceived value;
2. it has applications in a wide variety of markets;
3. it is difficult for competitors to imitate.[9]

Competitive advantage also accrues to companies that possess distinctive capabilities, such as Apple's iPhones iPads and iWatches, Dyson's vacuum cleaners and Telma's electronic braking retarders. Whereas the term 'core competencies' refers to areas of special technical and production expertise, *distinctive capabilities* describes excellence in broader business processes.

According to Day, market-driven organisations excel in three distinctive capabilities: market sensing, customer linking and channel bonding. Regarding market sensing, he believes that significant opportunities and threats often begin as 'weak signals' from the 'periphery' of a business. He suggests a systematic process for developing peripheral vision, and practical tools and strategies for building 'vigilant organisations' attuned to changes in the environment, by asking questions in three categories[10] (see Table 3.1). Another important key is the extent to which competitive advantage results from how the company has fitted its core competencies and distinctive capabilities into customer-perceived value offerings.

Table 3.1 Becoming a vigilant organisation

Learning from the past
What have been our past blind spots?
What instructive analogies do other industries offer?
Who in the industry is skilled at picking up weak signals and acting on them?
Evaluating the present
What important signals are we rationalising away?
What are our mavericks, outliers, complainers and defectors telling us?
What are our peripheral customers and competitors really thinking?
Envisioning the future
What future surprises could really hurt or help us?
What emerging technologies could change the game?
Is there an unthinkable scenario that might disrupt our business?

Source: Reprinted by permission of Harvard Business School Press. From G. S. Day and P. J. H. Schoemaker (2006) *Peripheral Vision: Detecting the Weak Signals That Will Make or Break Your Company*, Boston, MA.

IKEA adds an aluminium convertible bed

To maintain a competitive advantage, Marcus Engman, head of design for IKEA, stated that: 'If you are the market leader, you should try to lead the market, rather than just follow it.' With competition growing in the economically priced flat-pack furniture market, IKEA is planning to consolidate its market-leader position by collaborating with acclaimed designers from across the globe in a move upmarket with a strong emphasis on high-end design. In January 2018 IKEA launched a new aluminium bed by the celebrated UK designer Tom Dixon. The bed is made of recycled aluminium and is designed to accept a number of customable add-ons such as side tables and a light, which can convert it to a sofa or chaise longue.

Sources: A. McLaughlin (2018) Ikea and Tom Dixon collaborate on modular furniture collection, Design Week, 1 February; J. Brewer (2018) Ikea launches Tom Dixon collection, a modular, hackable furniture range, It's Nice That, 2 February.

IKEA move to explore broadening their appeal through up-market design.
Source: Alex Segre/Alamy Stock Photo

Failing UK companies in 2016–18 included Austin Reed, Beales, BHS, Brantano, Carillion, Jaeger, Monarch Airlines, MultiYork Poundland and Staples. These companies have been unable to imitate companies such as Apple, ASDA, IKEA, L'Oréal and Red Bull because they failed to copy their specific activity systems.

Business realignment may be necessary to maximise core competencies. It has three steps:

1. (re)defining the business concept or 'big idea';
2. (re)shaping the business scope;
3. (re)positioning the company's brand identity.

Consider what Unilever is doing to realign its business.

The final key to successfully applying core competencies to develop customer-perceived value offerings is to change corporate attitudes to reflect the importance of customer-perceived value: that is, to move from customisation of offerings to personalisation of customer offerings. As Prahalad says, 'this is not best practice, it is next practice'.[11]

Unilever abandons spreads

After fighting off a £115 billion takeover bid from Kraft Heinz in February 2017, Unilever is reshaping and sharpening its portfolio of brands and has accepted a bid of £6 billion from the private equity house KKR for its spreads brands, which represent about 7 per cent of the company's global business and include Flora, I Can't Believe It's Not Butter and Stork. Profitability of these iconic brands had been declining as consumer demand fell in response to medical advice, which is raising the danger of 'trans-fats' that are found in margarine and are believed to increase the 'bad' type of cholesterol.

So, a major historical interest of Unilever from its early days in Port Sunlight, Liverpool, has run its course and the company, spurred by the challenge of the attempted Kraft Heinz takeover, has decided to realign its business interests.

Sources: Euromonitor International (2017) Daily chart, margarine sales: Investors can't believe they're not better, published in *The Economist*, 17 April; A. Armstrong (2017) Unilever to offload Flora and other spreads as it regroups after Kraft Heinz bid, *The Telegraph*, 6 April.

How do you think Unilever's loyal spread brand customers will feel about this move?
Source: Richard Levine/Alamy Stock Photo

A holistic marketing orientation and customer-perceived value

A **holistic marketing** orientation can help capture customer-perceived value. One view sees it as integrating the value exploration, value creation and value delivery activities, with the purpose of building long-term, mutually satisfying relationships and co-prosperity among key stakeholders. According to this view, holistic marketers succeed by managing a superior value chain that delivers a high level of product quality, service and speed. Holistic marketers achieve profitable growth by expanding customer share, building customer loyalty and capturing customer lifetime value.[12] Figure 3.4, a holistic marketing framework, shows how the interaction between relevant actors and value-based activities helps to create, maintain and renew customer-perceived value.

The holistic marketing framework is designed to address three key management questions:

1 **Value exploration**: how can a company identify new customer-perceived value opportunities?
2 **Value creation**: how can a company efficiently create more promising new customer-perceived value offerings?
3 **Value delivery**: how can a company use its capabilities and infrastructure to deliver the new customer-perceived value offerings more efficiently?

Marketing practitioners might approach these questions as follows.

Value exploration

Finding new customer-perceived value opportunities is a matter of understanding the relationships between three spaces:

1 the customer's cognitive space;
2 the company's competence space;
3 the collaborator's resource space.

The customer's *cognitive space* reflects existing and latent needs and includes dimensions such as the necessity for participation, stability, freedom and change.[13] A company's *competency space* can be described in terms of breadth – broad versus focused scope of business – and depth – physical versus knowledge-based capabilities. The collaborator's *resource space* includes horizontal

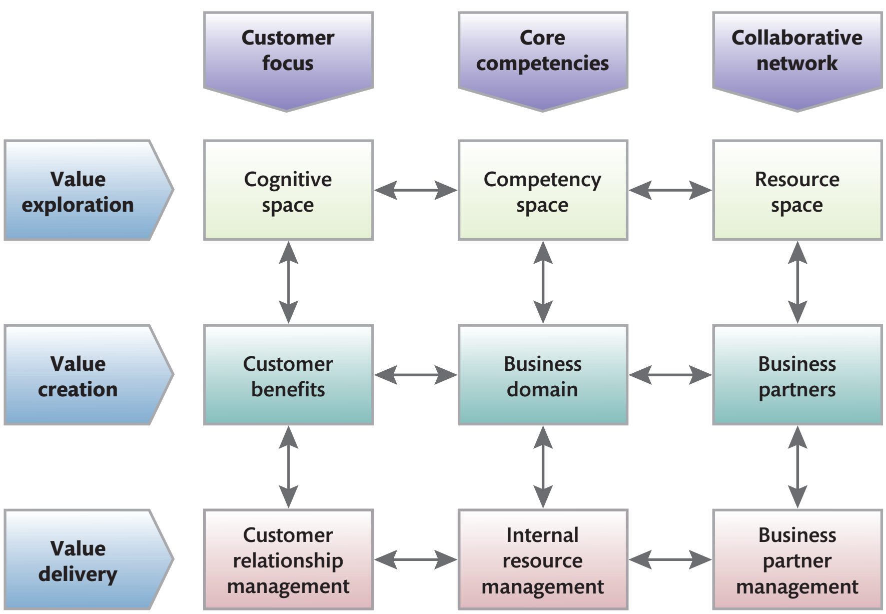


Figure 3.4 A holistic marketing framework
Source: Reprinted by permission of Harvard Business School Press. From P. Kotler, D.C. Jain and S. Maesincee (2002) *Marketing Moves*, MA, p. 29. Copyright © 2002 by the Harvard Business School Publishing Corporation, all rights reserved.

partnerships, with partners chosen for their ability to exploit related market opportunities, and vertical partnerships, with partners that can serve the firm's value creation.

Value creation

Value-creation skills for marketers include identifying new customer benefits from the customer's viewpoint, utilising core competencies from the company's business domain and selecting and managing business partners from its collaborative networks. To create new customer-perceived benefits, marketers must understand what customers think, want, do and worry about, and observe who they admire and interact with, and who influences them.

Value delivery

Delivering customer-perceived value often means making substantial investments in infrastructure and capabilities. Companies consider customer relationship management, internal resource management and business partnership management. *Customer relationship management* (CRM) allows the company to discover who its customers are, how they behave and what they need or want. It also enables the company to respond appropriately, coherently and quickly to different customer opportunities. To respond effectively, a company requires *internal resource management* to integrate major business processes, such as financial, order processing and production processes within a single family of software modules. Finally, *business partnership management* allows a company to handle complex relationships with its trading partners to source, process and deliver customer-perceived value offerings.

The central role of corporate strategic planning

Successful marketing requires companies to understand customer-perceived value, create it, deliver it, capture it and sustain its provision. Only a few companies stand out as master marketers. These include North American companies, such as Apple, Disney, Procter & Gamble, McDonald's, Nike, Starbucks and Ritz-Carlton; Asian companies, such as Canon, Nissan, Samsung, Sony and Toyota; and European companies, such as Danone, Electrolux, IKEA, Nestlé, LEGO and Virgin. The 'Marketing in action' box describes how Burberry created customer-perceived value and built a brand in a category for which most people thought branding impossible.

These companies focus on the customer and are organised to respond effectively to changing customer needs. They all have a strong commitment to marketing. However, it is just as important for small companies to contemplate these capabilities.

Marketing in action

Burberry

Burberry, founded in 1856 and supplier of sturdy outerwear, lost its way as a widely admired profitable business in the last decade of the twentieth century. In 1997 Burberry appointed Rose Marie Bravo as chief executive. She brought a new dynamism to the company and in 2001 appointed Christopher Bailey, a gifted creative designer, to breathe new life into the company's garments. Astute licensing and the appointment of supermodel Kate Moss transformed the company's fortunes.

The popularity of the Burberry check then became a problem, causing the brand to lose some of its energy and designer appeal. Its check became a counterfeit staple on market stalls across the UK.

Angela Ahrendts took over in 2006 and, together with Bailey, restored the company's profits and heritage as a venerated fashion house, despite the economic downturn. Realising the potential of digital marketing and mobile marketing in particular, Ahrendts publicly announced a commitment to a mobile-first strategy. In 2014, she left Burberry and joined Apple as vice president of retail and online sales. Burberry appointed Bailey to succeed her as CEO, requiring him to accept the challenge of combining leadership of the company with his design role – an appointment that many business commentators warned was a high-risk strategy.

Sources: Bravo's team talk (2002) *Vogue*, 13 December; O. Petter and J. Cox (2017) Why Christopher Bailey was great for British fashion but bad for business, *The Independent*, 31 October; L. Handley (2018) Tim Cook kept saying 'trust me': Why Angela Ahrendts left Burberry for Apple, CNBC, Marketing Media Money, 20 June, https://www.cnbc.com/2018/06/20/how-tim-cook-convinced-angela-ahrendts-to-leave-burberry-for-apple.html.

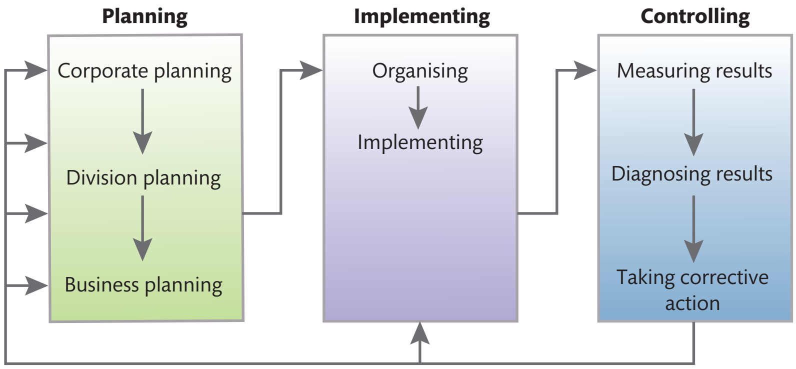


Figure 3.5 The strategic planning, implementation and control process

To ensure that they select and execute the right activities, marketers must give priority to strategic planning in three key areas:

1 Managing a company's businesses as an investment portfolio.
2 Assessing each business's strength by considering the market's growth rate and the company's position and fit in that market.
3 Establishing a strategy.

Each business requires them to develop a suitable strategy for achieving the company's long-run objectives.

Most large companies have three key organisational levels (see Figure 3.5): the corporate, the divisional and the business unit level. Corporate headquarters is responsible for designing a corporate strategic plan to guide the whole enterprise; it makes decisions on the amount of resources to allocate to each division, as well as on which businesses to acquire or divest. Each division establishes a plan covering the allocation of funds to each of its **strategic business units** (SBUs). Each SBU develops a strategic plan to generate a profitable future and develops a marketing plan for each of its customer-perceived value offerings to achieve its specific target-market objectives.

The **marketing plan** is the central instrument for directing and coordinating the marketing effort. It operates at two levels: strategic and tactical. The **strategic marketing plan** states the target markets and the customer-perceived value offerings that the firm will offer, based on an analysis of the best market opportunities. The **tactical marketing plan** specifies the marketing activities, including product features, promotion, merchandising, pricing, sales channels and service. Today, cross-functional teams develop the marketing plan with inputs from important business functions. Management then implements these plans at the appropriate levels of the organisation, monitors results and takes necessary corrective action.

Planning will now be discussed at these three levels of an organisation.

Corporate and divisional strategic planning

Some corporations give their SBUs a great deal of freedom to set their own sales and profit goals and strategies. Others set goals but let them develop their own strategies. Still others set goals and participate in developing individual SBU strategies.[14]

Corporate headquarters undertake four planning activities:

1 defining the corporate mission;
2 defining the business;
3 assigning resources to each **strategic business unit** (SBU);
4 assessing growth opportunities.

Defining the corporate mission

Organisations exist to accomplish their business interests by making cars, lending money, providing a night's lodging and so on. Over time the mission may change, to take advantage of new opportunities or respond to new market conditions. Amazon.com changed its mission from being the world's largest online bookstore to aspiring to become the world's largest online store. eBay changed its mission from running online auctions for collectors to running online auctions of all kinds of goods.

To define its mission, a company ought to address Drucker's classic questions: What is our business? Who is the customer? What is of value to the customer? What will our business be? What should our business be?[15] These simple questions are among the most difficult a company will ever have to answer. Successful companies ponder them continuously and answer them thoroughly. A telling question for a business to address in today's highly competitive global markets is: why should people bother to buy from us?

Organisations develop **mission statements** to share with managers, employees and (in many cases) customers. A clear, thoughtful mission statement provides employees with a shared sense of purpose, direction and opportunity. They are at their best when they reflect a vision, an almost 'impossible dream' that provides a direction for the company for the next 10–20 years. Sony's former president, Akio Morita, wanted everyone to have access to 'personal portable sound', so his company created the Walkman and portable CD player. Table 3.2 lists sample mission statements. Which of these do you think would best impress their respective customers?

Good mission statements have five major characteristics:

1. They focus on a limited number of goals. The statement 'We want to produce the highest-quality products, offer the most service, achieve the widest distribution and sell at the lowest prices' claims too much.
2. They stress the company's major policies, values and culture. They help employees to focus on the importance of working together to ensure that market offerings satisfy the company's customers.
3. They define the major competitive spheres within which the company will operate:
   - **Industry.** Some companies will operate in only one industry, some only in a set of related industries, some only in industrial goods, consumer goods or services, and some in any industry. For example, DuPont prefers to operate in the industrial market, whereas, for example, AkzoNobel and Siemens operate in both industrial and consumer markets.
   - **Products and applications.** Firms define the range of market offerings and applications they will supply.
   - **Competence.** The firm identifies the range of technological and other core competencies it will master and leverage.

Table 3.2 Sample mission statements

Arla Foods
'To secure the highest value for our farmers' milk while creating opportunities for growth.'
Carlsberg
'The mission of Carlsberg Company is to be a dynamic provider of quality beers and also bring its exciting brand, innovative culture and committed teams which will bring people together and add more enjoyment in life.'
IKEA
'To offer a wide range of well-designed, functional home furnishing products at prices so low that as many people as possible will be able to afford them.'
Philips
'To improve people's lives through meaningful innovation.'

Sources: Company websites.

- **Market segment.** The type of market or customers a company will serve constitutes the market segment. Aston Martin makes only high-performance sports cars for a high-end market.
- **Vertical.** The vertical sphere is the number of channel levels, from raw material to final market offering and distribution, in which a company will participate. At one extreme are companies with a large vertical scope – at one time Ford owned its own rubber plantations, sheep farms, glass manufacturing plants and steel foundries. At the other extreme are 'hollow corporations' or 'pure marketing companies', such as some financial brokers, who contract out or factor nearly everything.
- **Geographical.** The range of regions, countries or country groups in which a company will operate defines its geographical sphere. Some companies operate in a specific country. Others are multinationals, such as Volkswagen and Unilever, which operate in almost every country in the world.

4. Mission statements take a long-term view. They should be enduring; management should change the mission only when it ceases to be relevant.
5. A good mission statement is ideally brief, flexible and distinctive.

Table 3.3 compares the rather vague mission statement on the left with Google's mission statement and philosophy on the right.

While few would argue with the prime purpose of a mission statement, it is important for organisations to live up to the promises they declare. John Lewis's famous mission statement 'Never knowingly undersold' provides a real challenge.

Relationship between missions and visions

While missions are essentially concerned with what the company is about and how it behaves, visions are more associated with future corporate goals. Visions may be vague or precise but they give the organisation a sense of purpose (see Table 3.4). Good business leaders create a vision for an organisation, articulate it and motivate personnel to adopt and achieve it.

A vision and a mission can be one and the same, but the concepts, though related, are not necessarily the same. Broadly speaking, *visions* refer to future intentions and *missions* to delivering present ones. Both visions and missions are inspirational. Visions, once achieved, need to be

Table 3.3 Google's mission statement

Examples of weak mission statements	Google mission and philosophy
To build total brand value by innovating *To deliver customer value and customer leadership faster, better and more completely than our competition* *We build brands and make the world a little happier by bringing our best to you*	To organize the world's information and make it universally accessible and useful **Google philosophy** Never settle for the best **Ten things we know to be true** 1 Focus on the user and all else will follow 2 It's best to do one thing really well 3 Fast is better than slow 4 Democracy on the web works 5 You don't need to be at your desk to need an answer 6 You can make money without doing evil 7 There is always more information out there 8 The need for information crosses borders 9 You can be serious without a suit 10 Great just isn't good enough

Sources: Google mission statement (2013) Strategic Management Insight, https://www.strategicmanagementinsight.com/; A. Thompson (2018) Google's mission statement and vision statement (an analysis), Panmore Institute, http://panmore.com/google-vision-statement-mission-statement.

Table 3.4 Sample vision statements

Electrolux
'The Group's vision is to become the best appliance company, as measured by customers, employees and shareholders'
IKEA
'To create a better everyday life for the many people'

Sources: www.electrolux.co.uk; IKEA vision statement from IKEA, © Inter IKEA Systems B.V.

restated. Missions, meanwhile, are continuous in that they encapsulate an organisation's purpose. The paradigm change from sellers' to buyers' markets challenges everything an organisation stands for and may require a complete re-evaluation of both vision and mission statements.

Organisation and organisational culture

Strategic planning happens within the context of the organisation. A company's organisation consists of its structures, policies and **corporate culture**, all of which can become dysfunctional in a rapidly changing business environment. Whereas managers can change structures and policies (with difficulty), the company's culture is very hard to change. Yet adapting the culture is often the key to successfully implementing a new strategy.

What exactly is a corporate culture? Most businesspeople would be hard-pressed to describe this elusive concept, which some define as 'the shared experiences, stories, beliefs and norms that characterise an organisation'. Yet walk into any company and the first thing that strikes you is the corporate culture – the way people dress, talk to one another and greet customers.

Organisations need to build a culture of 'customer-centred leadership': bringing together technical marketing and leadership capabilities to create real customer-perceived value and attain new levels of performance. Customer centricity requires all employees to understand who their customers are, how customers perceive their interactions with the company, and the roles employees play in delivering the overall experience. As Procter & Gamble CEO A. G. Lafley wrote in *The Game-Changer*: 'We expanded our mission to include the idea that "the consumer is boss".' In other words, the people who buy and use Procter & Gamble products are valued not just for their money, but as a rich source of information and direction.[16]

Sometimes, corporate culture develops organically and is transmitted from the CEO's personality and habits to the company employees. Sir James Dyson, the inventor of the Dual Cyclone bagless vacuum cleaner and chief engineer of the company that carries his name, inspires his staff as he is a designer and an innovator in his own right.[17] The John Lewis Partnership's reputation is founded on the uniqueness of its ownership structure, established by the founding management, whose vision was to achieve the happiness of all their staff through their worthwhile, satisfying employment in a successful retail business.

Defining the business

Companies often define their businesses in terms of products: they are in the 'auto business' or the 'clothing business'. However, market definitions of a business are superior to product definitions. Companies must see their businesses as a customer-satisfying process that delivers expected standards of customer-perceived value, and not as a goods-producing process.

Viewing businesses in terms of customer needs can suggest additional growth opportunities. Table 3.5 gives examples of companies that have moved from a product to a market definition of their business. The table highlights the difference between a target market definition and a strategic market definition.

A target market definition tends to focus on selling a product or service to a current market. PepsiCo could define its target market as everyone who drinks a cola beverage, and competitors would therefore be other cola companies. A strategic market definition, however, focuses also on the potential market. If PepsiCo considered everyone who might drink something to quench their

Table 3.5 Product-orientated versus market-orientated definitions of a business

Company	Product definition	Market definition
BP	We sell fuels	We supply energy . . . beyond petroleum
Beiersdorf	We sell cosmetics	We sell beauty
EDF	We supply electricity	We supply energy
Porsche	We sell automobiles	We supply high-performance automobiles

thirst, its competition would also include non-cola soft drinks, beer, bottled water, fruit juices, tea and coffee. To compete effectively, PepsiCo markets additional beverages, such as Tropicana.

A business can define itself in terms of three dimensions: customer groups, customer needs and technology. Consider a small company that defines its business as designing incandescent lighting systems for television studios. Its customer group is television studios, the customer's need is lighting and the technology is incandescent lighting. The company might want to expand. It could make lighting for other customer groups, such as homes, factories and offices, or it could supply other services needed by television studios, such as heating, ventilation or air conditioning. It could design other lighting technologies for television studios, such as infrared or ultraviolet lighting.

Large companies normally manage quite different businesses, each requiring its own strategy. The Virgin Group has classified its businesses into seven strategic parts, or strategic business units. An SBU has three characteristics:

1 It is a single business, or a collection of related businesses, that can be planned separately from the rest of the company.
2 It has its own set of competitors.
3 It has a manager responsible for strategic planning and profit performance, who controls most of the factors affecting profit.

The purpose of identifying the company's SBUs is to develop separate strategies and assign appropriate funding. Senior management knows that its portfolio of businesses usually includes a number of 'yesterday's has-beens' as well as 'tomorrow's breadwinners'.

Assigning resources to each SBU

Once it has defined SBUs, management must decide how to allocate its corporate resources. The 1970s saw several portfolio planning models introduced to provide an analytical means for making investment decisions. The American General Electric/McKinsey matrix classifies each SBU according to the extent of its competitive advantage and the attractiveness of its industry. Management would want to grow, 'harvest' or draw cash from, or hold on to, the business. Another model, the Boston Consulting Group's Growth-Share matrix (see Figure 3.6), uses **relative market share** and annual rate of market growth as criteria to make investment decisions.[17]

Boston Consultancy Group matrix

The Boston Consultancy Group (BCG) matrix is based on cash flow rather than profits and its key assumptions are that:

- market growth has an adverse effect on cash flow because of the investment in such assets as manufacturing facilities, equipment and marketing needed to finance growth;
- market share has a positive effect on cash flow as profits are related to market share.

Stars

These are likely to be profitable because they are market leaders but require substantial investment to finance growth and meet competitive challenges.

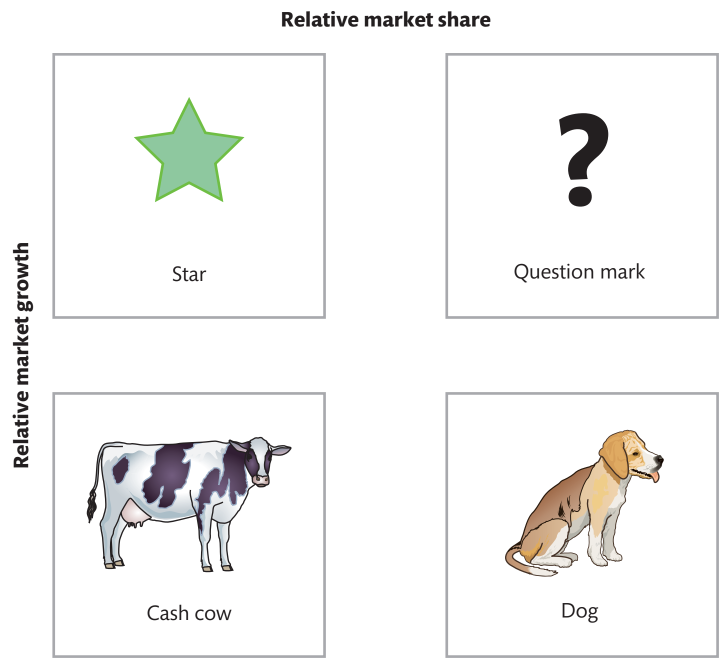


Figure 3.6 Boston Consultancy Group matrix
Source: M. R. V. Goodman, AJM Management Development.

Problem children or question marks

These are products in high-growth markets, which cause a drain on cash flow, are low-share products and unlikely to be profitable. They are big cash users.

Cash cows

These are market leaders in mature (low-growth) markets. High market share leads to high profitability.

Dogs

These operate in the low-growth markets but have low market share. Most dogs produce low or negative cash flows.

BCG usage

The BCG analysis can be used as a tool for setting and maintaining a balanced **product portfolio**. The matrix provides guidelines and should not be seen as a replacement for marketing management.

Stars

Resources should be invested to maintain/increase the leadership position. These are the cash cows of the future and need to be protected from competitive challenges.

Problem children or question marks

As cash drains (low profitability and need investment to keep up with market growth), management has to decide whether it is sensible to continue the required investment.

Options:

- Harvest: raise price and lower marketing spend.
- Divest: drop or sell it.
- Niche: can a small niche be found?

Cash cow

High profitability/low investment and associated with high market share.

Options:

- Hold sales.
- Hold market share.

Dogs

Weak products in low-growth markets.

Options:

- Harvest: to get a positive cash flow for a time.
- Divest: to release resources and managerial time.

Practical criticisms of the BCG matrix

1. Assumption that cash flow will be determined by a market offering's position in the matrix is weak, e.g. stars may show a positive cash flow – such as early mobile phones.
2. Preoccupation with concentrating on market growth and market share distracts marketer's attention from key tasks such as creating and delivering customer-perceived value.
3. Treating the market growth rate as a proxy for market attractiveness and market share as an indicator of market strength is over simplistic.
4. The matrix ignores interdependencies between market offerings.
5. Classic BCG matrix strategy is to build a star, but is there always time today?
6. It ignores competitors' actions.
7. The matrix is vague in its definition of the market.
8. The matrix is based on cash flow but many companies prefer profitability.

Portfolio planning models such as these have fallen out of favour, as many view them as oversimplified and too subjective. Recent methods that firms use to make internal investment decisions are based on shareholder value analysis, and whether the market value of a company is greater with a SBU or without it (whether it is sold or spun off). These value calculations assess the potential of a business based on potential growth opportunities from global expansion, repositioning or retargeting, and strategic outsourcing. In layman's terms, each SBU needs to make a positive contribution to the perceived strength of the company. Unilever, for example, has more than 100 SBUs and each one, such as Dove, either does or is planned to contribute positively to the corporate shareholder value.

Building the corporate business portfolio – assessing growth opportunities

Assessing growth opportunities includes planning new businesses, downsizing and terminating older businesses. If there is a gap between future desired sales and projected sales, corporate management will have to develop or acquire new businesses to fill it.

Figure 3.7 illustrates this strategic planning gap for a major manufacturer of fast-fashion clothes company Persona (name disguised) that targets millennial females. The lowest curve projects the expected sales over the next five years from the current business portfolio. The highest curve describes desired sales over the same period. Evidently, the company wants to grow faster than its current businesses will permit. How can it fill the strategic planning gap?

The first option is to identify opportunities to achieve further growth within current businesses (intensive opportunities). The second is to identify opportunities to build or acquire businesses that are related to current businesses (integrative opportunities). The third option is to identify opportunities to add attractive businesses unrelated to current businesses (diversification opportunities).

Intensive growth

Corporate management's first course of action should be a review of opportunities for improving existing businesses. One useful framework for detecting new intensive growth opportunities is Ansoff's product–market expansion grid (see Figure 3.8).[18]

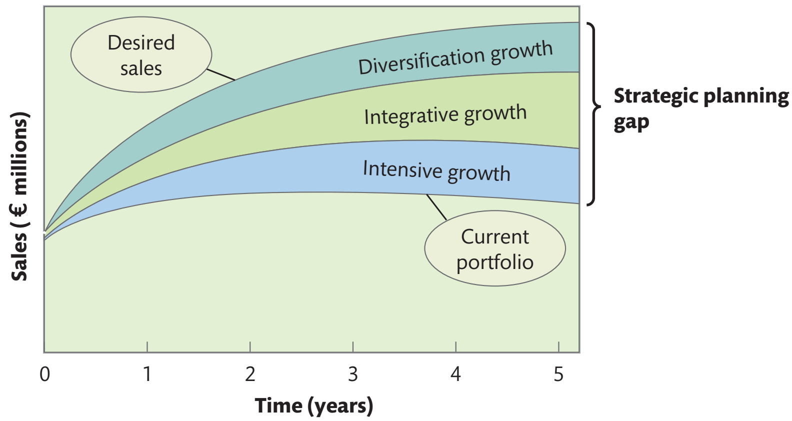


Figure 3.7 The strategic planning gap

	Current products	New products
Current markets	1 Market penetration strategy	3 Product development strategy
New markets	2 Market development strategy	(Diversification strategy)

Figure 3.8 Three intensive growth strategies; Ansoff's product–market expansion grid
Source: Reprinted by permission of *Harvard Business Review*, from I. Ansoff (1957) Strategies for diversification, September–October. Copyright © 1957 by the Harvard Business School Publishing Corporation. All rights reserved.

The company first considers whether it could gain more market share with its current products (i.e. in post-paradigm terms, market offerings) in its current markets. Next it considers whether it can find or develop new markets for its current market offerings, in a market development strategy. Then it considers whether it can develop new products (i.e. market offerings) of valued interest to its current markets with a product development strategy. Later the firm will also review opportunities to develop new market offerings for new markets in a diversification strategy.

Starbucks

When Howard Schultz, Starbucks' CEO, came to the company in 1982, he recognised an unfilled niche for cafés serving gourmet coffee directly to customers. This became Starbucks' market penetration strategy and helped the company attain a loyal customer base in Seattle. The market development strategy marked the next phase in Starbucks' growth and it applied the same successful formula that had worked wonders in Seattle throughout North America and, finally, across the globe.

Once the company had established itself as a presence in thousands of cities internationally, Starbucks sought to increase the number of purchases by existing customers with a product development strategy that led to new in-store merchandise, including compilation CDs, a Starbucks Duetto Visa card that allows customers to receive points towards Starbucks purchases whenever they use it, and high-speed wireless internet access at thousands of Starbucks 'HotSpots' through a deal with T-Mobile. Aware of the rising appeal of Fairtrade, the company adopted it enthusiastically in its sourcing of materials. Finally, Starbucks pursued diversification into grocery store aisles with Frappuccino® bottled drinks, Starbucks-brand ice cream and the purchase of tea retailer Tazo® Tea.

Even a famous brand such as Starbucks cannot rest on its laurels in today's competitive buyers' markets. In February 2007 Howard Schultz was moved to accuse the company of losing its creativity. A survey in *Consumer Reports* magazine that February judged McDonald's coffee to be better than Starbucks'.

Following the growing concerns about the effect of plastic waste on the environment, Starbucks is banning the use of plastic straws in its shops and placing a levy on single-use paper cups. The company is also determined to improve its public image by welcoming non-paying guests to sit in the premises and by funding employees to spend as much as half a working week at non-profit-making organisations.

Sources: Starbucks Company Time Line, https://www.starbucks.com/about-us/company-information/starbucks-company-timeline (accessed October 2018); for up-to-date news see Starbucks News Room, https://news.starbucks.com; D. Rushe (2018) Starbucks chairman Howard Schultz to quit amid rumours of run for office, *The Guardian*, 4 June; R. Smithers (2018) Starbucks introduces 'latte levy of 5p on single-use paper cups, *The Guardian*, 10 July; A. Mahdawi (2018) Starbucks is banning straws – but is it really a big win for the environment?, *The Guardian*, 23 July.

So how might Persona use these three major intensive growth strategies to increase its sales? It could try to encourage its current customers to buy more clothes. It could try to attract competitors' customers if it noticed major weaknesses in competitors' marketing programmes. Finally, Persona could try to attract new customers by expanding its targeted customers, for example by seeking to attract male millennials.

How might Persona use a market development strategy? First, it might try to identify potential user groups in the current sales areas. If it has only been marketing clothes to the high-street market, it might consider designer outlets and university student union shops. Second, it might seek additional distribution channels in present locations, it might add outdoor markets or online channels. Third, the company might consider marketing in new locations in its home country or abroad. If Persona sold only in Europe, it could consider entering the Asian and Middle Eastern markets. Management should also consider new customer-perceived value market offering possibilities. Persona could develop new features, such as fresher design appeal and a range of attractive accessories. It could offer its clothes at two or more quality levels, or it could research an alternative but related market, such as a Persona credit card.

Luxury leather and cosmetics
Source: Arsenie Krasnevsky/Shutterstock.

By examining these intensive growth strategies, managers may discover several ways to grow. Still, that growth may not be enough. In that case, management must also look for **integrative growth** opportunities.

Integrative growth

A business can increase sales and profits through backward, forward or horizontal integration within its industry. For example, Louis Vuitton has expanded from being a provider of luxury leather goods and fashions to forge a broad luxury portfolio that includes perfumes (Dior and Givenchy), champagne (Moët) and the prestigious Paris-based department store Le Bon Marché.

How might Persona achieve integrative growth? The company might acquire one or more of its suppliers, such as a material producer, to gain more control or generate more profit through backward integration down the value chain. It might consider acquiring some wholesalers or specialist retailers, especially if they are highly profitable, in a forward integration initiative. Finally, Persona might acquire one or more competitors. However, these new sources may still not deliver the desired sales volume. In that case, the company must consider diversification.

Diversification growth

Diversification growth makes sense when good opportunities exist outside the present businesses – the industry is highly attractive and the company has the right mix of business strengths to be successful. For example, from its origins as a toy manufacturer, LEGO has moved into licensing characters for merchandised goods, entering the computer game and film industries and developing theme parks.

Several types of diversification are possible for Persona. First, the company could choose a **concentric strategy**. This occurs when a company seeks to develop new market offerings that have technological or marketing synergies with existing product lines, though the new market offerings themselves may appeal to a different group of customers. For instance, Persona could decide to offer a range of shoes to suit its fast-fashion clothes.

Guidelines for concentric diversification

Five guidelines for when concentric diversification may be an effective strategy for a company are when:

1. the company competes in a no- or slow-growth industry;
2. adding new and related products increases sales of current products;
3. new and related products can be offered at competitive prices;
4. current products are in the decline stage of the product life cycle;
5. the company has a strong management team.

Second, the company might use a *horizontal marketing* system to search for new ventures that could appeal to current customers, even though the new market offerings are technically unrelated to its current activity. This strategy is not as risky as conglomerate diversification because a firm already should be familiar with its present customers. For example, Persona could produce cosmetics, though they require a different manufacturing process.

Guidelines for horizontal diversification

Four guidelines for when horizontal diversification may be an especially effective strategy are when:

1. revenues from current products/services would increase significantly by adding the new unrelated offerings;
2. the company faces a highly competitive and/or no-growth industry with low margins and returns;

3 present distribution channels can be used to market new products to current customers;
4 new market offerings have counter-cyclical sales patterns compared with existing market offerings.

Finally, Persona might decide to spread its risks by seeking new business opportunities that have no relationship to its current technology or activities (a **conglomerate strategy**). Some firms pursue conglomerate diversification based in part on an expectation of profits from breaking up acquired firms and selling divisions piecemeal. Persona might review opportunities that may lie in markets such as, for example, costume jewellery or banking services.

Guidelines for conglomerate diversification

Four guidelines for when conglomerate diversification may be an effective strategy for a company are when there is/are:

1 declining annual sales and profits;
2 capital and managerial talent to compete successfully in a new industry;
3 financial synergy between the acquired and acquiring firms;
4 saturation of existing markets for present products.

The creative application of technology enables brands and agencies to diversify in other ways, whether it is personalisation, gaming, sharing or giving consumers the chance to play. As a Coca-Cola vice-president, Jonathan Mildenhall, put it: 'We can't change what's in the bottle, but we can innovate in the way we communicate'.[19]

Growth mantra

Many executives are driven by internal company mantra or by imagined shareholder pressure to grow their companies faster than the natural rate of growth in their markets and are often encouraged to do so with salary and bonus incentives. However, if this pursuit of growth is ill-considered, problems can arise as companies find themselves in unfamiliar markets and exposed to severe competition. So what should harassed CEOs do? Generally speaking, it is best to stick essentially to what companies are good at, avoid the Icarus deception and not lose sight of their brand identification. Shareholders are skilled at investing in shares and differentiate between companies that deliver successful growth and those that produce reliable dividends.

Downsizing and divesting older businesses

Weak businesses require a disproportionate amount of managerial attention. Companies must carefully prune, harvest or divest tired old businesses to release resources for other uses and to reduce costs. In most cases it is not immediately obvious that an SBU should be divested. Management may attempt to increase investment as a means of giving the SBU an opportunity to improve its performance. Portfolio models such as the BCG model can be used to identify operations in need of divestment. For example, market offerings or business operations identified as 'dogs' in the BCG model are prime candidates for divestment.

Decisions to divest may be made for a number of reasons:

1 **Market share is too small.** Firms may divest to be competitive or when the market fails to provide expected rates of return.
2 **Availability of better alternatives.** Firms may also decide to divest because they see better investment opportunities. They are often able to divert resources from a marginally profitable line of business to one where the same resources can be used to achieve a greater rate of return.
3 **Need for increased investment.** Firms sometimes reach a point where continuing to maintain an operation is going to require large investments in equipment, advertising, research and development and so forth to remain viable. Rather than invest the monetary and management resources, firms may elect to divest that portion of the business.
4 **Lack of strategic fit.** A common reason for divesting is that the business is inconsistent with the image and strategies of the firm. This can be the result of acquiring a diversified business. It may also result from decisions to restructure and refocus the existing business.

5 **Legal pressures to divest.** Firms may be forced to divest operations to avoid penalties for infringing restraint of trade rules.

In 2007 Telefónica, Spain's largest telecommunications group, after three years of energetic activity, during which it paid €27 billion for the UK's O2, decided to consolidate its interests and develop its core business. Several of its non-core activities, such as the television production business Endemol, were divested. In Europe, the company is pioneering in-market consolidation. Valletti et al. researched the dual relationship between market structure and prices and between market structure and investment in mobile telecommunications across 33 countries. They found that more concentrated markets led to higher-end user prices. They sounded a warning that competition and regulatory authorities should take seriously the potential trade-off between market power effects and efficiency gains stemming from agreements between firms.[20]

Marketing in action

Downsizing and divesting

Danone

Paris-based Groupe Danone has grown by acquisitions to become a leading player in the European food products sector. For some years the company's growth was the result of horizontal (market) and vertical (supply/value chain) acquisitions that did not seem to reflect a well-fashioned strategy. It embarked on a programme of internalisation. In the 1990s the incoming CEO sharpened the strategy and focused on the dairy, beverages and cereals sectors.

Turnover growth increased on a like-for-like basis, enabling the group to reach its growth targets and providing proof positive of the effectiveness of the strategy established in late 2008 to address the world economic crisis.

This performance was made possible by the use of three major levers to confront the crisis. The first is the priority given to growth in volumes and market share through three initiatives: a market-by-market rebalancing of the product portfolio; increased promotion; and a readjustment of publicity. The second lever is the staff's adaptability, facilitated by efficient and committed operating structures in every country where Danone is present. The establishment of the Danone Ecosystem Fund is the third lever, supporting operations at the group's direct and often local partners.

In June 2014 the company announced its intention to close sites at Casale Cremasco (Italy), Hagenow (Germany) and Budapest (Hungary) – all companies particularly hard hit by a fall in sales. The closure of these plants and a shift in production volumes to Belgium, Poland, Germany and France bolstered the competitive position of the Fresh Dairy Products division in Europe.[21]

Marketing innovation

Innovation in marketing is critical. The traditional view is that senior management formulates the strategy and hands it down. Hamel offers the contrasting view that imaginative strategic ideas exist in many places within a company.[22] Senior management should identify and encourage fresh ideas from three groups that tend to be under-represented in strategy making: employees with youthful perspectives, employees who are far removed from company headquarters and employees who are new to the industry. Each group is capable of challenging company orthodoxy and stimulating new ideas. Jump Associates,[23] a US innovative strategy firm, offers five key strategies for managing change in an organisation:

1 **Avoid the innovation title.** Pick a name for the innovation team that will not alienate co-workers.
2 **Use the buddy system.** Find a like-minded collaborator within the organisation.
3 **Set the metrics in advance.** Establish different sets of funding, testing and performance criteria for incremental, experimental and potentially disruptive innovations.
4 **Aim for quick hits first.** Start with easily implemented ideas that will work to demonstrate that things can get done, before quickly switching to bigger initiatives.

Sir James Dyson fosters a strong culture of innovation and leads by example
Source: © Adrian Sherratt/Alamy.

5 **Get data to back-up your gut feelings.** Use testing to get feedback and improve an idea. The Marketing insight box describes how some leading companies approach innovation.

For further discussion see Chapter 15. Table 3.6 gives examples of the 12 dimensions of business innovation.

Marketing insight

Different approaches to innovative marketing

In most markets there is too much sameness: too much safe differentiation between competitors. Go-ahead companies are constantly seeking ways to gain and sustain a strong market identity. This can be achieved by a commitment to the importance of new product development and by novel use of the tools of the marketing mix.[24]

JCB

For several years JCB has developed an innovative marketing approach in a business-to-business industry that many would consider staid. It is famous for the use of events and stunts such as JCB dancing diggers. Its tradition of innovative marketing continues today.[25]

BMW

The BMW Group uses different slogans and advertisements for the promotion of its products. The company invests a large amount of money for its cars in films such as *The World Is Not Enough*. James Bond drove the new Z8 before the car was launched and in *Austin Powers Goldmember* the Mini Cooper was used. These advertisement techniques have really helped BMW Group in its promotion of its cars. BMW Group also promotes its vehicles by using slogans such as 'The Ultimate Driving Machine' and 'Sheer Driving Pleasure'.[26]

To reach customers across the globe, BMW's marketing department has decided to put less money and effort into traditional media such as television and newspapers. It is pioneering new ways of reaching customers, such as offering them the chance to download audio books and other material from the internet.

Burberry

Digital innovation: being a first mover in digital is also important, as Burberry looks to communicate innovation through marketing, not just products. For example, Burberry is testing out mobile commerce with WeChat in China and has made early moves onto social platforms including Pinterest, Instagram and Snapchat.[27]

Table 3.6 The 12 dimensions of business innovation

Dimension	Definition	Examples
Offerings (what)	Develop innovative products or services	Apple iPad and iWatch
Platform	Use common components or building blocks to create derivative offerings	Danone and Nestlé yogurts
Solutions	Create integrated and customised offerings that solve end-to-end customer problems	DHL logistics services; supply chain solutions IKEA Building innovations for construction
Customers (who)	Discover unmet customer needs or identify under-served customer segments	Europcar Rent-A-Car focuses on replacement car renters
Customer experience	Redesign customer interactions across all touchpoints and all moments of contact	NatWest customer service improvement programme
Value capture	Redefine how company gets paid or create innovative revenue streams	Google paid search
Processes (how)	Redesign core operating processes to improve efficiency and effectiveness	Siemens Design for Six Sigma quality control
Organisation	Change form, function or activity scope of the firm	Electrolux front–back hybrid organisation for customer focus
Supply chain	Think differently about sourcing and fulfilment	Moen ProjectNet for collaborative design with suppliers
Presence (where)	Create new distribution channels or innovative points of presence, including the places where market offerings can be bought or used by customers	Pret a Manger in-store wifi provision
Networking	Create network-centric intelligent and integrated market offerings	British Gas Hive remote monitoring service
Brand	Move a brand into new domains	Virgin Group 'branded venture capital'

Source: Adapted from M. Sawhney, R. C. Wolcott and I. Arroniz (2006) The 12 different ways for companies to innovate, *MIT Sloan Management Review*, 47(3), 78.

Firms develop strategy by identifying and selecting from different views of the future. The Royal Dutch Shell Group has pioneered **scenario analysis**, which consists of developing plausible representations of a firm's possible future that make different assumptions about forces driving the market and that include different uncertainties. Managers need to think through each scenario with the question: 'What will we do if this happens?'. They need to adopt one scenario as the most probable and watch for signposts that might confirm or deny it.[28]

Business unit strategic planning

The business mission

Each SBU needs to define its specific **business mission** within the broader company mission. Thus, a television studio lighting equipment company might define its mission as: 'To target major television studios and become their vendor of choice for lighting technologies that represent the most advanced and reliable studio lighting arrangements.' Notice that this mission does not attempt to win business from smaller television studios, win business by being lowest in price, or venture into non-lighting products.

SWOT analysis

The overall evaluation of a company's strengths, weaknesses, opportunities and threats is called the SWOT analysis (Figure 3.9). It is a tool to monitor the external and internal marketing environment (Figure 3.10).

An SBU has to monitor key *macroenvironment forces* and significant *microenvironment actors* that affect its ability to earn profits. It should track trends, important developments and identify any related opportunities and threats.

Good marketing is the art of finding, developing and profiting from these opportunities. A **marketing opportunity** is an area of buyer need and interest that a company has a high probability of profitably satisfying. There are two main sources of market opportunities. The first is to provide something that is in short supply. This requires little marketing talent, as the need is obvious. The second is to supply an existing market offering in a new or superior

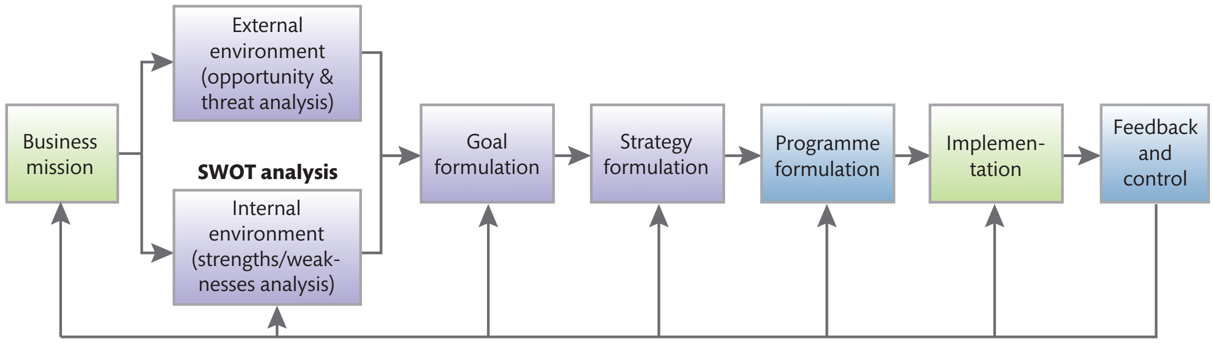


Figure 3.9 The business unit strategic planning process

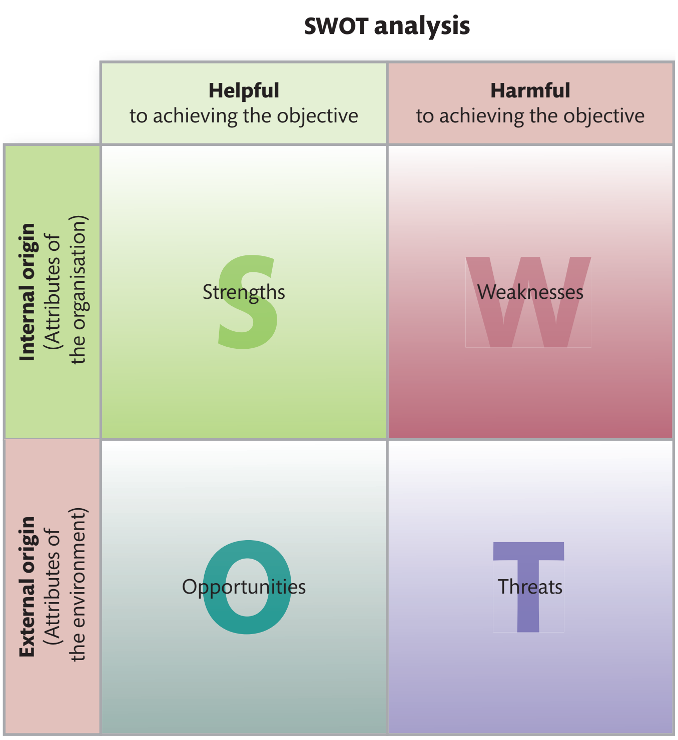


Figure 3.10 Using SWOT analysis to monitor the internal and external position of an organisation

way. There are several ways to uncover possible customer-perceived value improvements: the *problem detection method* asks consumers for their suggestions; the *ideal method* gets them to imagine an ideal version of the product or service; and the *consumption chain method* asks consumers to chart their steps in acquiring, using and disposing of a market offering that meets their customer-perceived value expectations. This last method often leads to a profitable new market offering.

Opportunities can take many forms, and marketers have to spot them. Consider the following:

- A company may benefit from converging industry trends and introduce a hybrid market offering that is new to the market. For example, several major mobile phone manufacturers released phones with digital photo capabilities.
- A company may make a buying process more convenient or efficient. Consumers can now use the internet to find more books than ever before and search for the lowest price with a few clicks.
- A company can meet the need for more information and advice. For example, Guru.com facilitates finding professional experts in a wide range of fields.
- A company can customise a market offering that was formerly offered only in a standard form.
- A company can introduce a new capability. Apple aims to popularise wearable technology in the form of its iWatch and ease consumer payments with its Apple Pay system.
- A company may be able to deliver a market offering faster than the competition. DHL, for example, has discovered a way to deliver mail and packages far more quickly than the UK's Royal Mail.
- A company may have a market offering at a much lower price. Pharmaceutical firms, for example, have created generic versions of brand-name drugs.

To evaluate opportunities, companies can use **market opportunity analysis** (MOA)[29] to determine their attractiveness and probability of success by asking questions such as:

1. Can we articulate the benefits convincingly to defined target market(s)?
2. Can we locate the target market(s) and reach them with cost-effective media and trade channels?
3. Does our company possess or have access to the critical capabilities and resources we need to deliver the customer benefits?
4. Can we deliver the benefits in a better way than actual or potential competitors?
5. Will the financial rate of return meet or exceed our required threshold for investment?

In the opportunity matrix in Figure 3.11(a), the best marketing opportunities facing the TV lighting equipment company are listed in the upper-left cell (no. 1). The opportunities in the lower-right cell (no. 4) are too minor to consider. The opportunities in the upper-right cell (no. 2) and lower-left cell (no. 3) are worth monitoring in the event that any improve in attractiveness and success probability.

An **environmental threat** is a challenge posed by an unfavourable trend or development that would lead, in the absence of defensive marketing action, to lower sales or profit. Figure 3.11(b) illustrates the threat matrix facing the TV lighting equipment company. The threats in the upper-left cell are major because they can seriously hurt the company and they have a high probability of occurrence. To deal with them, the company needs contingency plans. The threats in the lower-right cell are minor and can be ignored. The firm will want to carefully monitor threats in the upper-right and lower-left cells in the event that they might become more serious.

Internal environment (strengths/weaknesses) analysis

It is one thing to find attractive opportunities and another to be able to take advantage of them. Each business needs to evaluate its internal strengths and weaknesses.

Businesses can evaluate their own strengths and weaknesses by using a form such as the one shown in the 'Marketing in practice' box.

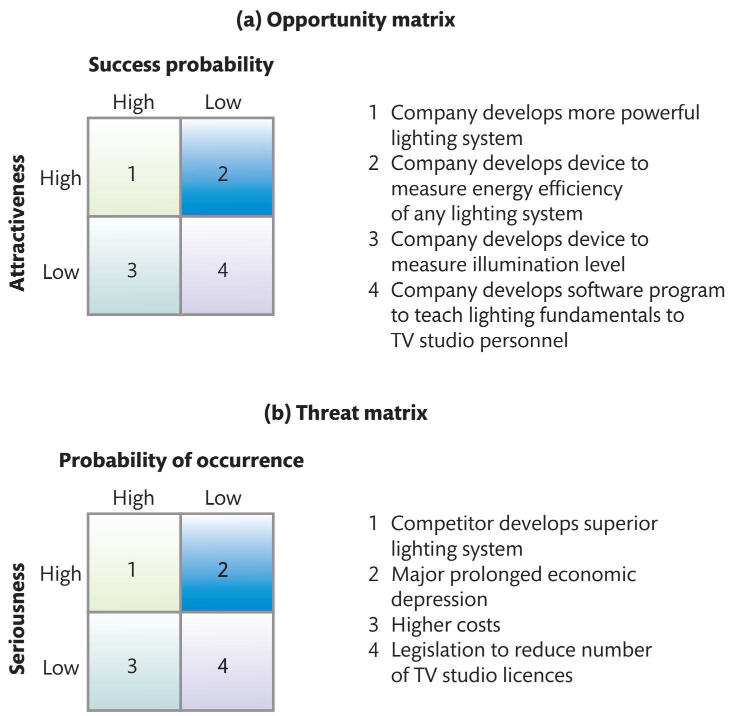


Figure 3.11 Opportunity and threat matrices

Marketing in practice

Checklist for performing strengths/weaknesses analysis

	Performance					Importance		
	Major strength	Minor strength	Neutral	Minor weakness	Major weakness	High	Medium	Low
Marketing								
1 Company reputation	___	___	___	___	___	___	___	___
2 Market share	___	___	___	___	___	___	___	___
3 Customer satisfaction	___	___	___	___	___	___	___	___
4 Customer retention	___	___	___	___	___	___	___	___
5 Product quality	___	___	___	___	___	___	___	___
6 Service quality	___	___	___	___	___	___	___	___
7 Pricing effectiveness	___	___	___	___	___	___	___	___
8 Distribution effectiveness	___	___	___	___	___	___	___	___
9 Promotion effectiveness	___	___	___	___	___	___	___	___
10 Sales force effectiveness	___	___	___	___	___	___	___	___
11 Innovation effectiveness	___	___	___	___	___	___	___	___
12 Geographical coverage	___	___	___	___	___	___	___	___

	Performance					Importance		
	Major strength	Minor strength	Neutral	Minor weakness	Major weakness	High	Medium	Low
Finance								
13 Cost or availability of capital	___	___	___	___	___	___	___	___
14 Cash flow	___	___	___	___	___	___	___	___
15 Financial stability	___	___	___	___	___	___	___	___
Manufacturing								
16 Facilities	___	___	___	___	___	___	___	___
17 Economies of scale	___	___	___	___	___	___	___	___
18 Capacity	___	___	___	___	___	___	___	___
19 Able, dedicated workforce	___	___	___	___	___	___	___	___
20 Ability to produce on time	___	___	___	___	___	___	___	___
21 Technical manufacturing skill	___	___	___	___	___	___	___	___
Organisation								
22 Visionary, capable leadership	___	___	___	___	___	___	___	___
23 Dedicated employees	___	___	___	___	___	___	___	___
24 Entrepreneurial orientation	___	___	___	___	___	___	___	___
25 Flexible or responsive	___	___	___	___	___	___	___	___

Critique of conventional SWOT analysis

Over the years, SWOT analysis has been severely criticised as a sole and conventional tool for formulating strategy. While it can provide an indication of which listed items characterise a business and which do not, it can tend to oversimplify critical issues, problems and themes as much as illuminate them. SWOT analyses are essentially descriptions of conditions, whereas strategies define actions. Furthermore, they can present findings uncritically and without clear prioritisation so that, for example, weak opportunities may appear to balance strong threats. Consequently, they should be seen only as a basic initial review tool and used with caution.[30]

Clearly a business does not have to correct *all* its weaknesses, nor should it gloat about all its strengths. The big question is whether a firm should limit itself to those opportunities for which it possesses the required strengths, or consider those that might require it to find or develop new strengths. Sometimes a business performance disappoints not because its people lack the required strengths but because they fail to work together as a team. It is crucial to assess interdepartmental working relationships as part of the internal environmental audit.

Goal formulation

Once a company has performed a SWOT analysis it can proceed to develop specific goals for the planning period. This stage of the process is called **goal formulation**. Goals are specific objectives with respect to magnitude and time, such as 'we want to be the number one or two in our market in two years'. However, goals are not strategy.

Most business units pursue a mix of objectives, including profitability, sales growth, market share improvement, risk containment, innovation and reputation. The SBU sets these objectives and then operates a management system, ensuring that objectives meet four criteria:

1 They must be arranged hierarchically, from the most to the least important. For example, the SBU's key objective for the period may be to increase the rate of return on investment. Managers can increase profit by increasing revenue and reducing expenses. They can grow revenue, in turn, by increasing market share and prices.
2 Objectives should be quantitative whenever possible. The objective 'to increase the return on investment' is better stated as the goal 'to increase ROI to 15 per cent within two years'.
3 Goals should be realistic and should arise from an analysis of the business unit's opportunities and strengths, not from wishful thinking.
4 Objectives must be consistent. It is not always possible to maximise sales and profits simultaneously.

Other important trade-offs include short-term profit versus long-term growth, deep penetration of existing markets versus developing new markets, profit goals versus non-profit goals and high growth versus low risk. Each choice calls for a different marketing strategy.[31]

Many believe that adopting the goal of strong market-share growth may mean foregoing strong short-term profits. Volume car companies, such as Volkswagen, may have a substantially higher revenue in a typical year than leading niche manufacturers, such as Porsche, which typically achieve higher profit margins. Other successful companies such as Google, Microsoft and Samsung have maximised profitability *and* growth.

Strategic formulation

Goals indicate what an SBU wants to achieve; **strategy** is a game plan for getting there. Every business must design a strategy for achieving its goals, consisting of a clearly expressed supportive corporate culture, *marketing strategy,* and a compatible *technology and sourcing strategy.* Costas Markides, of the London Business School, put it well: 'Strategy is about making choices; about "who, what, how": who is our chosen customer; what are we going to sell; and how are we going to deliver that value proposition.'[32]

Porter's generic strategies

Porter has proposed three generic strategies that provide a good starting point for strategic thinking: overall cost leadership, differentiation and focus.[33]

- **Overall cost leadership.** Firms pursuing this strategy work to achieve the lowest production and distribution costs so they can price lower than their competitors and win a large market share. The problem with this strategy is that other firms will usually compete with still lower costs and hurt the firm that bases its whole future on cost alone.
- **Differentiation.** The business concentrates on uniquely achieving superior performance in an important customer benefit area valued by a large part of the market. Thus the firm seeking quality leadership, for example, must make items with the best components, put them together expertly, inspect them carefully and communicate their quality effectively.
- **Focus.** The business focuses on one or more narrow market segments and gets to know these segments intimately and pursues either cost leadership or differentiation within the target segment.

The online air travel industry provides a good example of these three strategies. British Airways is pursuing a differentiation strategy by offering the most comprehensive range of additional services to the traveller (executive airport lounges, optional onboard entertainment packs, etc.). Ryanair, meanwhile, is pursuing a lowest-cost strategy, while LastMinute is pursuing a niche strategy in focusing on travellers who have the flexibility to travel at very short notice.

According to Porter, firms pursuing the same strategy directed to the same target market constitute a **strategic group**. International Harvester went out of the farm equipment business because it did not stand out in its industry as lowest in cost, highest in customer-perceived value or best in serving some market segments.[34]

Porter draws a distinction between operational **effectiveness** and strategy. Competitors can quickly copy the operationally effective company using benchmarking and other tools, thus diminishing the advantage of operational effectiveness. Porter defines strategy as 'the creation of a unique and valuable position involving a different set of activities'. A company can claim that it has a strategy when it 'performs different activities from rivals or performs similar activities in different ways'.

Strategic alliances

Even large companies – Bosch, IBM, Philips, Unilever – often cannot achieve leadership, either nationally or globally, without forming alliances with domestic or multinational companies that complement or enhance their capabilities and resources. The Dutch company Philips formed a strategic alliance with the Stockholm County Council and Karolinska University Hospital to meet future healthcare demands. The European aircraft manufacturers formed a strategic alliance to create the Airbus to compete successfully with their arch US rival Boeing.

Operating in another country may require the firm to license its market offerings, form a joint venture with a local firm or buy from local suppliers to meet local 'domestic content' requirements. As a result, many firms are rapidly developing global strategic networks. The SkyTeam Alliance, for example, brings together 17 airlines, including Air Europa, Alitalia, Czech Airlines and Air France–KLM, into a global partnership that allows travellers to make nearly seamless connections to hundreds of destinations.

Many strategic alliances are marketing alliances.[35] These fall into four major categories:

1 **Product or service alliances.** One company licenses another to provide its market offering (customer-perceived value offering), or two companies jointly market their complementary market offerings or combine resources in a new market offering. The credit card industry, for example, has a variety of cards jointly marketed by banks such as Royal Bank of Scotland and Crédit Lyonnais, credit card companies such as Visa, and affinity companies such as Virgin.

2 **Promotional alliances.** One company agrees to carry a marketing communication promotion for another company's market offering. McDonald's, for example, teamed up with Disney for ten years to provide offerings related to current movies as part of its meals-for-children strategy.

3 **Logistics alliances.** One company offers logistical services for another company's market offering. For example, BP formed an alliance with the Russian company TNK to further oil exploration and extraction.

4 **Pricing collaborations.** Two or more companies join in a special pricing collaboration. Hotel, car rental and sea ferry companies often offer mutual price discounts.

Companies need to give creative thought to finding partners that might complement their strengths and offset their weaknesses. Well-managed alliances allow companies to obtain a greater sales impact at less cost. To keep their strategic alliances thriving, companies have begun to develop organisational structures to support them, and many have come to view the ability to form and manage partnerships as a core skill called **partner relationship management** (PRM).[36]

Programme formulation and implementation

Even a sound marketing strategy can be sabotaged by poor implementation. If a company has decided to attain technological leadership, it must plan programmes to strengthen its R&D department, gather technological intelligence, develop leading-edge market offerings, train the technical sales force and develop advertisements to communicate its technological leadership.

Once they have formulated marketing programmes, the marketers must estimate their costs. Is participating in a particular trade show worth it? Will a specific sales contest pay for itself? Will hiring another salesperson contribute to the bottom line? **Activity-based cost (ABC) accounting** can help determine whether each initiative in a marketing programme is likely to produce sufficient results to justify its costs.[37]

Today's businesses are also increasingly recognising that unless they nurture other stakeholders – customers, employees, suppliers, distributors, etc. – they may never earn sufficient profits for the shareholders. For example, a company might aim to delight its customers, perform well for its employees and deliver a threshold level of satisfaction to its suppliers. In setting these levels a company must be careful not to violate any stakeholder group's sense of fairness about the treatment they receive.[38]

A dynamic relationship connects the stakeholder groups. A smart company creates a high level of employee satisfaction, which requires an increased effort, which leads to higher-quality market offerings. This in turn creates higher customer satisfaction and leads to repeat business. This generates higher growth and profits and higher shareholder profits, which results in more investment. The 'Marketing insight' box highlights the increasing importance of the proper bottom-line view to marketing expenditures.

Marketing insight

Marketing's contribution to shareholder value

Companies normally focus on maximising profits rather than shareholder value. Doyle argues that profit maximisation leads to short-term planning and under-investment in marketing, promoting a focus on building sales, market share and current profits. It also leads to cost cutting and shedding assets to produce quick improvements in earnings, and erodes a company's long-term competitiveness by eliminating investment in new market opportunities.

Companies normally measure their profit performance using ROI (return on investment), calculated by dividing profits by investment. This method presents three problems:

1. Profits are arbitrarily measured and subject to manipulation. Cash flow is more important. As someone observed: 'Profits are a matter of opinion; cash is a fact.'
2. Investment ignores the real value of the firm. More of a company's value resides in its intangible marketing assets – brands, market knowledge, customer relationships and partner relationships – than in its balance sheet. These assets are the drivers of long-term profits.
3. Doyle posits that marketing will not mature as a profession until it can demonstrate the impact of marketing on shareholder value, which is defined by the market value of a company minus its debt. The market value is the share price times the number of shares outstanding. The share price reflects what investors estimate is the present value of the future lifetime earnings of a company. When management is choosing a marketing strategy, Doyle wants it to apply shareholder value analysis (SVA) to see which alternative course of action will maximise shareholder value.

If Doyle's argument is accepted, instead of seeing marketing as a specific function concerned only with increasing sales or market share, senior management will see it as an integral part of the whole management process. It will judge marketing by how much it contributes to shareholder value by delivering consistently high levels of customer-perceived value.

Source: Based on P. Doyle (2000) *Value-Based Marketing Strategies for Corporate Growth and Shareholder Value*, Chichester: John Wiley & Sons. See also K. Ward (2004) *Marketing Finance: Turning Marketing Strategies into Shareholder Value*, Oxford: Butterworth-Heinemann.

According to McKinsey & Company, strategy is only one of seven elements – all of which start with the letter 's' – in successful business practice.[39] The first three – strategy, structure and systems – are considered the 'hardware' of success. The next four – style, skills, staff and shared values – are the 'software'.

The first 'soft' element, *style,* is where company employees share a common way of thinking and behaving. McDonald's employees smile at the customer, and British Gas employees are very professional in their customer dealings. The second element, *skills,* ensures that employees have the skills needed to carry out the company's strategy. *Staff* states that the company has hired able people, trained them well and assigned them to the right jobs. The fourth element, *shared values,* declares that employees share the same corporate culture values. When these elements are present, companies are usually more successful at strategy implementation.[40]

Other studies of management practices have found that superior performance over time depended on company cultures that value and involve employees, that aim high and have a structure that is clear, focused, flexible and responsive.[41]

Feedback and control

A company's strategic fit with the environment will inevitably erode, because the market environment changes faster than the company's 7Ss. Thus, a company might remain efficient while it loses effectiveness. Drucker pointed out that it is more important to 'do the right thing' – to be effective – than 'to do things right' – to be efficient.[42] The most successful companies excel at both.

Once an organisation fails to respond to a changed environment, it becomes increasingly hard to recapture its lost position. Organisations, especially large ones, are subject to inertia. It is difficult to change one part without adjusting everything else. Yet organisations can be changed through strong leadership, preferably in advance of a crisis. The key to organisational health is a willingness to examine the changing environment and to adopt new business models, goals and strategies.

Marketing insight

Business models

'Every viable organisation today is built on a sound business model, whether or not its founders or its managers conceive of what they do in those terms.'[43] An alternative perspective to the development of marketing strategies and plans discussed in this chapter is the concept of business models. During the past few years, the use of the term *business model* has become increasingly fashionable vocabulary with managers.[44] However, 'no three concepts are of as much use to managers or as misunderstood as strategy, business models, and tactics'.[45] The term *business model* is composed of the word *business*, which refers to the activities related to the offering of products/services, and the word *model*, which refers to a simplified description of a more complex process formed after a conceptualisation process in the mind.

Business models have been described as *stories* that explain how enterprises work,[46] while others describe business models as *mental* models[47] and *recipes*.[48] Business models are often associated with companies that demonstrate a particular form of activity.[49] These models are referred to by the name of that company, such as the McDonald's model or the Southwest Airlines model, while others prefer the counterpart description of these firms, such as the franchising model or the low-cost airline model, because it is an example of a real business. While there does not appear to be a consensus relating to a definition of a business model, there *does* appear to be agreement that business models explain how a company creates and captures value.

Open business models

'An open business model explains value creation and value capture of a focal firm; whereby externally sourced activities contribute significantly to value creation.'[50] An important shift in marketing and business practice in recent years has seen the proliferation of *partnering*, with both an organisation's customers and suppliers. This form of collaboration is referred to as an *open business model*.[51] Open business models are those business models in which value is co-created between actors outside the boundaries of a single organisation. Because useful knowledge is no longer concentrated in a few large organisations, managers need to adopt new, open models of innovation.[52] By encouraging organisations to look beyond their own boundaries, they can potentially bring capabilities and resources in to their own business models whilst licensing their own under-utilised intellectual property to other partners within the open business model.[53]

One such example of an open business model lies in public–private sector partnerships. A public–private sector partnership is a generic term for a government service or private business venture funded and operationalised through a government partnership and one or more private sector firms. Partnership working in the context of public–private sector partnerships has been established firmly as a prominent part of the local government landscape.[54] Three types of public–private sector partnerships are identified that range from contractual, to joint venture and informal collaboration with market players. Open innovation can be seen as developing an organisation's innovative capabilities by effecting a move from products to product/service systems. Open innovation in public–private sector partnerships has resulted in these partnerships offering both product and service solutions to create and capture superior value and thus enhance sustainable competitive advantage.

Source: P. H Coombes, Lecturer in Marketing, Sheffield Hallam University.

Change today, not tomorrow

Here are some words of wisdom from John Whybrow, chairman of Wolseley between 2002 and 2011:

- Business leaders need to be alert to the changing landscape and respond swiftly to changing circumstances – today rather than tomorrow.
- Managers and directors are generally slow to respond to change. We wait for tomorrow. The truth is, we shouldn't wait. We should do it now.
- If only we'd looked at those issues ten or five years earlier, we wouldn't have had such a dramatic state of affairs to contend with.
- The world is not going to be recreated in our image; the world will do what it wants to do. We must respond, and respond today, not tomorrow.[55]

Questions

Drucker advised businesspeople to 'do the right thing'. How should traditional strategic thinking be adapted and extended to serve effectively as a new model for the current business environment? How might the tension between conventional strategic thinking and 'market feel' be balanced?

The nature and content of a marketing plan

Working within the plans set by the levels above them, marketing managers develop a marketing plan for individual markets, lines, brands, channels or customer groups. Each level, whether line or brand, must develop a marketing plan for achieving its goals. A marketing plan is a written document that summarises what the marketer has learned about the marketplace and indicates how the firm plans to reach its marketing objectives. It contains tactical guidelines for the marketing programmes and financial allocations over the planning period. It is one of the most important tasks of the marketing process.

Marketing plans are becoming more customer- and competitor-orientated, and better reasoned and more realistic than in the past, as most markets become increasingly competitive. They draw more inputs from all business functions and are team developed. Planning is becoming a continuous process in order to respond to rapidly changing market conditions.

Most marketing plans cover one year. The most frequently cited shortcomings of current marketing plans, according to marketing executives, are lack of realism, insufficient competitive analysis and a short-run focus. (See the 'Marketing in practice' box for some guideline questions to ask when developing marketing plans.)

Marketing in practice

Marketing plan criteria

Here are some questions to ask in evaluating a marketing plan:

1 **Is the plan simple?** Is it easy to understand and act on? Does it communicate its content clearly and practically?
2 **Is the plan specific?** Are its objectives concrete and measurable? Does it include specific actions and activities, each with specific dates of completion, specific persons responsible and specific budgets?
3 **Is the plan realistic?** Are the sales goals, expense budgets and milestone dates realistic? Has a frank and honest self-critique been conducted to raise possible concerns and objections?
4 **Is the plan complete?** Does it include all the necessary elements? Does it have the right breadth and depth?

Source: Based on T. Berry and D. Wilson (2000) *On Target: The Book on Marketing Plans*, Eugene, Or: Palo Alto Software.

What, then, does a marketing plan look like? What does it contain?

Contents of the marketing plan

The marketing plan should contain the following elements:

1 **Executive summary and table of contents.** The marketing plan should open with a brief summary for senior management of the main goals and recommendations. A table of contents outlines the rest of the plan and all the supporting rationale and operational detail.
2 **Situation analysis (context).** This section presents relevant background data on sales, costs, the market, competitors and the various forces in the macroenvironment. How is the market defined, how big is it and how fast is it growing? What are the relevant trends? What is the customer-perceived value of the market offering and what critical issues does the company face? Firms will use this information to carry out a SWOT analysis.
3 **Marketing strategy (customer, competition, channel and company strategic approach).** Here the marketing manager defines the mission, marketing and financial objectives, and

groups and needs that the market offerings are intended to satisfy. The manager then establishes the company's competitive positioning, which will inform the 'game plan' to accomplish the plan's objectives. All this requires inputs from other business functions, such as purchasing, manufacturing, sales, finance and human resources.

4 **Financial projections (cash analysis).** Financial projections include a sales forecast, an expense forecast and a break-even analysis. On the revenue side, the projections show the forecast sales volume by market portfolio category. On the expense side, they show the expected costs of marketing, broken down into finer categories. The break-even analysis shows how many units the firm must sell monthly to offset its monthly fixed costs and average per-unit variable costs.

5 **Implementation controls.** The last section of the marketing plan outlines the controls for monitoring and adjusting implementation of the plan. Typically, it spells out the goals and budget for each month or quarter, so management can review each period's results and take corrective action as needed. Firms must also take a number of different internal and external measures to assess progress and suggest possible modifications. Some organisations include contingency plans outlining the steps management would take in response to specific environmental developments, such as price wars or strikes.

Sample marketing plan: €uromart

€uromart logo
Source: Abi Goodman.

Introduction

The seven themes featured in this book reflect the key interests of marketing managers. In today's competitive business environment, companies need to be constantly aware of the characteristics and developments in both domestic and international markets. This requires a commitment to carrying out both *ad hoc* and continuous market research. Resources are under increasing pressure as companies across the globe seek a position in the marketplace, so individual firms need to be able to harness new methods and technology to measure their cost, revenue and profit performances.

The ultimate task for marketers is to guide and assist their companies to secure satisfied or preferably delighted customers. This text explores the tasks facing marketing managers in the pursuit of meeting customers' perceived value requirements, which emerge from a series of inputs from customers, value chain members and other stakeholders. The art/science of the successful company is to incorporate the detail of what customers really want and supply this efficiently and profitably in times of rampant global competition – not an easy task.

The 'Marketing in practice' box outlines marketers' key tasks.

Marketing in practice

Getting started

The key tasks facing marketers are:

1 to have an understanding of marketing management (Parts 1, 7);
2 to capture marketing insights (Part 2);
3 to successfully connect with customers (Part 3);
4 to build strong brands (Part 3);
5 to shape and price the marketing offering (Part 4);
6 to communicate and deliver value (Parts 5, 6);
7 to successfully manage and control the implementation of marketing activity (Part 7).

Chapter 21 closes with the Marketing in practice box 'Getting to grips with the practice of marketing', which is designed to assist marketers and students to bridge the sometimes troublesome gap between marketing theory and practice; between knowledge and the ability to put that into practice and thus develop know-how.

Wise companies and marketers aim to delight their customers – whether consumer or business-to-business – by successfully researching context (market situation), customer (requirements), competition (relevant competitive offers), cash implications (money in – revenue, and money out – expenditure, e.g. on market research, offer development and supply) and channels (distribution and marketing communications aspects). In addition, they need to accept the underpinning marketing philosophy that in buyers' markets the customer needs to be a prime focus for the firm.

The next section presents a sample marketing plan featuring the fictional €uromart company.

€uromart marketing plan

1 Executive summary
2 The changing marketing environment
3 Analysing customer markets
4 Dealing with the competition
5 Developing target marketing and differentiation strategies
6 Mass and personal marketing communication strategies
7 Developing distribution strategy
8 Assessing financial performance
9 Marketing management implementation
10 Contingency planning

1 Executive summary

€uromart is a new company that has recently been founded to provide books, computer hardware and software and electrical appliance offerings for students. The company is based in Copenhagen but rents premises on the mainstream university campuses in Eire, the Netherlands, Norway, Sweden and the UK. Other branches are planned to open in 2016–2019 in France, Germany, Russia and Spain. €uromart trades through its campus retail outlets and has developed a sophisticated online business.

Exhaustive market research has been carried out on both the mainstream university campuses where €uromart has shops and among its growing number of online customers. As a result there are ambitious plans under way to broaden the company's appeal by establishing new market offerings in the financial services and travel industries.

€uromart is run by a small, highly motivated management team who have all graduated from European mainstream universities in the last five years. The company's mission is to provide quality offerings at prices that are affordable to students.

To maintain the company's initial early successes, net profits grew by 70 per cent in the first three years of operation. €uromart firmly believes in the benefits of sound medium- and long-range planning to prosper the business.

2 The changing marketing environment

2.1 Market environment (Chapter 5)

2.1.1 €uromart currently operates separate businesses in five European countries with plans to expand into fur more in the next two years.

2.1.2 The business environment in each operating country is constantly monitored by means of political, economic, sociocultural, technological, legal and environmental profiling.

2.1.3 Each market is researched to identify whether it is a sellers' or a buyers' market. Buyers, markets (where supply exceeds demand, giving rise to fierce competition) are managed with a firm resolve to provide customers with the right customer-perceived value offerings.

2.2 Market entry decisions (Chapter 2)

2.2.1 All main means of entering new national markets are researched to determine the best method for the company (e.g. own business, partnership, strategic alliance).

2.2.2 All expansions of the existing business in each country are researched country by country so the range of offerings available in each country varies according to local requirements.

3 Analysing customer markets

3.1 Consumer markets (Chapters 7, 8)

3.1.1 European student markets

3.1.2 Business-to-business markets

3.2 Segmentation, targeting and positioning (Chapters 10, 14)

3.2.1 Each national market is carefully segmented to reveal attractive target markets by means of demographics, geodemographics and behavioural factors.

3.2.2 €uromart supplies offering portfolios for full-time, part-time, distance learning, executive and mature students.

3.2.3 Each national market senior executive is responsible for meeting corporate headquarters' targets but does have some freedom to calculate the best positioning or resources that are released by the Copenhagen head office.

3.3 Developing branding strategy

3.3.1 Each national company is empowered to develop the €uromart brand (Chapters 12, 13)

3.3.2 Each national company is free to research and make a case to the Copenhagen head office for new market offerings. (Chapter 15)

4 Dealing with the competition (Chapter 9)

4.1 Identify competitors

4.2 Analyse competitors

4.3 Decide which competitors to target and avoid

5 Developing target marketing and differentiation strategies

5.1 Mission (Chapter 3)

5.1.1 To treat customers as €uromart's best friends and to deliver the best purchasing experience.

5.2 Target marketing strategy (Chapters 2,4,10, 11,12,13,16,22).

5.2.1 Build the €uromart brand as the 'students's friend'.

5.2.2 Grow the company profitably in existing countries and expand into carefully selected countries on the back of a positive overall profit performance.

5.2.3 Maintain customer purchase standards and continuously monitor customer satisfaction to build €uromart's brand reputations.

5.2.4 Target markets – student's books, computers and electrical appliances.

5.2.5 Positioning – three market offerings ranges – essential (market entry), value plus (mid-market) and premium (Niche).

5.2.6 Seek to maximise use of modern digital technology.

6 Mass and personal marketing communication strategies (Chapters 17, 18)

6.1 Corporate marketing communications programme

6.2 Development of marketing communications programmes for all European markets

6.2.1 Corporate communication programmes

6.2.2 Consumer market (student) marketing communication programmes

6.3 Marketing communications channels

6.3.1 Traditional mass communication channels

6.3.2 Personal communication channels

7 Developing Distribution strategy (Chapter 19)

7.1 Design appropriate global and local supply networks for both consumer and business-to -business markets.

7.2 Continuously monitor performance of supply networks to secure efficiency and effectiveness of the €uromart customer-perceived value interface.

8 Assessing financial performance (Chapter 22)

8.1 Measuring performance

8.1.1 Counting-based methods

8.1.2 Accounting-based methods

8.1.3 Outcome metrics

8.2 Controlling performance

8.2.1 Marketing dashboards

9 Marketing management implementation (Chapter 21)

9.1 €uromart supports a marketing-oriented culture to provide market offerings that meet customers' expectations by placing a strong emphasis on market research to discover market environmental data, customer requirements, the activities of competitors and the most appropriate way to run their distribution and marketing communications.

9.2 €uromart has a lean staff organisation

9.3 All budget holders are incentivised to reach and improve their sales forecast and profit targets.

9.4 Senior management encourage and foster creativity and innovation throughout the business.

10 Contingency planning

10.1 This part of the company marketing plan describes actions to be taken by €uromart if specific threats or opportunities materialise during the planning period.

10.2 Specifies actions to counter sudden changes in the business environment, such as developments in trading blocks such as the EU and ASEAN.

SUMMARY

1 The customer-perceived value delivery process involves choosing (or identifying), providing (or delivering) and communicating superior customer-perceived value. The value chain is a tool for identifying key activities that create value and costs in a specific business.

2 Strong companies develop superior capabilities in managing core business processes such as new market offering realisation, inventory management, and customer acquisition and retention. Managing these core processes effectively means creating a marketing network in which the company works closely with all parties in the production and distribution chain, from suppliers of raw materials to retail distributors. Companies no longer compete – marketing networks do.

3 Holistic marketing maximises value exploration by understanding the relationships between the customer's cognitive space, the company's competence space and the collaborator's resource space. It maximises value creation by identifying new customer benefits from the customer's cognitive space, utilising core competencies from its business domain, and selecting and managing business partners from its collaborative networks. It also maximises value delivery by becoming proficient at customer relationship management, internal resource management and business partnership management.

4 Market-orientated strategic planning is the managerial process of developing and maintaining a viable fit between the organisation's objectives, skills and resources and its changing market opportunities. The aim of strategic planning is to shape the company's businesses and market activities so that they yield target profits and growth. Strategic planning takes place at four levels: corporate, divisional, SBU and market offering (customer-perceived value product and service mix).

5 The corporate strategy establishes the framework within which the divisions and SBUs prepare their strategic plans. Setting a corporate strategy has four activities: defining the corporate mission, establishing strategic business units (SBUs), assigning resources to each SBU based on its market attractiveness and business strength, and planning new businesses and downsizing older businesses.

6 Strategic planning for individual businesses involves the following activities: defining the business mission, analysing external opportunities and threats, analysing internal strengths and weaknesses, formulating goals, formulating strategy, formulating supporting programmes, implementing the programmes, and gathering feedback and exercising control.

7 Each market-offering programme within an SBU must develop a marketing plan for achieving its goals. The marketing plan is one of the most important tasks of the marketing management process.

APPLICATIONS

Marketing debate

What good is a mission statement? Virtually all firms have mission statements to help guide and inspire employees as well as signal what is important to the firm and to those outside the firm. Mission statements are often the result of much deliberation and discussion. At the same time, some critics claim that mission statements sometimes lack 'teeth' and specificity. Moreover, critics also maintain that in many cases mission statements do not vary much from firm to firm, and make the same empty promises.

Take a position: mission statements are critical to a successful marketing organisation *versus* mission statements rarely provide useful marketing value.

Marketing discussion

Consider Porter's value chain and the holistic marketing orientation model. What implications do they have for marketing planning? How would you structure a marketing plan to incorporate some of their concepts?

FURTHER READING

E. Gummesson, H. Kuusela and E. Närvänen (2014), Reinventing marketing strategy by recasting supplier/customer roles, *Journal of Service Management*, 25(20), 228–240.

Strategic marketing plans are often assumed to be the sole responsibility of the marketing department. This paper argues that marketing should involve inputs from other internal functions and external stakeholders, including customers, as it develops its strategies and plans. It proposes that the traditional roles of suppliers and customers should be recast and that both the demand and supply actors in a market exchange should each adopt the concept of seeking to create perceived value in their respective activities. Extending the concept to all other relevant internal departments within a business is apt in most markets where supply exceeds demand.

N. Hachaner, K. King and S. Stewart (2016) Four best practices for strategic planning, *Strategy & Leadership*, 44(4), 26–31.

The authors identify the practices that the companies that get the most benefit from their strategic-planning activities have in common. How would you apply them to your case studies?

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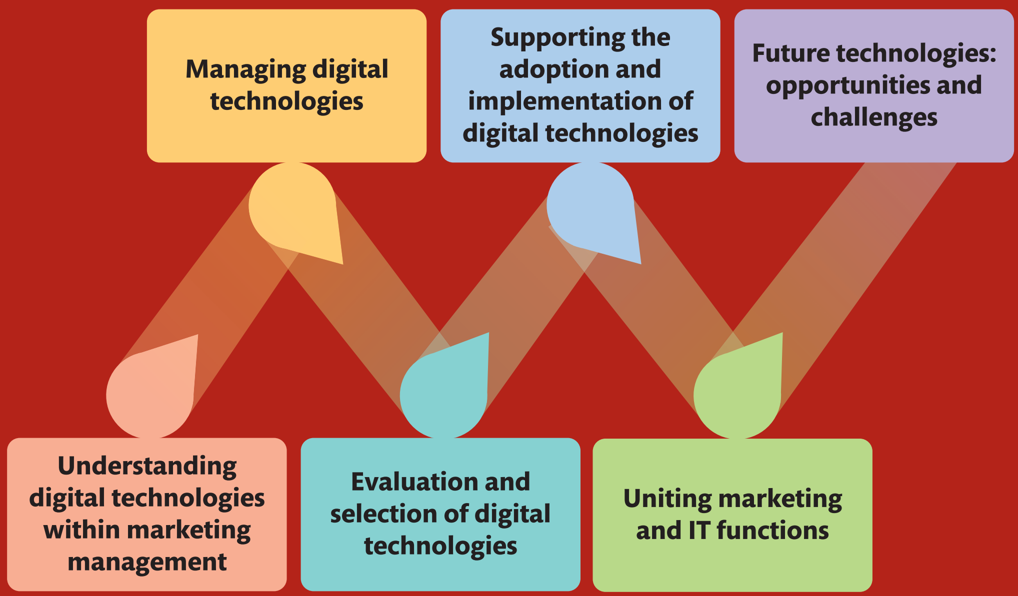
CHAPTER 4
Managing digital technology in marketing

In this chapter, you will learn about the following topics:

1. Understanding and managing digital technologies within marketing management
2. How to evaluate and select digital technologies
3. How to support the adoption and implementation of digital technologies
4. How to unite the marketing and IT functions
5. Future technologies opportunities and challenges

Managing digital technology in marketing can be both challenging and fun
Source: Rawpixel.com/Shutterstock.

Chapter Journey



Technology has transformed and will continue to transform society, changing the way we live, how businesses operate and, critically, how we practise and manage marketing both internally and at the customer interface. Digital technologies have challenged many of the underlying strategies, structures and operations of businesses and forced marketers to rethink their understanding of consumer and business-to-business behaviour.[1]

Burberry – The digital enterprise where management think digital first.
Source: Sorbis/Shutterstock

Marketing managers must engage with and manage a wide range of technologies, including online, mobile, databases, computer networks, software and systems, social networking, apps, robotics, augmented reality, the Internet of Things, artificial intelligence and so on. Scott Brinker and Laura McLellan in their *Harvard Business Review* article noted: 'Marketing is rapidly becoming one of the most technology dependent functions in business.'[2] Technology is so crucial to marketing that the spelling of marketing could include information technology (IT) and be changed to MarkITing.[3] The multiple skills needed to manage technology internally and to understand how customers engage with and use it are now core requirements.

One brand that exemplifies outstanding and embedded digital management is the British luxury retailer Burberry, which set out to become an 'end to end' digital enterprise. A successful pioneer in the digital age, it used social, web, big data, AI and mobile to reinvent the brand to attract younger consumers. Burberry collaborates internally and externally to drive its digital strategy, working with tech companies such as Snapchat and Instagram, maximising its digital footprint and growing its brand value to over €3 billion.

Digital is extensive within Burberry's operations and for customer engagement it uses:

- RFID micro chipping in all clothing to communicate with shoppers' mobiles;
- virtual reality apps such as Burberry Virtual Kisses, which uses 3D technology to drive lipstick engagement;
- click-to-buy iPads at Burberry fashion shows;
- live smartphone broadcast;
- its own dedicated Apple music channel;
- Facebook chat bots;
- location-tracking software.

Technology is also core within its manufacturing and, as one of the most counterfeited products in the world, it uses AI and machine learning image recognition technology to spot suspect products.[4]

Burberry online sales have increased by more than 60 per cent driven by its embracing of social media. Its 'Art of the Trench' site uses photos of customers wearing its trench coat to replace models, which aligns well with the youth and selfie culture. Burberry Bespoke allows for personalisation and customisation of its clothing – a cornerstone of its personalised customer management programme. Its online digital presence is clear, with Instagram confirming that Burberry is the most popular British fashion brand with more than 10.4 million followers, followed by Topshop at 9.2 million, Jimmy Choo 7.3 million, Asos.com 6.6 million, Alexander McQueen 5.3 million and Stella McCartney 4.5 million.

The company engages and intertwines the digital and the physical really well. Take the digitalisation of its in-store shopping experience, so that walking into its stores is the same as entering its website.

'Digital first' is a mantra within Burberry. As finance director Carol Fairweather notes: 'Digital is part of the language everyday now, the way we think, and the way we connect with customers.' She acknowledges that rival brands are spending more on digital, but said Burberry's 'embedded' approach was a cut above the rest. Its digital success is seen in its financial outcome, with Burberry sales almost 14 per cent higher than the rest of the luxury fashion market.[5]

Understanding digital technologies within marketing management

Digital marketing is the activities, institutions and processes facilitated by digital technologies for creating, communicating and delivering value for customers and other stakeholders.[6] An extension of this definition is to see it as 'an adaptive, technology-enabled process by which firms collaborate with customers and partners to jointly create, communicate, deliver and sustain value for all stakeholders'.[7] It describes the management and execution of marketing using any **digital technology**, or any aspects of web, data, mobile and social media that impact on marketing operations or customer experiences (to include internet, email, interactive TV, mobile and smartphones, mobile apps and self-service, automation, wearable technology), in conjunction with digital data from sources such as databases, dashboards and hundreds of software applications and so on.[8]

Is it digital marketing or marketing in a digital world? Digital is becoming ubiquitous in many parts of the globe. The phenomenal growth of digital technologies has and will continue to transform many of marketing's traditional practices, including how marketers reach, engage, measure, manage and deliver value to customers. Marketers today face a constant proliferation of digital technologies, numerous media channels, the growing power of the connected and technology-savvy customer and the rise of smart and connected cities.[9] They also have to contend with and are struggling to use the floods of data, despite the powerful databases and dashboard technology available to monitor, manage and analyse data and information.[10] The digital explosion can herald great opportunities, but understanding and managing technology can be challenging, complex and costly. To succeed, marketers must be able to plan, implement and measure digital strategies that are suited to today's customers. Consider Nike+iPod.

Nike + iPod Sport Runner

Creating a digital relationship as part of a digital transformation is critical, even for a traditional footwear producer such as Nike. Its use of technology engages with customers to form a bond between the customer and the company. 'Without a platform to manage and nurture every interaction with its consumer, a company has no spine', said VP of Digital Sport, Stefan Olander. 'The goal is to create connections with our customers and earn their loyalty by serving them. The better the service, the stronger the connection.'[11] Nike's marketing manager designed and implemented a digitalised customised supportive running experience with its Nike+iPod sports kit, an interactive and wearable technology that records distance and pace through a small transmitter device embedded in its trainers. This communicates through smart devices such as the Nike+Sportband/SportWatch or Apple iPod/iPhone. The kit provides statistics, music and motivation for runners tailored to their needs, whether they are a marathon runner or a new runner. They are also linked into the social networks for motivation, learning and support. By tracking personal workout statistics, the Nike+ integrates directly with the Nike website so workout data can be automatically uploaded. Extending to AR on their smartphones, customers at the purchase stage can examine the trainers using AR – walking around the pedestal, viewing them through the camera screen superimposed over a real environment. When exiting the experience, a screen offers the opportunity to purchase. App-based commerce is surging for Nike, with online sales doubling in two years to more than £1.5 billion, and app users spending nearly triple what they do on Nike.com. Nike has moved from separate firm-level initiatives to a company-wide digital transformation.

According to CEO Mark Parker, teams of marketers, designers and IT people work together to think holistically about physical and online products and to develop new digital capabilities and innovations. He adds that 'digital technologies have transformed internal processes in addition to consumer-facing processes'.[12]

Nike uses technology to enhance the customer experience and gather value data
Source: Stuart Franklin/Getty Images.

Marketing managers must have the ability to use digital technologies as an integrated and essential part of marketing operations, managing internal operations, customers and networks through and supported by technology.[13] Global research by the Chief Marketing Officer (CMO) Council, seeking to define the new 'DNA of marketing directors', indicates that being 'digitally savvy' is a top characteristic of successful senior marketers. Recent Gartner Group research found that investing in technology, customer experience, marketing operations and analytics are marketing management's core focus.[14] A Marketing Outlook survey found that digital marketing skills were the number one priority, with customer data integration and analytics as numbers two and three.[15]

The necessity of this skill could mean that marketers are called 'marketing technologists' – which is a technically skilled person who designs and operates technology solutions in the service of marketing. As Scott Brinker and Jason Heller from MIT note: 'Marketing has fundamentally become a technology-powered discipline, and it's leading to the rise of new kinds of marketing professionals . . . This isn't just about embedding IT services within marketing, though. Good marketing technologists strive to understand the context of the technology.'[16]

According to a Gartner report, 'Every aspect of marketing is affected by technology. What is critical is the skill to evaluate and then implement technology-enabled solutions.'[17] Marketing organisations traditionally have been populated by generalists, but due to digital marketing, a profusion of new specialist roles – focusing on technology-related skills, such as social networking manager, data analytics specialist, digital privacy analyst and native-content editor – are being created, supported by expert outsourced agencies.[18] This adds to the managerial complexity, having to liaise with and manage external companies offering critical services such as database and web analytics.

The term **digitalisation** encompasses how prevalent this is within business, incorporating:

- **assets,** including infrastructure, connected machines, data, and data platforms, etc.;
- **operations,** including processes, payments and business models, customer and supply chain interactions; and
- **workforce,** including worker use of digital tools, digitally-skilled workers, new digital jobs and roles.

Technology is no longer simply a budget-line or operational issue – it's an enabler of virtually every strategy. Marketing executives need to think about how specific technologies are likely to affect every part of the business and be completely fluent about how to manage all technologies.[19]

The range of technologies in marketing

Hundreds of technologies are available to marketers and, given their dynamic nature, it is a continuous challenge to keep up with current and newly emerging developments as some technologies can be assimilated into the market very quickly.[20]

Table 4.1 gives an overview of the main technologies in marketing, divided into the information and interactions perspectives. Though not an exhaustive list and one that needs constant updating, it does give some understanding of the extent of the technological challenges marketers face.

Table 4.1 Technologies in marketing: information and interactions perspectives

Information (research, analysis and planning)	**Interactions (communications, connections and collaborations)**
Analysis and planning	**Communications**
Marketing planning systems	Internet
Performance tracking software	Website design software
Executive support systems	Website security
Decision support systems	Interactive website applications
Enterprise resource planning (ERP)	E-commerce applications
Knowledge management systems	Social networking
Pricing software	Cloud computing
Project management software	Software as a service
Promotion tracking software	Intranets
Media spend analysis packages	Extranets
Logistics systems	Electronic data interchange (EDI)

Table 4.1 *continued*

Information (research, analysis and planning)	**Interactions (communications, connections and collaborations)**
Geographical information systems	Email
Customer profitability analysis	Video conferencing
PRISM clusters – databases	Call centre
Forecasting software	Automatic call distribution
Marketing modelling	Computer telephony integration
Enterprise information systems	Mobile communication devices
	Instant messaging
	Tracking devices
Databases	Bluetooth
Centralised customer database	SMS – short messaging service
Integrated with sales	Tweeting
Integrated with call centre	Voicemail
Integrated with internet	Augmented reality
Integrated with point of sale	Virtual reality
Data consolidation and display	Spam blocking systems
Data mining	Voice-activated devices
Data warehousing	Face recognition software
Data profiling	Web and pod casting
Data visualisation and analysis packages	Web meetings
	Skype
Research	Digital imaging software
Internet	
Marketing information systems	**Self-service technologies**
Geographic information systems	Integrated TV and internet
Demographic online systems	Wearable devices
Online mailing lists	Robotics
Nielsen information database	Automation
Internet survey – design and application	Internet of things (IoT)
Data analysis packages	
	Automated
Web analytical technologies	Handheld scanners
Website performance and activity tracking	Biometrics
Monitoring and tracking software	Mobile phones
Searchable databases	Bluetooth technologies
	Monitoring devices
Customer relationship management	Vending machines
CRM software	Customisation software
Customised front/back-office systems	Personalisation software
Marketing evaluation software	
Contact management software	**Sales related**
Personalisation technologies	Customer relationship management
Customisation technologies	Sales force automation packages
	Customised sales force systems
Retailing system	Customised customer applications
Electronic point of sale	Access databases
Planogram – category management software	Sales reporting software
Personalisation/customisation	

(*continued*)

Table 4.1 *continued*

Information (research, analysis and planning)	**Interactions (communications, connections and collaborations)**
Bar codes – scanning	**Supply chain management**
E-commerce platforms	Supply chain management software
New product and service development	Automated production
Product development and design software	Internet marketplace
Simulation technologies	E-marketplace/e-hub
Idea generation tool	Inventory management software
Statistical tools	Material planning and supply software
CAD (computer-aided design)	Electronic data interchange
	QR/ECR (efficient customer response) software
Metrics	E-procurement systems
Dashboards	Online purchasing transactions
Tracking devices	RFID (radio frequency identification device)
Analytics	Interactive products
	Biometric
General underlying and platform technologies	
Hardware: personal computers, networked computers, mainframe, laptops, tablets, mobile and smartphones, digital assistants	
Standard software packages: Word, PowerPoint and Excel	

Source: Adapted from M. Brady, M. R. Fellenz and R. Brookes (2008) Researching the role of information and communication technologies in contemporary marketing, *Journal of Business and Industrial Marketing*, 23(2), 108–14; M. R. Fellenz and M. Brady (2010) Managing customer-centric information: The challenges of information and communication technology (ICT) deployment in service environments, *International Journal of Applied Logistics*, 1(3), 88–105; M. Brady (2006) A holistic view of ICT within the marketing domain: challenges and issues, British Academy of Management Conference, Belfast, September.

Each marketing situation demands a different set of digital technologies and managerial skills. Some are similar across companies, such as the internet and databases, while others are unique to certain industries. For example, Planogram software is a shelf-space management software tool used by large retailers such as Tesco to allocate shelf space profitably. Yield management systems are used by hotels to manage the availability of their rooms and by airlines to manage passenger seating. Using icons from companies, Figure 4.1 shows how the range of technologies in use within marketing has grown from 2011–17. You can log onto the https://chiefmartec.com/ site for more information.[21]

Developments have continued, with the figure currently at over 6,000 and expected to grow. It is also worth noting that most of these technologies are from small companies, and that only a few companies are huge organisations with billions in revenue. This is the classic long-tail distribution – see Figure 4.2.

Information and interaction perspectives

The information and interactions perspectives allow the different marketing management issues to come to the fore.

Information management

Information management technologies include all the technologies used to support information gathering, research, analysis, planning and monitoring (see also Chapter 5). The amount of data flooding into marketing is occurring at an unprecedented rate, which many refer to as oceans

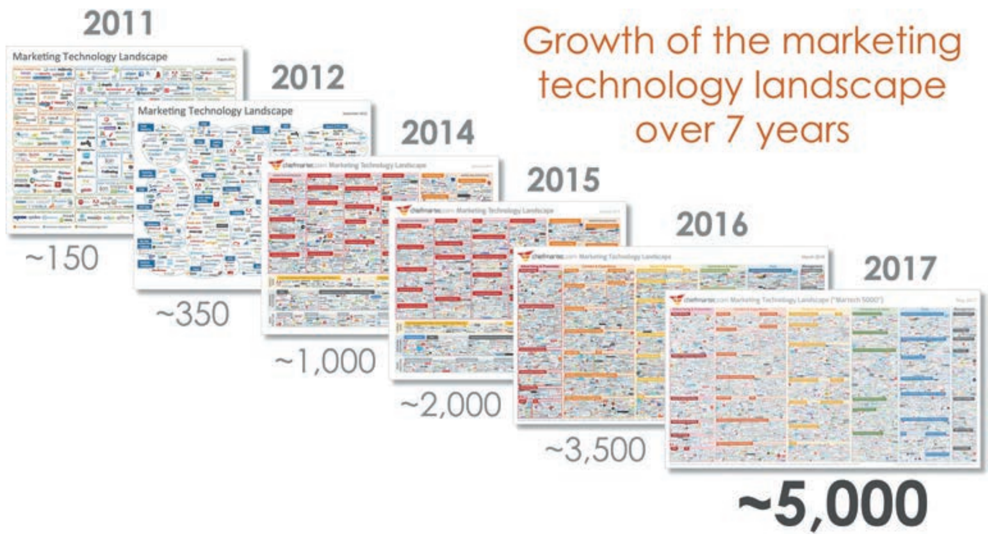


Figure 4.1 Growth of the marketing technology landscape over the last seven years
Source: Scott Brinker (2017) Chief Marketing Technologist Blog, https://chiefmartec.com/2017/05/marketing-techniology-landscape-supergraphic-2017/.

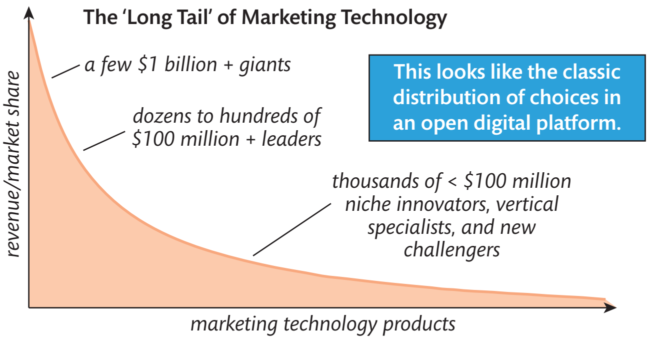


Figure 4.2 The 'long tail' of marketing technology
Source: Scott Brinker (2018) Chief Marketing Technologist Blog, https://chiefmartec.com/2018/04/marketing-technology-landscape-supergraphic-2018/

of data or rivers of information. This phenomenon has been called **big data**, which refers to the large amount of data, the speed of generation and the variety of sources of data coming from the millions of touch points including customer interactions, along the supply chain, embedded within products/services and online.[22] The increasing amount of available data about customers is not only expected to surpass the storage capacity worldwide, but already exceeds the ability of most firms to interpret and use such customer information effectively and efficiently.[23] According to Viktor Mayer-Schönberger and Kenneth Cukier in their book *Big Data: A Revolution That Will Transform How We Live, Work and Think*: 'The amount of information stored grows four times faster than the world economy while the processing power of computers grows nine times faster.'[24]

Google produces more than 24 terabytes of information every day, Facebook has more than 10 million photos uploaded every hour and there are more than 400 million Tweets a day from close to 380 million monthly active users.[25] Companies are collecting track-and-trace information and internal information on transactions and interactions. When you are online, up to 100 companies could be tracking what you do and forwarding that information to other companies.[26] Behavioural targeting is using this web browser information to profile customers to provide personalised information.

What marketers care about is how to take the gems of information from this data to better understand customers, their company and their markets.[27] **Data mining** is understanding what is important and finding it in the data. Companies often try to keep every bit of data they have on their customers when their focus should be on **data minimisation**, which is the collecting, using, disclosing and storing of only the minimal amount of data needed and holding data for the purpose intended. Mindless collection of largely meaningless data needs to be replaced with identifying, processing, aggregating and deploying information where needed.[28] Consider Kleenex.

Kleenex

Kleenex's marketing management team have changed their planning through an innovative data platform that manages the company's distribution allocation in a systematic and focused way, rather than just nationwide similar distribution. Kleenex designed and use a data analysis system called Achoo, which is a cold and flu predictor tool, which it developed to predict when colds and flus are prevalent in an area. This prediction tool uses data from the Centre for Disease Control, from social media analytics and from Adwords to generate specific information. Kleenex uses this information so that it knows where to target its tissues and to be seen to be reactive when needed.[29] To engage customers and to show emotional caring, Kleenex has also partnered with Facebook's Creative Shop Studio, to deliver feel-good and caring stories to News Feeds at the most relevant moments in people's lives, based on a variety of inputs such as demographics, stated interests and time of day. This online monitoring works for the business and its customers, alerting the former to colds and flu and providing the latter with support and care when needed.

Interaction technologies

- **Interaction technologies** are technologies that focus on communications, connections and collaborations. Over recent decades marketing has increasingly moved towards interactivity, connectivity and ongoing relationships.[30] Digital technology is facilitating this shift and changing the way companies interact with customers as never before. The speed and reach of the interactions has changed, with instant communication and worldwide dissemination with web and smartphones and, more recently, virtual and augmented reality creating contact and content anywhere, anytime. Interactions have also become more cost efficient. There is a continuing increase in digital touchpoints to cater for more customers switching to digital technologies and the digitally orientated youth market, often called the iGeneration or Generation Y or Z, who expect digital first.[31] Interactions include customer-to-firm interactions, firm-to-customer interactions, customer-to-customer interactions and firm-to-firm interactions.[32]

Though many interactions are now technology mediated rather than human mediated, many have a mixture of both. Google Assist – the artificial intelligence assistant – uses voice commands automation to manage processes such as booking an appointment, which could be with another technology or a human. Google Assist successfully mimics human patterns of speech, even including the 'ems and ahs'.

All customer and firm interactions need management, whether through a range of softwares and systems (such as customer interaction management or customer relationship management software), or through self-service or automation. Every step and interaction along the total supply chain and the customer decision journey must be managed and operated well by every employee or technological application – every time.

Managing digital technologies

Managing digital technologies means managing the implementation and ongoing operations of numerous technologies within marketing, across the organisation, along the supply network and at the customer interface. The management skill sets needed means that there are huge marketing management challenges that require strategic vision and planning, tactical operations and management of relationships internally, with outsourced suppliers, at the customer interface and throughout the network. This really is company wide, affecting all functions and using both interaction and informational technologies – see the 'Marketing in action' box.

Marketing in action

Gaining an edge through digital marketing

Research by David Edelman in the *McKinsey Quarterly* suggests that companies that make the deep strategic, organisational and operational shifts required to become effective digital marketers can be more agile and productive, while also accelerating revenue growth.[33] Since the dawn of the internet, marketers have regarded it and other technologies as a vast laboratory, launching experiment after experiment to generate sales and customer loyalty. Consumers adopt digital technology as they see fit, fundamentally altering the way they make purchasing decisions. Companies must have digital interactivity at the centre of their marketing strategies, rethinking their priorities and budgets, and substantially reshaping their processes and skills.

Research from dozens of companies navigating this shifting landscape has shown that the most successful digital marketers think differently. Edelman and Salsberg suggest how non-marketers and marketers can make sense of the changing consumer landscape and establish their priorities:

- **Think . . . like a publisher, not an advertiser.** Consumers today learn about products and services by reading online reviews, comparing features and prices on websites, and discussing options via social networks. Supporting this process requires a vast and growing range of content well beyond advertisements. Companies are publishing everything from static content (such as product descriptions) to games and other multimedia. Most still behave like simple advertisers. If they adopted the mindset of publishers, they could lower costs and eliminate unnecessary duplication, inconsistent interactions and content quality.
- **Think . . . of your customers as marketers.** Traditional marketers spend about 60 per cent of their advertising budgets on working media (or paid placement), 20 per cent on creating content and the balance on employees and agencies. Digital channels, with their social nature, reverse the economics, focusing on a smaller core of engaged people who can share information and positive impressions with a broader audience. Active digital marketers typically devote about 30 per cent of their advertising budgets to paid media and 50 per cent to content. Customers do more of the heavy lifting as they decide what to look at, play with it and forward to their online communities. The key is striking a balance between retaining control and creating opportunities for consumers to embrace your content.
- **Act . . . to help the customer.** Few customers today are content merely to watch or read advertisements and then wander into a store for advice from a salesperson. Many customers search for products online, or use mobile devices to find retail information or coupons. They continually interact with brands as they move closer to making purchase decisions, and digital channels can unify that experience and prevent the leakage of opportunity. Great search positioning should offer easy-to-find web links. Content should go deep into specific places to help consumers learn about and buy products or services.
- **Act . . . as if information is priceless.** When online conversations start to critique a brand, no response can be fast enough. When you need to optimise your search and other media spending on ever-faster cycles, there is no time to waste. Savvy digital marketers are therefore mastering intelligence-gathering tools and processes. They study what customers are doing, by analysing their online behaviour; and what customers are saying, by mining online discussions and soliciting ongoing feedback. This intelligence – the lifeblood of digital leadership – disseminates insights throughout an organisation and promotes the personalisation needed to help consumers regard a brand as their own.

Sources: D. Edelman (2010) Gaining an edge through digital marketing, *Mckinsey Quarterly*, 3, 129–134; D. Chaffey and F. Ellis-Chadwick (2012) *Digital Marketing: Strategy, Implementation and Practice*, 5th edn, Harlow: Pearson; D. Edelman and B. Salsberg (2010) Beyond paid media: Marketing's new vocabulary, *Mckinsey Quarterly*, November, https://www.mckinsey.com/business-functions/marketing-and-sales/our-insights/beyond-paid-media-marketings-new-vocabulary.

Technology management is exploring and understanding technology as a corporate resource and using the capabilities in designing and developing activities for maximum customer satisfaction, corporate productivity, profitability and competitiveness.[34] The question is not whether to deploy technology; it is how to, and how to do it well and better than your competitors.

There are four main responsibilities covered in the following sections:

1 Evaluation and selection of digital technologies.
2 Supporting the adoption and implementation of digital technologies.
3 Uniting marketing and IT staff.
4 Preparing for future technologies.

Evaluation and selection of digital technologies

Evaluating and selecting the best technology focuses on the capabilities of the technology and what benefits it brings to the customers and company – matched to the needs of marketing strategy – and within budget. The decision focuses on which is the best technological application to meet requirements (i.e. filling the identified gap) and importantly how much this technology is going to cost in terms of the technology itself, but also in terms of human and management skills and time needed. Ultimately, marketers need to know that the benefit, whether for the customer or internally for the company, is worth the cost to the company, including the cost of lagging behind.

Marketers need to know how to make technology management decisions around the following main areas:

- How will new marketing technologies and tools be evaluated, bought and managed?
- What is the right degree of integration between digital and traditional marketing?
- What is the need, nature and location of digital marketing capabilities?
- Marketers must determine which activities to keep in-house, which to automate and which to outsource.[35]

Too often there is a focus on the capital investment in technology, while ignoring the investment of time, energy and talent needed to develop the capabilities required to leverage these investments. There is no standard formula for how much a firm should invest, but several firm characteristics will affect the investment decisions – internal digital infrastructure, technological choices and customer preferences. What is noticeable is that in many cases there is very low investment required when compared to some traditional operations or media.[36]

Ongoing management of both the implementation and the operation of the technology is crucial. In the early 2000s, Nike spent more than €400 million on supply chain software that caused over €100 million in lost sales, a 20 per cent stock dip and a number of lawsuits. The main issues were that the technology was too slow, did not integrate well and it had some bugs that resulted in over-ordering of Garnett sneakers and under-ordering of Air Jordans, which were the runners people wanted. Nike said: 'For the people who follow this sort of thing, we became a poster child [for failed implementations].' Nike learned from this and invested heavily in both technology and management and is now considered the athletic version of Apple.[37]

A Gartner study found that 67 per cent of marketing departments plan to increase their spending on technology-related activities over the next two years. In addition, 61 per cent are increasing capital expenditures on technology, and 65 per cent are increasing budgets for service providers that have technology-related offering.[38] Further research showed that senior marketers had invested heavily in marketing technology, with most (62 per cent) noting that they were leveraging marketing technology to better understand customers, and over half were investing in technologies that were automating internal processes and reducing time on administration. The same number said they are using marketing technology because they want to take a data-driven approach to marketing – see Figure 4.3.

According to Ryan, in his book *Understanding Digital Marketing: Marketing Strategies for Engaging the Digital Generation*, there are four stages for how technology is adopted into mainstream marketing practice:

1 New technologies emerge and they are usually the domain of the technologists or early adopters.
2 The technology starts to gain a foothold in the market and gain popularity and then the marketers start to notice.

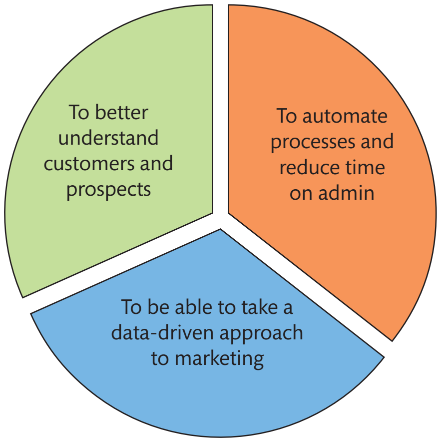


Figure 4.3 Reasons that senior marketing use marketing technology
Source: EMarketing (2018) Reasons that Senior Marketing use Marketing Technology, https://www.emarketer.com/Article/Investment-Marketing-Technology-Increasing/1015378.

3 Innovative marketers look for ways that they can harness the power of this technology and look at new ways to engage with their target market.
4 The technology migrates to the mainstream and is adopted into standard marketing practice.[39]

The challenge is to understand the stage of development of the technology and which ones staff and/or customers will be comfortable with. This is not always easy – they could be age appropriate and align with the digital natives and digital immigrant discussion.[40] As Douglas Adams – author of the *The Hitchhiker's Guide to the Galaxy* – humorously noted, we react differently to technology depending on our age when it was invented:

1 'Anything that is in the world when you are born is normal and ordinary and is just a natural part of the way the world works.
2 Anything that was invented between when you're fifteen and thirty-five is new and exciting and revolutionary and you can probably get a career in it.
3 Anything invented after you are thirty-five is against the natural order of things!'

He further noted that:

'We are stuck with technology when what we really want is just stuff that works!'[41]

What marketers need to know is how to distinguish between opportunities and fads and prioritise solutions that engage customers and swiftly apply the truly game-changing technologies that drive business growth. One technique to help evaluate the extensive range of technologies is the **hype cycle** – a cycle designed by the Gartner Group showing trends for how technologies, services and strategies evolve from market hype and excitement to becoming mainstream within business and society. There are five parts of the cycle: technology trigger; peak of inflated expectations; trough of disillusionment; slope of enlightenment; and plateau of productivity. The mobile phone can be seen to have travelled through this cycle and now is at the plateau of productivity with mainstream adoption.[42] Using Figure 4.4, can you see where augmented reality, robotics and machine learning are at? For an up-to-date view you can log on to the Gartner Group for the latest hype cycle for marketing and consumer technologies.[43]

The growth of immersive technologies innovations such as augmented reality (AR), virtual reality (VR) and voice-based platforms are redefining how we engage digitally with one another. Smartphones are a gateway device to the market, and can easily bring the technology that allows transparency between people, businesses and things to billions worldwide. This relationship will become far more entwined as technology becomes even more adaptive, contextualised and moves freely between the workplace and home – interacting with businesses and other people. Research director at Gartner, Mike Walker, notes that: 'These megatrends illustrate that the more organisations are able to make technology an integral part of employees', partners' and customers' experiences, the more they will be able to connect their ecosystems platforms in new and dynamic ways.'[44]

Marketing must be able to make wise and timely investment decisions to extract the maximum benefit from digital technology through knowledge of current and future digital technologies. Once the slope of enlightenment has commenced, consumers can be rushing to use 3D or 4D printing, embracing virtual reality and using a myriad of technologies in record numbers, and marketers must either be there when the customer gets there or be ready to be there quickly once the customers arrive.

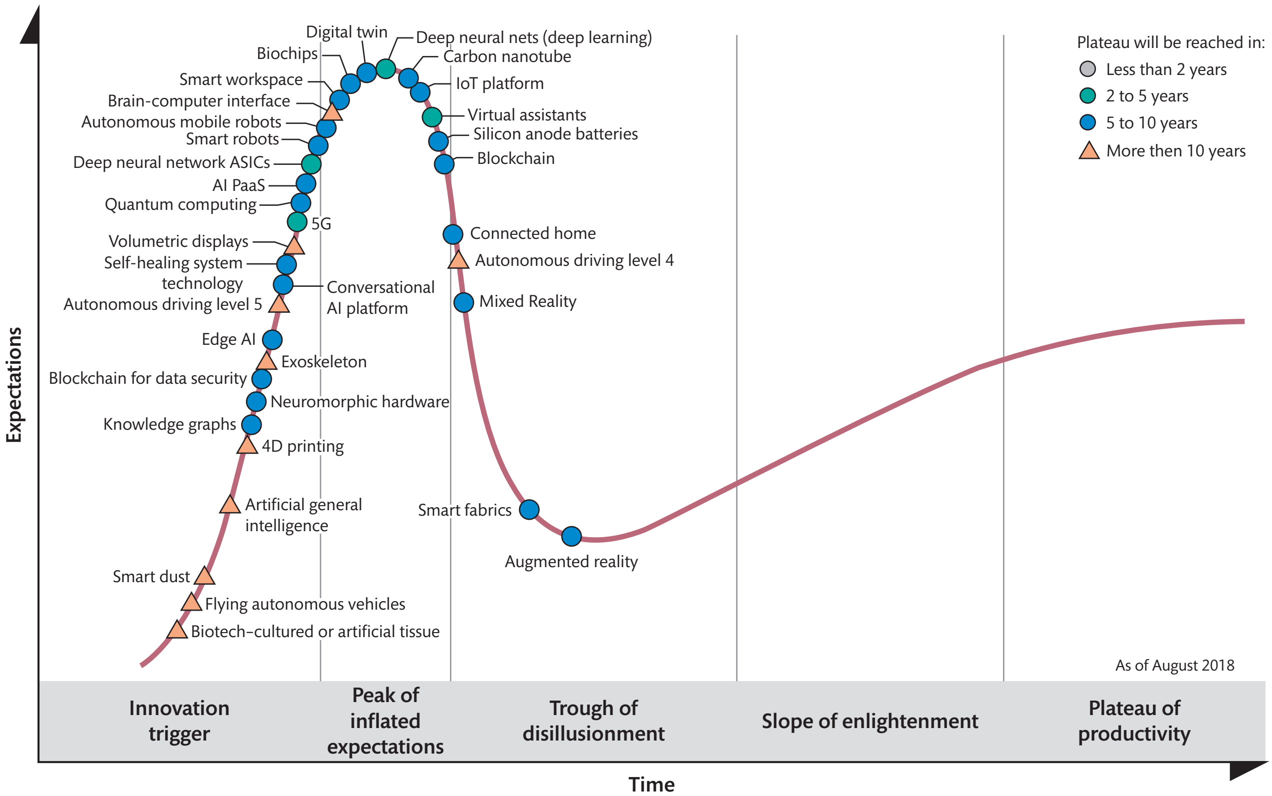


Figure 4.4 Gartner's 2018 hype cycle for emerging technologies
Source: Gartner (August 2018) (c) 2018 Gartner, Inc. and/or its affiliates. All rights reserved. https://www.gartner.com/smarterwithgartner/5-trends-emerge-in-gartner-hype-cycle-for-emerging-technologies-2018/.

Supporting the adoption and implementation of digital technologies

Marketers must help and guide the adoption and implementation process within companies and at the customer interface to ensure that digital technology is implemented smoothly. Adoption can be challenging, especially where it crosses departments and changes work practices or where customers have to engage differently. Resistance to technologies needs to be monitored and managed carefully. Managing the adoption of technology takes time, trial and error, and unforeseen and unexpected challenges can arise. The best advice is to test on small groups and to ensure that at the very least all staff are confident and capable before the technology is rolled out to the customer. Consider British Airways.

British Airways Terminal 5

British Airway's new Terminal 5 at London's Heathrow Airport was designed for maximum customer service, but on the opening day staff had technological issues with computer log-on and staff swipe-card failures, resulting in turmoil at the airport and massive disruption for customers. Over the next ten days more than 42,000 bags failed to travel with their owners and over 500 flights were cancelled.

The disruption to passengers and staff during the opening of Terminal 5 was seen as a huge embarrassment to BA and the British Airports Authority (BAA). What should have been an opportunity for BAA to showcase Heathrow as one of the world's great airports and for BA to improve its record on baggage handling instead turned into a nightmare of delays, passenger confusion and chaos.

Among many issues were technical glitches with the sophisticated new baggage set-up, designed to handle 12,000 bags an hour. BAA declared the week before the opening: 'We have a world-class baggage system that is going to work perfectly on day one.' However, although some testing of the technology had occurred, it had not been sufficiently trialled, had never been tested in a 'live' terminal and staff were not comfortable with the technology.

British Airways learnt its lessons and continues to innovate with a range of technologies, including biometrics for self-boarding and robotics for push back for its aircraft. It cites successful technology investments and implementations as the key feature in its recent profit increase.[45]

Preplanning how the key issues that may arise will be handled is crucial. Staff and customers have to be managed throughout any change to their processes.

Managing web, social and mobile are the core technologies, and marketing challenges aligned with theses will be explored throughout the text. A survey of marketing managers found that the marketing technologies most utilised within marketing were technologies for managing social media marketing, followed closely by email marketing, digital advertising and customer insight and analytics – see Figure 4.5.

Social media management technologies are used to understand and react to user-generated content and firm-generated content. Firm-hosted virtual communities need to be carefully designed to facilitate knowledge sharing, provide social support, deliver an enjoyable and useful experience and engage consumers to co-create value through emotional empathy.[46] To manage social networking, marketers must first listen to the communication across multiple sites and evaluate both the sentiment and the media.[47] There are core technical, analytic and organisational skills including budgeting and staffing requirements for 24/7 operations to closely monitor digital content. Marketers must monitor what consumers are doing, saying and seeing online and it is often critical that companies react quickly, whether individually or collectively.

The questions below can support social media management technology adoption and implementation:

- What is the total cost of digital marketing across the organisation?
- Who is responsible for managing the content across channels, and is the publishing of content across all digital technology well managed for communication, co-creation and cost-effectiveness?
- What is the plan – including the people and finance to be invested – for engaging and nurturing a core group of passionate brand advocates? How do we plan to tap the feedback value they can provide? How can we react in real time?

SOCIAL	MOBILE	WEB

Social media management – owned, earned and paid for and internal management and external perspective including influencer outreach and management

Digital Advertising – Video, mobile and social. Platform management and also augmented and virtual reality

Customer insights and analytics – internal managerial processes to manage this

Apps management – often rethinking how customers are managed and manage themselves

Content marketing – who creates the creative for your organisation?

Customer relationship management (CRM) and Customer Information Management (CIM) – any backbone platform for a unified view of the customer

Automations of experience – Robotics, automations and AI.

Search engine optimisation (SEO) and adwords management

Email marketing – relevant, creative, targeting and timing

Figure 4.5 Managerial perspectives and technologies for Social, Mobile and Web activities.

- How well does our digital-marketing approach – including the content, the links between different channels and the investment levels – correspond to the way our customers make purchasing decisions and share information online?
- What early-warning signs do we track and who is responsible for acting on what we learn about what our customers see, do and say?[48]

What is also critical is the managerial skill to use these data from the flow of data from multiple platforms rather than just one source. Managers need to investigate the efficiency and effectiveness of their social media processing and utilisation activities, as well as their use of social media analysis tools and technologies. They also need to integrate social media data from across platforms and into other information systems.[49] Platform challenges are critical as the range of platforms such as Facebook, Snapchat, Twitter, Pinterest, etc. develops, grows and declines (anyone remember Beebo?).[50] The current extensive social media field means that marketers must be aware of the many platforms and their unique usage – such as entertainment, stimulation or practical use.

When communicating with companies, customers also have different platforms for different communications.

Stages theory of IT adoption

To manage digital technology, marketing managers must understand how technology is adopted. A common view is that digital technology assimilation into companies occurs in three stages, known as the stages theory of IT assimilation, moving from automation to information and then to transformation – see Figure 4.6.[51]

1 **Automation stage.** This is where technology is used to replace previously manual tasks. The bank ATM machine was used to replace the cashier in the bank. Self-check for flights automates a previously manual process with a service agent checking in each passenger. These systems are designed to create efficiency, to make the process go faster for customers.

2 **Information stage.** This is when the information from the automation of the operation is used for improvements. When the system is more efficient and more effective then companies have reached the information stage. Online check-in or airport self-service allows passengers to choose their own seating, making their trip more enjoyable for them. This stage allows companies to really understand their customers' needs. The trend for customers to choose to sit alone resulted in KLM offering customers the ability to pay for the 'free sit' beside them. Smart use of information from automation can provide customer innovations and wins for the company.

3 **Transformation stage.** Transformation relates to major change, where the technology transforms the industry, the processes or any or many aspects of the business models. Managers need to know how to manage when technology changes the rules of the game. The technological impact on the music industry from apps and companies such as Spotify means that digital music downloads outsell and have replaced what was the core product – CDs – which were themselves a technology invention that displaced and heralded the demise of records or vinyl. In the transformation stage, marketers must think differently; rather than simply automating or

Uber operates in over 90 European cities with app technology which has changed the competitive landscape and offered new services to customers - informating and transforming the taxi market.
Source: Proxima Studio/Shutterstock.

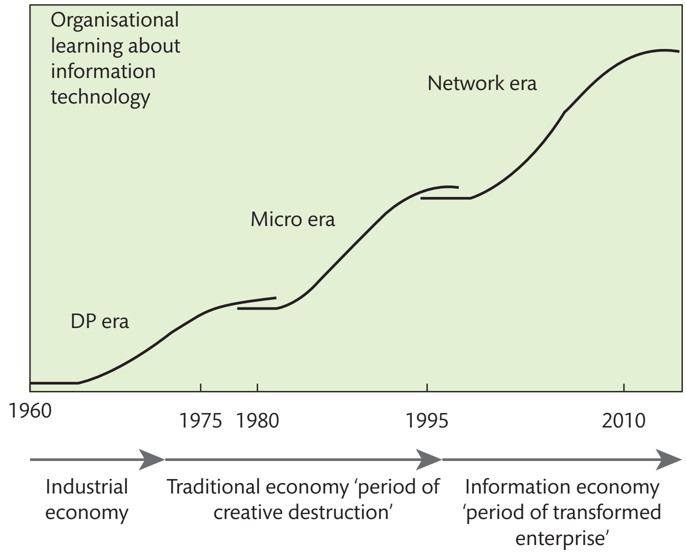


Figure 4.6 Adapted from Nolan's stages theory of IT adoption
Sources: R. Nolan (1973) Computer data bases: The future is now, *Harvard Business Review*, 51(5), 98–114; R. Nolan (1998) Connectivity and control in the year 2000 and beyond, *Harvard Business Review*, July–August, 3–14.

informating they must challenge their own thinking and assumptions and see what the technology can or is doing and how they can operate within it to benefit the customer and the company. Not every technology will be transformational and not every industry will be transformed, but there are many examples of transformations that have fundamentally changed industries. Some technologies we knew for years and others developed rapidly. Disruptive technologies can change the game for businesses, creating new business models and shifting the value from company to customer. Think of how apps have transformed so many industries. Think of apps such as MyTaxi, founded in Hamburg in 2009, which changed how we order taxis and the taxi business model that had operated for decades. The next development to rock the taxi industry could be passenger drones or driverless cars.

The app store is an example of transformational changes within an industry driven by technology.
Source: Screenshot of App Store (iOS) © Apple Inc.

Marketing insight

From marketing 1.0 to marketing 4.0

The stages theory aligns with the terms marketing 1.0 to Marketing 4.0. Moving from marketing 1.0, which was product-driven marketing, we find that much of marketing is still in the 2.0 era. This era was born out of the growth of the internet, with marketing managers using many technologies such as data-driven personalisation and a focus on customer-centric marketing but not yet at the marketing 3.0 era, which is driven by human connectedness and how consumers feel (see Figure 4.7).

Marketing 3.0 is the world of viral marketing, driven by key influencers and social media. Marketing 3.0 focuses on the customer as a human being in its entirety, with material, emotional and spiritual needs. It is expected that those companies that adopt marketing 3.0 will have an edge because they will be able to combine a quality product/service with a mission imbued with positive values.

These eras also align with the growth of the internet from **Web 1.0** to **Web 2.0** and now **Web 3.0**, which is known as the semantic executing web, which will improve the ability of the web to understand communication in context and should have the following abilities: tailor-made and personalised searches, evolution of 3D web and deductive reasoning.

Marketing 4.0 will be even deeper digitally in the connected world. In a recent book by Philip Kotler, *Marketing 4.0: Moving from Traditional to Digital* (a must-read for next-generation marketers), the marketplace's shifting power dynamics, the paradoxes wrought by connectivity and the increasing sub-culture splintering that will shape tomorrow's consumer are explored.[52] He notes that marketing 4.0 takes advantage of the changed and changing consumer mood to reach more customers and engage them more fully than ever before, but there are real challenges in the areas of:

- gaining data-driven insight into the new ways customers are spending and the three driving subcultures: youth, women and netizens;

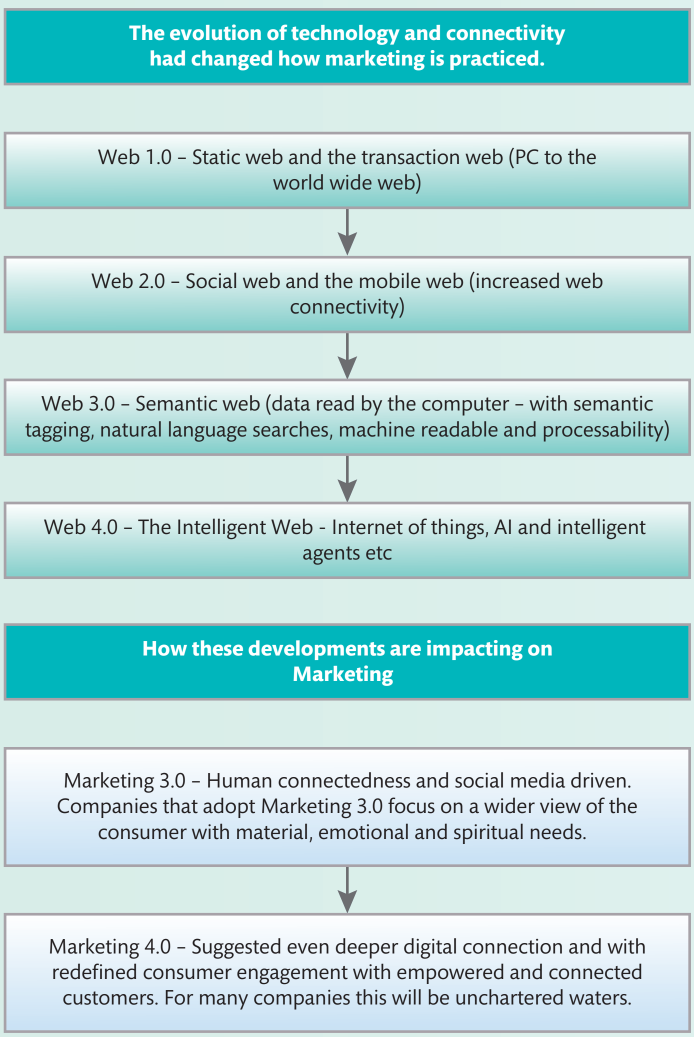


Figure 4.7 Web 2.0, social media and creative consumer

- boosting productivity by engaging customers at every touchpoint along their real-world paths through today's digital marketplace;
- redefining customer engagement in the digital era, including human-centric marketing, creating customer conversations and omnichannel strategies.[53]

Web 4.0 is still not clearly defined, but the continued rise in artificial intelligence should allow for an intelligent web, a symbiotic web and a ubiquitous web with heightened interactions between humans and smarter machines.[54]

The arrival of web 5.0, which will be about the emotional interaction between humans and computers, is beckoning on the horizon.

Source: P. Kotler, H. Kartajaya and I. Setiawan (2017) *Marketing 4.0: Moving from Traditional to Digital*, New Jersey: Wiley; P. Berthon, L. Pitt, K. Plangger and D. Shapiro (2012) Marketing meets Web 2.0, social media, and creative consumers: implications for international marketing strategy, *Business Horizons*, 55(3), 261–71.

Digital battlefields

According to Schumpeter, the famous economist writing in 1994, **creative destruction** or the 'gale of creative destruction' is the 'process of industrial mutation that incessantly revolutionizes the economic structure from within' – destroying the old one and creating a new one. These changes can be viewed as a series of explosions with innovations concentrating in specific sectors or leading-edge industries creating future prosperity and replacing each other in a regular, periodic way. Leading sectors propel economies forward; without them, economic growth would not be possible. He suggests that a set of superior technologies supplants inferior technologies and becomes dominant at their expense. The lagging sectors fall behind, and their time passes, while the new set of technologies surge ahead and, according to Schumpeter, spur economic renewal and revitalisation.[55]

We are witnessing this effect as some industries, sectors and companies and marketers are racing ahead while others are struggling. In measuring each of these various aspects of digitisation, a McKinsey report found relatively large disparities even among big companies.

The benefits can be huge from technologies, but so too are the costs, especially of industry transformation. This is particularly critical if marketing is not ready for the technological impact or is slow to react or innovate. There has been significant disruption from technology-enabled shifts in interorganisational structures. The digitalisation of value-adding activities is a good example of the disruptive influence of technologies. Take the role of **infomediaries** – firms that provide

Marketing in practice

Swiss watchmakers try to keep pace

Digital disruption within the watch industry is transforming the simple watch

Source: *The Economist* (2017) Swiss watchmakers try to keep pace, https://www.economist.com/business/2017/04/01/swiss-watchmakers-try-to-keep-pace.

The most powerful innovations can come at the intersection of what people want, what is technologically possible and what is viable from a business perspective. Digital innovation appears to have the humble watch in its sights. The watch industry has been stable for generations with companies such as Blancpain and Vacheron Constantin, Rolex and TAG all dating back to between 1700 and 1900. Recent events suggest that the watch industry is feeling the threat from digital disruption and new business models. Apple Watch is now the world's second-largest watch brand, after Rolex – shipping 2 million more watches than all Swiss watch manufacturers and outselling the entire Swiss watch industry (see Figure 4.8).[57] This trend changes the watch from a time piece to something a lot more. Jean-Claude Biver, manager of the watch business at LVMH asks: 'Will they consider the watch as a possible status symbol or as an information-tool or as a design product? Who knows?'

Watchmakers seem ill-suited to rapid change, but there is some evidence of fighting back with innovation such as the TAG Heuer connected watch developed with Google and Intel, and the Montblanc smartwatch with a heart-rate sensor and a built-in microphone. Also, new brands such as Daniel Wellington at the low-price, high-fashion end have used social media techniques to grab market share from Swiss companies that held this market for generations. Could the Apple Watch market disappear with the smartphone – replacing the wrist or wearable function of a watch with the smartphone? Are we witnessing the demise of another recently developed product or will the Apple Watch become a mini computer with increased functionality?[58]

Source: Adapted from *The Economist* (2017) Swiss watchmakers try to keep pace, https://www.economist.com/business/2017/04/01/swiss-watchmakers-try-to-keep-pace; J. Gapper (2018) The iPhone is only just starting to grow up, *Financial Times*, https://www.ft.com/content/5b50958c-68b7-11e8-b6eb-4acfcfb08c11; J. Biggs (2017) Apple and Android are destroying the Swiss Watch industry, https://techcrunch.com/2018/02/13/apple-and-android-are-destroying-the-swiss-watch-industry/.

Figure 4.8 Swiss watch manufacturers most be aware of and devise strategies to cope with Apple watch sales
Sources: Paolo Bona/Shutterstock

information about sellers offerings and receive compensation for directing online traffic to other firms websites, such as online exchanges eBay or Alibaba. These have resulted in lower prices once they reach a significant mass and they have changed whole industries. There are also other B2B operations within existing complex networks (such as Joor and Fashion GPS), which link designer brands and wholesale buyers, or the race to control the point-of-purchase platform (with companies such as Square, Google Wallet, Apple Pay and Samsung Wallet).[56]

Many traditional industries are and will be changed as the relentless pace of technological development continues. Marketers need to plan well for a whole range of possible outcomes and to look at new different models of operations. Many marketing managers and industries are struggling to keep pace – see 'Marketing in practice'.

Digitalisation does not impact all industries at the same time or in the same way but relatively few industries will stay untouched by its effects. Even education, traditionally viewed as a people based industry from teacher to or with students is moving to embrace technologies. From the widespread use of systems like Blackboard and Moodle as virtual learning environments (VLE), to digital game based learning, intelligent tutoring systems, webinars and podcasts, moocs and open source learning platforms like Coursera, Edx or HarvardX, and even in class student response systems – all allowing for a technological dimension to the once hollowed halls of academia.

Uniting marketing and IT functions

Marketing should always be a uniting force within organisations, but critically with IT. Marketers must work together with technologists to develop a marketing technology architecture that combines the abilities to analyse consumer behaviour, help make IT investment decisions and manage customer and staff technological interactions. With digital transformation comes the need for IT and marketing staff to engage collectively and to work together with a shared understanding of the central role of technology in managing both staff and customer experiences and effective market engagement. The future of marketing must be a close partnership between marketing and IT and the rest of the company due to the explosion in technology both internally in organisations and externally at the customer interface. As Michael Aidan, head of digital at the Danone Group, notes, it involves everyone in the company. 'The digital transformation team which I am heading covers all divisions, all functions, all regions and all digital expertise. Everyone on the team also has a "day job" if you will, working in their division or region. But they also work with me to define what the future of digital should look like and how we can engage the organisation worldwide with this transformation.'[59]

Recent research indicates that:

- chief marketing officers (CMOs) spend more on technology then chief information officers (CIOs);
- by 2020, 50 per cent of companies will use cognitive computing to automate many interactions with customers;
- intelligence as a capacity will be united within marketing with the elimination of silos – turning marketing even more from an art into a science;
- in two-thirds of companies, the primary responsibility of the chief marketing technologist is aligning marketing technology with business goals;
- organisations that have a chief marketing technologist will spend 12 per cent of revenue on marketing compared with 7 per cent for those that don't;
- organisations that have a chief marketing technologist will spend 30 per cent of their marketing budget on digital marketing, compared with 21 per cent for those that don't;[60]
- most companies are focusing on digitalising customer-facing processes rather than internal processes, but that is set to change.[61]

The management challenge of choosing and deploying the most appropriate digital technologies must be integrated into a holistic understanding of at least three fundamentally different orientations. Specifically, the IT staff's drive to use the technologies that suit their operations or are easiest to implement (technologists' perspective) must be checked both by the business logic that requires short-term profitability and longer-term economic viability and sustainability (finance perspective) and by the marketing logic that places customer needs and customer value at the heart of business (marketing perspective).[62] These three different orientations all require attention, as none of the three on its own can deliver the full value required:

- **Technologists' perspective:** IT managers drive towards what is technologically possible.
- **Finance perspective:** finance managers drive towards what is profitable for the company.
- **Marketing perspective:** marketing managers drive towards increasing the value for the customer and the company.[63]

Marketing should be aware of and able to coordinate these three different perspectives. There are a number of aspects to this, including the potentially politically difficult task of identifying internal champions, equipping them with the relevant skill set and enabling them through appropriate organisational arrangements. In addition, the power base and business philosophy in many organisations is finance related and thus often singularly focused on creating and maximising short-term shareholder value rather than jointly maximising long-term customer and organisational value.[64] Bridging the gap and uniting the two functions means that marketing must engage with technology and technology must engage with marketing – see 'Marketing in practice'.

Marketing in practice

Technologists are from Mars and marketers are from Venus – not any more

Marketing and IT staff have been viewed for many years as two functions and roles that could not be more extreme in their differences. According to Forrester Research, these dramatically different perceptions have started to fade as they both see they have more in common than they imagined.[65] The stereotypes show the marketers as creative, driven by gut instinct and filled with insightful knowledge about customer needs, while the IT person is pragmatic, driven by budgets and compliance and a specialist in operational efficiency and cost control. They are supposed to speak different languages, value different skills and have diametrically opposing views of the world.

Marketers and technologists both play a vital role in delivering compelling customer experience. In many cases marketers must become the architects of the digital landscape, understanding how to integrate channels, technologies and data. They must both be able to measure their results and align these results to business strategy. They both have to deal with a rapidly changing business climate where customers and employees have more readily available and useful technology tools available to them than ever before. And, ultimately, they must both answer to their boards and shareholders for their mistakes and successes.

There are five characteristics that should unite the two perspectives:

1 **Building a solid partnership.** It is essential to have a shared view of the customer, the business goals and common metrics that define success. Marketers need to be masters of technology and technologists need to understand the customer. Technology innovations must be built on a solid partnership between these two with shared goals and metrics, a common business language and deep collaboration.

2 **Innovation across the customer life cycle.** Customers are the lifeblood of any business. The challenge faced by marketers and technologists is how to orchestrate a diverse set of opportunities and resources – people and technology – from within and beyond the firm, to create and maintain a compelling brand experience that delivers value to the consumer and results in more successful products and services, more loyal customers and stronger brands.

3 **Tapping disruptive technologies to maximise growth.** Today's explosion in technology innovation and adoption puts IT everywhere. But unlike previous growth cycles, the current surge does not have a single-technology focus. Instead, marketers and technologists must navigate a cornucopia of technologies based on cloud computing, mobile platforms, predictive analytics and online social interaction.

4 **Redrawing organisational boundaries to promote agility.** To lead by example, technologists and marketers will need to accept change, dare to challenge the status quo, act continuously, participate personally and, most importantly, tear down boundaries that exist within the company and be managed holistically. Co-innovation and co-creation of strategy will blur the lines between marketing and IT.[66]

5 **Integration rather than outsourcing.** Sixty-five per cent of CMOs have their own capital budgets and when they don't get what they want internally from IT will buy in the expertise, applications and services they need.[67] What is needed is an alignment with the outsourced needs and the technology inside and outside the organisation and supported by IT staff.

Sources: Adapted from L. McLellan (2014) The rise of the chief marketing technologist, *Harvard Business Review*, July–August; G. Press (2013) Digital marketing battlefield map: CMO vs. CIO and Gartner vs. Forrester, *Forbes*, October, https://www.forbes.com/sites/gilpress/2013/07/10/digital-marketing-battlefield-map-cmo-vs-cio-and-gartner-vs-forrester/#5bf778c65f1c; S. Yates (2011) CIOs are from Mars, CMOs are from Venus? Not any more, *Computer Weekly*, 14 April; C. Saren (2011) Forrester Research: Marketing is an IT Spending Blackhole, *Computer Weekly*, 14 April; read more at www.cmo.com/leadership/cios-are-mars-cmos-are-venus-not-anymore#ixzz1jxqk1v1q.

Future technologies: opportunities and challenges

Exploiting new and innovative technologies holds the promise of higher profits and greater accountability, but it requires a sophisticated, strongly aligned blend of marketing savvy and technological expertise. We are now in a future that many did not expect, with inventions and innovations at an incredible pace. The changes will be between people–people, people–things and things–things (also called machine to machine) and will impact on how marketing managers manage all aspects of their role.

What is core is to understand which inventions will become innovations, realising that 'to invent is to find a new thing – to innovate is to get a new thing done'. We are in a period of new ways to do things.[68] With hotels run by robots, drones delivering the post and artificial intelligence in driverless cars we are inundated with new technologies, new and more choices and new products, services and processes. Instead of 100,000 books in a book store, Amazon has 4 to 5 million.[69] What can we expect from the future and how can we manage it? Which innovations will be provided with the resources needed and which should marketers invest in, even if the risk is high? Marketers must know what is on the horizon and also prepare for its impact, whether internally, externally or both. Which will succeed and which will fail? Consider Google Glass.

Google Glass – a failure or a technology for a different market?

Google wanted to be a part of the wearable technology drive and to move from the looking downwards at what has been called the 'black mirror', and so arrived Google Glass. This glasses innovation had the information playing before a person's eye, hands free, worn on glasses with an optical display of information above the right eye. The first iteration for consumers failed as early adopters found that it delivered less than it promised – and users became the target of shaming within a society concerned about privacy as it blurred the line between public privacy and acceptable technology use. Cinemas, restaurants, hospital and casinos all banned Google Glass.

Virgin Atlantic, which trailed its use to greet the customer by name, confirm their travel plan and provide a weather forecast for their destination was among the companies, including Copenhagen Airport and Edinburgh Airport, who had invested in the technology and had to stop using it when Google ceased sales of Google Glass.

But they are coming back as Google Glass 2.0 – the enterprise version – used in the workplace to help and support workers who need their hands free for intricate practice.[70] Google realised that the consumer market was not the best place for this technology, but business needs exist in companies such as GE Healthcare and Boeing, which are using them in the workplace with great success. But there is still concern that the market for smart, augmented-reality (AR) glasses is in transition. Assisted-reality headsets such as Google Glass have not delivered on their promise, and remain niche products that continue to see pilot deployments in enterprise settings without any meaningful volumes. What is emerging is a more compelling AR headset technology, that of mixed reality.[71, 72, 73] Will Google Glass 2.0 survive or perish?

Virgin Atlantic trailed Google Glass before it was withdrawn from consumer use.
Source: Courtesy of Virgin Atlantic Airways Ltd.

Future technologies are hard to accurately predict but they could include robotics, machine learning, 3D and 4D printing, augmented reality (AR), computer–brain interface, connected home, human augmentation, nanotube electronics, virtual reality (VR) and smart cities. McKinsey, in its report entitled *Disruptive Technologies: Advances That Will Transform Life, Business and the Global Economy,* suggests 12 technologies that will have major future economic global impact of between €14 trillion and € 33 trillion, including robotics, next-generation genomics and increased energy storage and mobility.

Future technology means that there could be entirely new functions as smart connected products could change virtually every function within manufacturing – with product development, IT, manufacturing, logistics, sales and after sales all needing to be coordinated differently. Marketers also need to manage convergance and any combination of a range of technologies and future technologies that are nearly here. Trying to guess which technologies to back can be challenging, but most experts believe that it could be some of the following:

- the Internet of Things
- artificial intelligence
- augmented and virtual reality
- robotics and automation, including cyborgs and collaborative robots.

The **Internet of Things** (IoT) is where things (computers/chips/sensors) talk to things (computers/chips/sensors) – as in computing devices embedded in everyday products and services, enabling them to send and receive data – known as smart products. In the future it is suggested that everything that can be connected will be connected – connecting any device to the internet and to each other. Think of your coffee makers, washing machines, headphones, lamps, wearable devices – what would happen if they were connected to each other? What if your alarm clock wakes up you at 6 a.m. and then notifies your coffee maker to start brewing coffee for you?

The analyst firm Gartner says that by 2020 there will be over 26 billion connected devices resulting in a giant network of connected 'things' and maybe even people.[74] This is becoming prevalent and will mean creating strategies at the intersection – like smart products – where chips are embedded into products to add value.[75] One example is smart hospital beds with embedded chips that can monitor the patient and release the drugs as needed, or alert staff. While the transition might be unsettling, lessons learned from the software industry can offer support – shorter development cycles, products with service business models, a focus on customer success, products as part of the broader system and analytics as a competitive advantage.[76]

Many suggestions for disruptive technologies for the future abound and the list below is neither exhaustive nor in any particular order. As noted elsewhere it is hard to predict in what form and how many unintended consequences there will be to get from where we are to adoption of these technologies. Some will race ahead and some will falter but the list at the starting gate now are:

Suggested disruptive technologies – over the next decade.

- Internet of things
- Mobile in all forms including the internet
- Automation of the workforce
- Advanced robotics
- Cloud computing
- Autonomous or near-autonomous vehicles
- Next generation genomics
- 3D Printing
- Energy storage and renewable energy

Artifical intelligence – sometimes called machine intelligence – is the ability of technology to move beyond automation of tasks to emulate or perform human traits, which ultimately could result in machines that can think. We currently have machines that can win at chess or driverless cars using cognitive computing but the impact of machine learning could be greater than expected. Think of AI in the health services where the diagnosis can be made without a medical specialist by a machine running algortihms. Despite concerns about the potential for errors and how to handle the potential liability if a machine gets the diagnosis wrong, there is a growth in these systems.[77]

Max Tegmark in his book *Life 3.0 – Being Human in the Age of Artifical Intelligence* suggests that AI development might lead to changes to humans, as we know them, by replacing the non-durable parts of humans. Supported by the work of cyborg proponent Ray Kurzweil – who wrote the book *The Singularity is Here* – he suggests that the trend towards nanobots and other systems could replace the human digestive and endocrine systems, blood and heart by 2030 and the rest of us after that! Even though this sounds far-fetched it does not violate any known laws of physics – so it is not *can* they but *will* they and *when*?[78]

Augmented and virtual reality: The physical three-dimensional world is coming to the two-dimensional screen-based data world. **Augmented reality** – a set of technologies that superimposes digital data and images on physical objects and environments – is bridging the gap between digital and real and could become the new interface between man and machine.[79] From simple examples such as the Snapchat filters to using AR to train surgeons or to train employees, AR will change how companies compete. Pointing a smartphone with augmented reality at a hotel you could see inside

A newly opened restaurant in Cixi has introduced two server robots which can help deliver food, collect empty dishes and discuss the menu.
Source: Xinhua/Alamy Stock Photo

the hotel to the rooms and also get details of the rates and availability. Games such as PokemonGo, Snapchat's Lens Studio and Crayola use augmented reality. **Virtual reality** is the use of computer technology to create a simulated environment using a head set, such as Oculus. With VR, you are viewing a completely different reality from the one you're standing in.

Robotics and automation: Today robotics can do almost two-thirds of all physical jobs. Automatisation and optimisation can reduce operational costs through commoditised tasks and increased utilisation to 24/7 – every day! Software bots and robotics provide speed, which could see the demise of many low-skilled jobs, particularly in the service industry. Amazon has automated its warehouses with hundreds of orange robots that are more efficient and require less space than the human-operated process. Each robots-equipped warehouse can hold 50 per cent more inventory per square foot than more traditional centres and the company's operating costs have been sliced by 20 per cent – or almost €20 million – per warehouse.[80] Think of health services using Paro, the automated seal, in use in nursing homes to comfort the elderly, or of robotic nurses, as pictured.[81]

Cyborgs: Are we nearing the age of the **cyborg** (short for cybernetic organism – a being with both organic and biomechatronic body parts)? Digital anthropology focuses on the nexus between humanity and digital technology and many films push this boundary with cyborgs. Think of *Borg* from Star Trek or ones that are almost indistinguishable from humans, such as in the film *The Terminator*.[82]

Cobots: At a more basic level, many European companies are starting to use **collaborative robots** – which are robots designed to work safely with humans. The European aircraft manufacturer Airbus uses a mobile robot to drill tens of thousands of holes while humans work beside it.[83]

From wearable technology, to deep learning-based predictive analytics, to AI in mobile phones, to microchipping, the advances continue – see the 'Marketing in practice' box.

The future of work

The future managerial challenge is how to manage the people, both staff and customers, when technologies such as AI, automation and robotics are within the workforce and processes. Though European companies currently lag behind the USA and Asia in adoption, the advances in automation and artificial intelligence will impact on the future of work and how processes are carried out, both internally and during the customer experience. The move beyond basic automation has arrived, with a new and exciting generation of autonomous systems from semi-autonomous cars, to automated check outs, to pay and wave or walk-out technologies. The development of sophisticated algorithms matching or beyond human capabilities in computer vision, natural language processing and complex games will continue to change this field. Challenges still remain, including:

- technological challenges in training and writing the algorithms;
- machine decision-making bias;
- explaining machine-based decisions;
- data privacy;
- malicious use of data and/or machine;
- security and control issues.

Critically we need to ask:

- Do organisations have the ability to adopt these technologies (and is marketing management prepared)?
- Are people and processes ready for these technologies?[84]

The finance, car and telecommunications sectors are leading adoption. Consider Volkswagen.

Volkswagen – automated and networked

Martin Goede, the head of technology planning and development for the Volkswagen brand, discusses the ways that e-mobility and digitalisation are transforming and automating the factories and manufacturing processes and also how customers can self-manage and personalise to a greater degree. He sees the future as automated and highly networked:

> One visible sign will be the growing number of robots that will work with humans. Smart tools like smart glasses, smart gloves and smart watches will become normal parts of the workforce. Components made by 3D printers will be delivered directly to the production line. We will also visualize more and more processes on monitors so that employees can see at a glance whether the production operation is running smoothly.

For the customer, VW expects them to be able to design their own car fully and then track its manufacture right through the process, even being able to change colour at the last minute. This automation extends to the interior of the car with inbuilt customisation so that customers choose the in-car functions they want to activate on demand. Volkswagen has also launched ID. Vizzion – a driverless car with a digital chauffeur – the future of driving to work?

Source: Volkswagen (2018) Interview with Martin Goede, https://www.volkswagenag.com/en/news/stories/2018/07/interview-with-martin-goede.html (accessed October 2018); Volkwagen Newsroom (2018) World premiere of the ID. Vizzion in Geneva, https://www.volkswagen-newsroom.com/en/press-releases/world-premiere-of-the-id-vizzion-in-geneva-volkswagen-shows-the-potential-of-its-new-range-of-i-dot-d-models-556 (accessed October 2018).

About half of the activities (not jobs) carried out by workers could be automated by 2030. Some of the possible impacts on work and processes in the future would be:

- **Job losses:** some occupations will see significant declines by 2030.
- **Job gains:** jobs will be created.
- **Job changes:** more jobs than those lost, or gained, will be changed as machines complement human labour in the workplace.

It is clear that different skills will be needed and there will have to be change in many occupations. The likely impact and some actionable and scalable solutions are:

- ensuring robust economic and productivity growth;
- fostering business dynamism;
- evolving education systems and learning for a changed workplace;
- investing in human capital;
- improving labour-market dynamism;
- redesigning work;
- rethinking incomes;
- rethinking transition support and safety nets for workers affected;
- investing in drivers of demand for work;
- embracing AI and automation safely.[85]

Marketing in practice

Human microchipping and cyborgs

Microchipping is spreading, with a small number of employees in Europe agreeing to implants – the size of a grain of rice – which allows them to open doors, log into computers, operate printers and pay for food and drinks with the wave of a hand without card or keys. The founder of the microchip company BIOhax Swedish, Jowan Österlund, says that the chips cost about €100 and have Chinese technology, German biocompatible glass and Spanish electronics and are similar to those used for pets. With no GPS, so no tracking, these chips reader or phone app read. Österlund says the technology is better than biometrics because you do not run the risk of losing your fingerprint to hackers. Swedish customers are also benefiting as Swedish rail company, Statens Järnvägar, has around 800 customers using these chips implanted in their hand to pay for travel. Some Swedish gyms are trying the system and Mr Österlund is in further communication with several city authorities, a credit card company and one national government. Prof Kevin Warwick, deputy vice-chancellor (research) at Coventry University, became famous in 1998 when he had a basic chip inserted in his arm which he used to open a door – for his cyborg upgrade. 'I'm amazed that it's taken 20 years since I had my chip for it to start to get going', Prof Warwick said recently.

Source: J. Margolis (2018) I am microchipped and have no regrets, *Financial Times*, May, https://www.ft.com/content/6c0591b4-632d-11e8-bdd1-cc0534df682c; O. Solon (2017) World's lamest cyborg? My microchip isn't cool now – but it could be the future, *The Guardian*, https://www.theguardian.com/technology/2017/aug/02/microchip-contactless-payment-three-square-market-biohax.

The last question is, when will the future arrive? A recent survey by the World Economic Forum provides a number of predictions.

To manage current and future technologies, six levers are suggested by McKinsey that accelerate and support the adoption of technology to ensure a leading role in any industry.[86] They are:

- attract top managers with vision;
- cultivate the mind-set and culture to take considered risk;
- collaborate externally;
- integrate the business with advanced or global value chains for exposure to best practices;
- prioritise training and development to build better employee skills;
- recruit people with the skills to turn external innovations into concrete business practices and competitive advantage.

Forward-thinking marketing leadership must instil a new digital culture around collaboration, entrepreneurship and innovation. One skill needed will be to connect internal and external systems with ease, and thereby speed digital transformation. Another skill will be the ability to use insights from advanced analytics and using people and people analytics to drive business performances and to create often personalised – and profitable – customer experiences.[87] Digital technology demands of marketers the skills to manage the digital and physical worlds together and separately, and to watch the horizon for new and even more innovative developments.

Technological suggestions for adoption by 2025

- Artificial Intelligence which is self learning
- Wearable clothing (10% population)
- Connectivity – which consumes less energy/power
- Robots with professional roles in business like as pharmacists
- Printed products – 5% of consumer products
- 90% of human with an ability to access the internet
- Driverless cars – 10% of traffic in US
- 3D printing of organs which are then transplanted
- Smart products – connected homes with IOT and things communicating with things
- Less likely but could happen – An AI machine as a member of the board of directors.

Adapted from: The World Economic Forum.

SUMMARY

1 The most technology-dominant function in business is now marketing.
2 Digital marketing is the activities, institutions and processes facilitated by digital technologies for creating, communicating and delivering value for customers and other stakeholders.
3 Digital technology in marketing falls under four main headings: web, data, mobile and social. It includes internet, apps, email, interactive TV, self-service, automation, wearable technology, digital data from databases/dashboards, hundreds of software applications and many more.
4 The thousands of digital technologies available within marketing can be divided into two categories: information (research, analysis and planning) and interactions (communications, connections and collaborations), although many can be used for both.
5 Managing digital technology requires four main responsibilities:
- selection and investment in digital technologies;
- supporting the adoption and implementation of digital technologies;
- uniting marketing and IT staff;
- understanding the impact from future technologies.

6 Future technologies such as the Internet of Things, augmented and virtual reality, robotics, automation and cyborgs all challenge, will impact on the future of work and customer engagement.

APPLICATIONS

Marketing debate

Is it digital marketing or marketing in a digital world?

Marketing discussion

Why is managing technology in marketing so challenging? What are the four main responsibilities that marketers need to understand about technology to successfully manage it?

FURTHER READING

L. Quinn, S. Dibb, L. Simkin, A. Canhoto and M. Analogbei (2016) Troubled waters: The transformation of marketing in a digital world, *European Journal of Marketing*, 50(12), 2103-2133.

The rapidly evolving digital marketing landscape has far-reaching managerial and strategic consequences and this article reveals that the advancing digital landscape has precipitated a managerial sense of crisis for marketing, triggering a transformation that has repercussions for the future of the discipline and its practice. The authors suggest that the changing digital environment has potentially serious consequences for how marketing is practised and for the marketing function as a subordinate domain of management. Their research findings contribute a critical perspective to the ongoing debate concerning the evolving and increasingly troubled nature of marketing's role within the firm. Furthermore, while a digital marketing skills gap is clearly exposed within this changing technological climate, the paper suggests that the gap is widening – particularly within client organisations as internal and external relationships continue to change – and especially because efforts to integrate new insights are so far removed from strategic planning processes. Consequently, while their findings suggest that a limited group of sophisticated practitioners are adopting innovative approaches, many companies are not adopting or are outsourcing their adoption to independent specialist companies.

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Part 1 Case study

Virgin Atlantic pride themselves on their customer-focused image
Source: Virgin Atlantic/Rex Shutterstock.

Virgin Atlantic

As Virgin Atlantic airline's marketing director sits in his office, he has two main marketing challenges in front of him as he prepares to write his strategic marketing plan for the coming five years:

- Keep consumers sufficiently delighted with the Virgin Atlantic brand to stay with Virgin rather than fly with the cheaper-priced competitor airlines.
- Improve Virgin Atlantic's digital presence in a way that aligns with its luxury but fun brand image.

He is very aware that the market has changed, that economic recovery is ongoing but that changing consumer behaviour and digital developments mean that he must take a holistic view of his marketing, and re-envisage and change many practices and processes in both the digital and offline worlds. He understands that customers are at the core of Virgin Atlantic's business. Firstly, he commissions the deep research and analysis needed to design a marketing plan to bring the company through the next five years.[1]

Virgin Atlantic is a small airline with a big personality. This is how it lures customers from the main competitors on its routes.[2] Even though it is number two in the UK, it is tiny compared with its American-based competitors, including United Airlines, American Airlines and Delta. The question is, how does it compete when it has only 18 departures a day and how does it continue to grow?[3]

The company doesn't have a huge marketing or digital marketing budget so it has to stay closer to its customer and be cleverer about how it markets its service. It also has an infrequent customer base, with customers usually flying only once or twice a year, so the challenge is to maintain a relationship with them in between flights.

- **Customer rather than product focus:** Virgin Atlantic first looked at who its target market customers are. Internally it describes them as mavericks, adventurous, pioneering or 'fearless leaders'. So Virgin Atlantic focuses on this target market and makes its interactions with the company both fun and ultra cool, similar to an ultra-cool, upmarket but boutique hotel. It has installed an on-board bar, passenger massage and nail bar, and top-quality food and drink.
- **Focus on customer advocacy:** within its marketing plan its aim is to make Virgin Atlantic the world's 'most irresistible' airline. It understands its customer: 'Our research shows that there is a new mindset in today's business traveller. They're not just a business person on their way to a meeting, but an individual thinking about making the most of every opportunity they find themselves in,' said Chris Rossi, senior vice president, North America, Virgin Atlantic.[4]
- **Digital fun:** the company is focusing on lots of innovative and playful initiatives in the digital space. Within digital they are moving away from TV and videos to content as king and managing the consumer conversations in real time on social media and other digital devices. It teamed up with BBC America to target the 678,000 expats living

in America with an online support social network. Nick Ascheim, SVP Digital BBC Worldwide Americas, says about the joint venture with Virgin: 'We'll provide an entertaining and informative steer for Brits looking for answers to questions on topics from how to get a driver's license to how to blend in at Thanksgiving dinner, and even tackle more complicated American issues like the Kardashians.'[5]

After its first year, 66 per cent of users said they were likely to choose Virgin Atlantic for their next flight and the online campaign earned nearly €1m revenue in year one.[6]

The customer-focused challenger mentality is critical because most service offerings are the same and a marketing philosophy of putting the customer at the centre is core. As Simon Lloyd, former marketing director with Virgin, noted: 'The skies are being filled with lots of different carriers and it is becoming commoditised – the product across most airlines is very good. The one thing that sets us apart is our people. We want to concentrate on continuing to provide the best service, but not in a way that is robotic; rather, something that does allow the personality to come through. What we can offer that no one else can is that truly unique Virgin Atlantic experience, and that's what people buy in to . . . Price is obviously a consideration, but you want it to be secondary to choosing to travel with us', he says. 'I truly want to make this airline so irresistible to our customers that people will want to fly with us because they know they are going to have a great time.'[7]

The company's marketing plan in this tough business climate must make its service 'irresistible' to the travelling public and this is possible only through developing a deeper relationship with its customers.

Virgin focuses on the human touch and warmth with the customer as the true competitive advantage in business. It hopes that the strength of the Virgin Atlantic brand, the strength of the management team, the strength of its marketing plan and a new focus on digital and relationships will protect the brand in the challenging aviation market. Always looking for innovations, Reuben Arnold, current senior vice president of marketing and customer experience at Virgin Atlantic, has teamed with Delta Airlines and has opened a new lounge as a celebration of their transatlantic network. He says: 'Our lounge bar will offer customers a brand-new experience . . . that showcases our airlines' world-class service.'[8] Virgin is always looking for new ways to enhance its image and grow its brand in every customer interaction, whether face to face or digitally.

Questions

1 Would you consider Virgin Atlantic to have a marketing philosophy?

2 What are the core management skills needed in marketing for Virgin Atlantic?

3 What is the competitive advantage that Virgin is focusing on? Do you think it can maintain this competitive advantage against major competitors such as United Airlines and American Airlines?

4 Does digital support Virgin's brand? What digital suggestions would you make for Virgin to drive the brand forward?

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PART 2
Capturing marketing insights

In any competitive activity, marketing managers need to research carefully the field of play and the strength of the competition.

Part 2: Capturing marketing insights explores three broad themes:

1. **Identifying and tracking.**
2. **Researching the market.**
3. **Analysing the competition.**

Macro trends, or the broad environmental factors that affect activity in markets, usually lie beyond the sphere of control of marketing managers. However, their influence is considerable and therefore research activity is needed to assess their strength and likely impact on both consumer and business markets. Key business variables, such as an economic downturn as well as major market trends that affect purchasing activity, need to be identified and tracked. Micro trends that can be managed by practitioners affect customer purchase preferences and include factors such as changing lifestyles, customer needs and purchase activity.

Macro and micro trends can be researched effectively with modern market analysis techniques using quantitative and/or qualitative data. Hard quantitative data such as frequency, level and degree of repeat spend requires continuous monitoring. Soft qualitative data, particularly on perceptions, needs to be researched to ensure that companies can develop suitably differentiated market offerings for their customers.

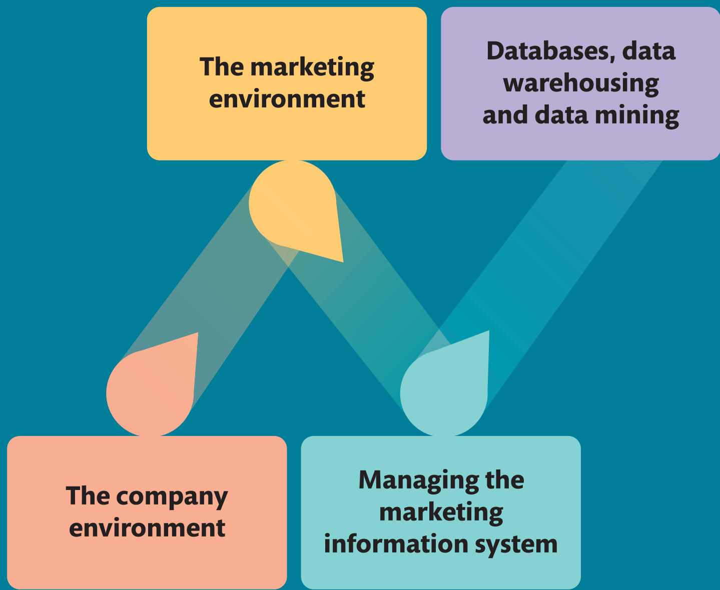
CHAPTER 5
The changing marketing environment and information management

In this chapter, you will learn about the following topics:

1. The key methods for tracking and identifying opportunities in the environment
2. The components of a modern marketing information system
3. Internal records
4. The marketing intelligence system
5. Database management

Food and drink industry in sustainability drive
Source: Air0ne/Shutterstock.

Chapter Journey



Developing and implementing marketing plans requires a number of decisions. Making those decisions is both a creative and an analytical process in which several aspects should be considered. Due to globalisation and technological developments, the marketing environment is changing more rapidly than ever before and it is therefore essential that companies develop and maintain database management systems that provide a structured insight into and inspiration for marketing decision making, together with up-to-date information about macro trends as well as about micro effects particular to their business. A well-designed database management system allows the company to store, modify and extract data when needed. Holistic marketers recognise that the marketing environment is constantly presenting new opportunities and threats, and they understand the importance of continuously monitoring and adapting to that environment. Take the following example from the food and drink industry.

Environmentally friendly behaviour is now a major issue for most governments, politicians, citizens, consumers – and companies. Introducing more eco-friendly products, making manufacturing process changes, upgrading outdated practices, reducing waste, minimising energy usage and similar initiatives to reduce energy or resources can all now contribute to the competitiveness of a company. Many industries have recognised this trend, one of them being the food and drink industry. The global food production system faces fundamental challenges that require urgent attention, including reducing environmental impact, meeting growing global demand for food, producing more from less as pressure on resources increases, and mitigating the potential impacts of climate change, among others.

The Food and Drink Federation (FDF) is made up of a wide range of companies and trade associations, from large international food and drink manufacturers with long-established brands, to small companies manufacturing organic products, including Ahmad Tea, Border Biscuits, Cadbury, Danone, Kellogg's, Nestlé and Pepsico. The FDF has set new targets across carbon reduction, waste to landfill, packaging reduction, water efficiency and transport miles. The FDF's goal is to achieve a balance between various demands: the food and drink brands must not only be competitive in function and price but also safe (during use and after disposal) as well as environmentally friendly. The FDF claims that its goals mark the industry's efforts to put sustainability at the core of business strategy and shape the future of the sector.[1]

Like the food and drink industry, virtually every industry is facing up to changes in the natural environment. In this chapter, we consider how firms can develop processes to track trends in the environment. Chapter 6 will review how marketers can conduct more customised research that addresses specific marketing problems or issues.

The company environment

Many companies are facing increasing global competition, faster flows of information and communication, increasing business complexity and rapidly changing customer needs and wants. Such dynamics reduce companies' ability to predict future marketplace changes and therefore add uncertainty to the decisions taken by marketing management. Since the marketing environment is constantly presenting new opportunities and threats, it is very important that a company continuously monitors and adapts to changes in the marketing environment. In the first part of this chapter we will describe the salient aspects of the current marketing environment. In the second part, we will describe the systems for managing information about the changing marketing environment.

The marketing environment

A company is surrounded by an immediate microenvironment of customers, suppliers, distributors, agencies and competitors that we will describe in later chapters. The company is also surrounded by a macroenvironment of major forces impacting on all companies, such as consumer trends, technological developments and social, political and legal forces. These forces affect and moderate the behaviour of all the actors in a market, including the company's competitors, suppliers, distributors and customers. Marketing scholars often organise the macro forces into five overall forces – political/legal, economic, ecological/physical, social/cultural and demographic, and technological. The acronym PEEST is used to describe an analysis of the company's environment covering these five forces. We will describe and discuss these forces separately, but marketers must pay attention to their interactions, because these will lead to new opportunities and threats. For example, explosive population growth (demographic) leads to more resource depletion and pollution (natural), which leads consumers to call for more laws (political–legal), which stimulate new technological solutions and products (technological), which, if they are affordable (economic), may actually change attitudes and behaviour (social–cultural). The 'Marketing in action' box describes how Siemens Gamesa Wind Power has successfully capitalised on the new marketing environment.

Enterprising individuals and companies manage to create new solutions to unmet needs. For example, Interflora was created to meet the need for express delivery of flowers across country borders.[2] However, a new market opportunity does not guarantee success, even if the product is technically feasible. For example, some companies sell portable 'electronic books' or 'ebooks', but there may not be a sufficient number of people interested in reading a book on a computer screen or willing to pay the required price. This is why market research is necessary to determine an opportunity's profit potential.

To help marketers spot cultural shifts that might bring new opportunities or threats, several firms offer social–cultural forecasts. Euromonitor International, for instance, offers (most often for a fee) access to internationally comparable statistics, market reports, articles and comments from expert industry and country analysts across the 210 countries researched. It has tracked consumer and market trends since 1972, and outlines in its 2018 report consumer trends such as 'clean lifers', 'the borrowers', 'call out culture', 'it's in the DNA – I'm so special', 'adaptive entrepreneurs' and 'i-designers'.[3] While reports, articles and other sources may provide valuable background information on the macroenvironment, each company also needs to analyse its macroenvironment to detect needs and trends of particular importance to the company.

Analysing the macroenvironment

Successful companies recognise and respond profitably to unmet needs and trends. We distinguish among fads, trends and megatrends. A **fad** is 'unpredictable, short-lived, and without social, economic, and political significance'. A company can cash in on a fad, such as Tamagotchi, Pokemon, Build-A-Bear or Polly Pocket, but getting it right is more a matter of luck and good timing than anything else.[4]

Marketing in action

Siemens Gamesa Renewable Energy

In a world where the demand for energy is higher than ever before and where climate changes are already taking place, the world needs sustainable wind power generation. Reflecting this global development, Siemens Gamesa Renewable Energy aims to provide clean power to meet both energy and environmental needs. In 2017, Siemens Wind Power merged its wind power business with Spanish wind power company Gamesa Corporación Tecnológica, but the history of Siemens Wind Power goes back to 1980, when Danish irrigation system manufacturer Danregn diversified into the wind turbine business.

Changing its name to Bonus Energy in 1983, the company was sold to Siemens in 2004. In 2011, Siemens Wind Power was created as a separate business unit within the Siemens company. Until then, the company's wind activities were part of the 'sustainable energy' business unit. Growing from 0.5 per cent of the combined Siemens turnover in 2004, to 5 per cent in 2011, chief technical officer Henrik Stiegsdael says 'we have simply grown too large to just be part of another business unit'. Since then Siemens Wind Power has experienced continued growth, reaching a profit of €338 million in 2017 in conjunction with Gamesa. With a wind power production of 9.52 GW (gigawatt) in 2017, Siemens Gamesa is now the world's leading wind power company.

Siemens Gamesa Renewable Energy has reached its position as a global leader in the wind power industry by its ability to combine technological innovations, experience and expertise to deliver readily available, one-stop solutions to its customers. Headquartered in Hamburg, Germany and Brande, Denmark, Siemens strives to enable its customers to generate, transmit and distribute electrical power at the highest levels of efficiency. Siemens' closest competitors include wind power suppliers such as Vestas Wind Systems, Goldwin, Enercon and GE Wind, among others.

In 2013 the world market for wind power was 36 GW (gigawatts), which in 2016 had increased to 56.4 GW, showing the fruitfulness of Siemens Gamesa's high focus on the wind market.

Wind turbine global prices are mainly driven by seven forces in the marketing environment. These are:

1. labour costs;
2. warranty provisions, which reflect technology performance and reliability;

Siemens Wind Power
Source: *With permission © www.siemens.com/press*

3. turbine manufacturer profitability, which can impact turbine prices independent of costs;
4. turbine design, including turbine size;
5. raw materials prices;
6. energy prices, the costs of other energy sources (e.g. oil, gas) and the energy costs of manufacturing and transporting the turbines;
7. governmental support (energy subsidies).

While forces 1–4 can largely be controlled by the wind industry, forces 5–7 are mostly environmental effects, which fall out of the direct control of the industry. Hence, in the absence of a concerted global effort to combat climate change, the wind power industry must rely on its cost competitiveness when competing against other energy sources. China's support for wind as a major pillar of its energy strategy supports the continued growth in that market; and in the EU, the debate over the 2030 climate and energy policy dominates the perspective for wind going forward, both on-and offshore. Wind power market experts expect that wind power could provide more than 20 per cent of global electricity supply by 2030.

Sources: Ritzau Finans (2017) Vestas overhales af Simens Gamesa – men er fortsat størst på land, *Borsen*, 27 February; Siemens Annual Report (2017); C. Venderby (2014) Vestas genvinder tronen – GE Wind den store taber, *Borsen*, 26 March; RB-Borsen (2011) Siemens udskiller vindaktiviteter i Siemens Wind Power, 26 September; L. Wessel (2011) Siemens Wind Power flytter hjemmefra, ing.dk, 26 September; www.siemens.com; GWEC (Global Wind Energy Council), Market Forecast for 2014–2018: www.gwec.net/global-figures/market-forecast-2012–2016/.

A **trend** is a direction or sequence of events that has some momentum and durability. Trends are more predictable and durable than fads. A trend reveals the shape of the future and provides many opportunities. For example, the percentage of people who value physical fitness and well-being has risen steadily over the years, especially in the under-30 age group and among young women, upscale consumers and people living in the Western world.

Megatrends can be described as 'large social, economic, political and technological changes [that] are slow to form, and once in place, they influence us for some time – between seven and ten years, or longer'. A current megatrend is 'sustainability', which managers should not ignore as a central factor in the long-term competitiveness of their companies.

Identifying the major forces

Companies and their suppliers, marketing intermediaries, customers, competitors and publics all operate in a macroenvironment of forces and trends, increasingly global, which shapes opportunities and poses threats. These forces represent 'non-controllables', which the company must monitor and to which it must respond. Although the forces are non-controllable, they differ in how they may affect a company, as the Marketing in practice explains.

The twenty-first century has brought a series of new challenges: the financial crisis, which affected savings, investment and retirement funds, increasing unemployment, corporate scandals and, of course, the rise of terrorism. These dramatic events were accompanied by the continuation of existing trends that have already profoundly influenced the global landscape. At the beginning of the century, more transistors (semiconductor devices used to switch electronic signals) were produced (and at a lower cost) than grains of rice; 24 per cent of European readers considered blogs their most trusted information source; and insatiable world oil consumption is expected to rise by 50 per cent by 2030.[5]

The sociocultural and demographic environment

There is little excuse for being surprised by demographic developments. The Singer Company should have known for years that its sewing machine business would be hurt by smaller families and more working wives, yet it was slow in responding.

The main demographic force that marketers monitor is *population*, because people make up markets. Marketers are keenly interested in the size and growth rate of the population in cities, regions and nations, age distribution and ethnic mix, educational levels, household patterns, and regional characteristics and movements.

Worldwide population growth

The world population is showing explosive growth, reaching more than 7.6 billion in 2018, and will exceed 8 billion by 2025.[6] The population explosion has been a source of major concern. Moreover, population growth is highest in countries and communities that can least afford it, such as African and Latin American countries. The less-developed regions of the world currently account for 76 per cent of the world population and are growing at 2 per cent per year, whereas the population in more developed countries is growing at only 0.6 per cent per year. In developing countries, the death rate has been falling as a result of modern medicine, but the birth rate has remained fairly stable. Feeding, clothing and educating children, although they can also raise the standard of living, is nearly impossible in these countries.

Explosive population growth has major implications for business. A growing population does not mean growing markets, unless these markets have sufficient purchasing power. Nonetheless, companies that analyse their markets carefully can find major opportunities.

Population age mix

National populations vary in their age mix. At one extreme is Mexico, a country with a very young population and rapid population growth. At the other extreme is Japan, a country with one of the world's oldest populations. Milk, nappies, school supplies and toys will be more important products in Mexico than in Japan. In general, there is a global trend towards an ageing population. In 1950 there were 250 million people aged 60 or over throughout the world; 50 years later, the number increased to 606 million; by 2050 the number is projected to reach 2.1 billion.[7]

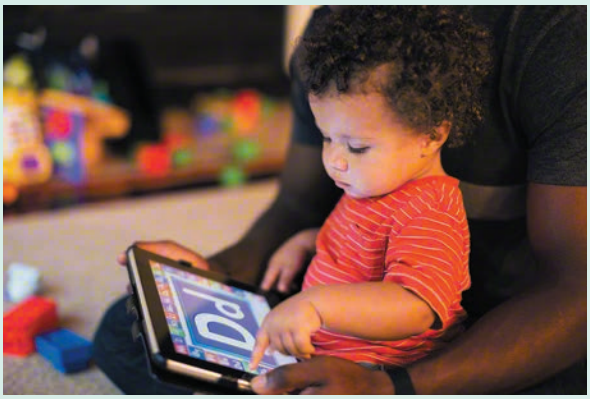
The structure of the EU population will change in the years to come. Low fertility levels, combined with extended longevity and the fact that the baby boomers will reach retirement age, will result in a demographic ageing of the EU population. The share of the older generation is increasing, whereas that of working age is decreasing. Europe is the world's major area with the highest proportions of older people and is projected to remain so for at least the next 50 years. For example, the share of Europeans of 80 years and over is projected to more than double by 2080.[8] If current trends prevail until 2050, anyone of working age might then have to provide for twice as many retired people as is usual today.[9] This might be a threat to the future welfare of European citizens. In Europe there are ongoing discussions on how these challenges should be met. Possible solutions may include more solidarity between generations (i.e. a more equal distribution of income across generations), increasing the birth rate, and other initiatives.[10]

The changing population has significant implications for marketers. For example, many suppliers may be considering offering special products and services designed for the elderly. Many travel agencies offer specially designed travel packages to senior citizens, including, for example, medical care and special strength training programmes.

Marketers generally divide the population into six age groups: pre-school children, school-age children, teens, young adults aged 20–40, middle-aged adults aged 40–65, and older adults aged 65 and upwards. Some marketers like to focus on cohorts. **Cohorts** are groups of individuals who are born during the same time period and travel through life together. The 'defining moments' they experience as they become adults can stay with them for a lifetime and influence their values, preferences and buying behaviour. The 'Marketing insight' box summarises one breakdown of generational cohorts in the US and UK markets.

Marketing insight

Friends for life



Generation Z
Source: © *Image Source/Alamy*

Isenberg School of Management marketing professor Charles D. Schewe and president and founder of consultant firm Lifestage Matrix Marketing, Geoffrey Meredith, have developed a generational cohort segmentation scheme based on the concept that the key defining moments (i.e. moments that define and redefine who a person is) that occur when a person comes of age (roughly between 17 and 24) imprint core values that remain largely intact throughout life. For generational cohorts to form on the basis of certain defining moments, individuals must know of these events. Today, both national and world events tend to be broadcast globally within minutes of occurring. Thus, while different countries have various generational cohorts embedded within their societies, there are also striking similarities between cohorts on a global scale. The degree of similarity depends on which age group is considered and in which countries. For example, the United Kingdom and the United States share quite a few defining moments and cohort values, while other countries, such as Brazil and Russia, have very different cohort structures and values.

Schewe and Meredith divide the US adult population into seven distinct cohorts, each with its own unique value structure, demographic make-up and markers. In the following, we will look closer at each of these cohorts and the similarities and differences with their UK equivalents. In addition, we will take a look at the latest (i.e. the number eight) cohort: the generation Z cohort.

Depression cohort

Born during 1912–21, aged 98–107 in 2019. This rapidly dwindling group's coming-of-age years were marked by economic strife and elevated unemployment rates. Financial security – what they most lacked when coming of age – rules their thinking. They are no longer in the workforce, but they have had a clear impact on many of today's management practices. Interestingly, the 1930s' depression appears a stronger collective memory in the United States than in the United Kingdom.

World War II cohort

Born during 1922–27, aged 92–97 in 2019. In the United States, sacrifice for the common good was widely accepted among members of the World War II cohort. This cohort was focused on defeating a common enemy during their coming-of-age years, and its members are team orientated and patriotic. Here, crucial differences in interpretations between the United States and the United Kingdom exist. Whereas many Americans of this cohort expressed associations with the prosperity that followed the war, of patriotism and a common spirit, the British reflections were more negative, focusing on the meaninglessness and tragedy of the war, and capturing the ever-present fear of destruction and death. According to Schewe and Meredith, these differences can be explained by the fact that the war was actually fought on British soil. The sound of air-raid sirens was often heard, making fear of bombings part of everyday life. Meanwhile, in the United States, except for the 450,000 who actually fought the battles, the war was more of a distant story.

Postwar cohort

Born during 1928–1945, aged 74–91 in 2019. These individuals experienced a time of remarkable economic growth and social tranquillity. In the United Kingdom, the Cold War and the threat of nuclear war set the agenda, and spurred early development towards European unity. At the same time, McCarthyism and the Korean conflict were important developments in the United States. People in this cohort were part of the rise of the middle class, sought a sense of security and stability, and expected prosperous times to continue indefinitely.

Leading-edge baby boomer cohort

Born during 1946–54, aged 65–73 in 2019. The loss of John F. Kennedy and the onset of the Vietnam War had the largest influence on this cohort's values in the United States. Across the continents, the breakthrough in space exploration epitomised by Armstrong taking the first steps on the moon stood out as a very important historic event. Leading-edge boomers championed political, environmental and cultural causes (Greenpeace, civil rights, women's rights), yet were simultaneously hedonistic and self-indulgent (drugs, free love, sensuality).

Trailing-edge baby boomer cohort

Born during 1955–65, aged 54–64 in 2019. This group witnessed the fall of Vietnam, Watergate and Nixon's resignation. While these events were relatively more important in the United States, the energy crisis was equally severe in the minds of the Americans and the British. The economic downturn that followed the oil embargo, with its raging inflation rate, stock market decline and rising unemployment, led these individuals to be less optimistic about their financial future than the leading-edge boomers.

Generation X cohort

Born during 1966–76, aged 43–53 in 2019. Many members of this cohort were latchkey children or have parents who divorced. They have delayed marriage and children, and they don't take those commitments lightly. More than other groups, this cohort accepts cultural diversity and puts personal life ahead of work life. Members show a spirit of entrepreneurship unmatched by any other cohort. Common defining moments were the fall of the Berlin Wall, the dissolution of the Soviet Union and the Gulf War. In the United Kingdom, the Falklands War, the EU common market and the rise of Thatcherism were also epoch events.

Generation N cohort (or Generation Y)

Born during 1977–90, aged 29–42 in 2019. The advent of the internet is a defining and ongoing development for this group, and they will be the engine of growth over the next two decades. A very important historic memory held in common is likely to be the events of 11 September 2001. Although still a work in progress, their core value structure is different from that of Generation X. They are more idealistic and social-cause orientated, without the cynical, what's-in-it-for-me, free-agent mindset of many Xers.

Generation Z cohort

Born from 1991 onwards, aged 28 and under in 2019. Being connected 24/7, members of this cohort often prefer to communicate online – often with friends they have never met. They have never known a world without technology – and without terrorism – and they cannot imagine life without mobile phones. They prefer computers to books and want instant results. They are familiar with the consequences of an economic depression. This generation will soon be at the forefront of solving some of the worst environmental, social and economic problems in history. Some of them may be headed for careers that don't even exist today.

Sources: J. Bromwich (2018) We Asked Generation Z to Pick a Name. It Wasn't Generation Z, *The New York Times*, 31 January; B. Rahbek (2013) Generation Z er på vej, Berlingske Tidende, 25 April; S. Posnick-Goodwin (2010) Meet generation Z, *Educator*, 14(5), 8–18; C. D. Schewe and G. Meredith (2004) Segmenting global markets by generational cohort: determining motivations by age, *Journal of Consumer Behaviour*, 4, 51–63; G. E. Meredith and C. D. Schewe (2002) *Managing by Defining Moments: America's 7 Generational Cohorts, Their Workplace Values, and Why Managers Should Care*, New York: Wiley/Hungry Minds; G. E. Meredith, C. D. Schewe and J. Karlovich (2001) *Defining Markets, Defining Moments*, New York: Wiley/Hungry Minds; J. Scott and L. Zac (1993) Collective memories in Britain and the United States, *Public Opinion Quarterly*, 57(3), 315–31.

The diversity of markets

Countries also vary in ethnic and racial make-up. At one extreme is Japan, where almost everyone is Japanese; at the other is the United States, where people come from virtually all nations. European countries lie somewhere between these extremes, with large fluctuations between the countries. Ireland is one of the most globalised nations in Europe and instead of mass emigration the country now has significant immigration – 167 languages are spoken in Ireland today,[11] similar to multicultural New York. Unlike the United States, the EU consists of independent nations, with different cultures and languages, cooperating in many areas (e.g. economic, legal, monetary) of mutual interest. The EU average of non-nationals in each country is around 6 per cent, with Luxembourg having around 40 per cent and Romania, Slovakia and Bulgaria having less than 1 per cent. Fewer than half of the non-nationals in the EU are ethnic minorities. While the population of ethnic minorities is relatively low on the EU average, the group is nevertheless large enough to attract focus from companies, which cannot afford to neglect its purchasing power as well as its possible influence on other citizens.

Several food, clothing and furniture companies have directed their products and promotions to one or more ethnic groups.[12] Yet marketers must be careful not to overgeneralise. Within each ethnic group are consumers who are quite different from each other. For example, each of the Asian consumer groups living in Europe has its own very specific market characteristics, speaks a different language, consumes a different cuisine, practises a different religion and represents a very distinct national culture. During the years he spent working in advertising abroad, Shane McGonigle, chief customer officer at MyComplianceOffice, picked up a crucial piece of advice as regards multicultural marketing strategies: 'Look for the similarities and respect the differences,' McGonigle says.[13]

This is highly relevant in regard to the European market, in which subsections are beginning to show themselves as divided as much by lifestyle and aspirations as by culture. For instance, a Euromonitor marketing study showed that segmenting consumers by demographic factors, such as age, gender or ethnicity, is becoming less exhaustive. Increasingly, consumers identify with people who lead similar lifestyles to themselves. According to Euromonitor, examples of lifestyles that companies could use as inspiration for new marketing concepts include 'retreat', 'escape' and 'indulge'. 'Retreat' is associated with the followers of the health and wellness trend, and this group is likely to be most receptive to natural and organic products. The 'escape' lifestyle broadly encompasses consumers who are nostalgic for more innocent times past and who tend to be attracted to vintage and home-grown brands. Finally, 'indulge' lifestylers see themselves as true connoisseurs and demand luxury and exclusivity from their brands.[14]

Diversity goes beyond ethnic, racial and national markets. Around 80 million consumers in the EU have disabilities and they constitute a market for home delivery companies, such as British companies Ocado and Tesco, as well as for various medical services.[15]

Educational groups

The international standard classification of education (ISCED) is the basic tool for classifying education statistics, describing different levels of education, as well as fields of education and training. It distinguishes seven levels of education: level 0: pre-primary education; level 1: primary education; level 2: lower secondary education; level 3: upper secondary education; level 4: post-secondary non-tertiary education; level 5: tertiary education (first stage); and level 6: tertiary education (second stage). In the EU, more than 75 per cent of the population aged 20–24 has completed at least upper secondary education.[16] The large number of educated people in the EU spells a high demand for quality books and magazines, and a high supply of skills.

Household patterns

The 'traditional household' consists of a husband, wife and children (and sometimes grandparents). While the number of households in the countries of the EU is growing, their average size is decreasing. There are, however, great differences between the various regions of the European Union. In the southern member states, larger and more complex households are common, with more generations living together, whereas the tendency for an increasing number of people to live alone is very pronounced in the northern member states.[17]

More people are divorcing or separating, choosing not to marry, marrying later or marrying without the intention of having children. In 2017 there were fewer than five marriages per 1,000 inhabitants in the EU, compared with almost eight marriages per 1,000 inhabitants in 1970. As well as a decrease in the rate of marriages, there was an increase in the average age at which people got married. Every four out of ten marriages in the EU results in divorce, with relatively few divorces in Greece, Spain, Ireland, Italy, Cyprus and Malta, and more than six divorces for each ten marriages in Belgium, the Czech Republic, Estonia and Lithuania. The number of divorces in the EU has grown steadily over recent decades.[18] Each group has a distinctive set of needs and buying habits. For example, people in the SSWD group (single, separated, widowed, divorced) need smaller apartments, inexpensive and smaller appliances, furniture and furnishings, and smaller-size food packages. Companies such as IKEA, Absolut, Procter & Gamble and Subaru have recognised the potential of this market and the non-traditional household market as a whole.

Yet in focusing too much on the non-traditional market, companies may miss out on other markets just under their noses. For instance, millions of boomer dads shop a lot more than their fathers or grandfathers did. The boomer dads married later and are much more involved in raising their children. For instance, many of today's dads push baby buggies, and they don't want to be seen behind some fussy-looking contraption of yesteryear. So the maker of the high-concept Bugaboo stroller designed one with a sleek design and tyres resembling those of a dirt bike.[19]

Geographical shifts in population

This is a period of great migratory movements into and within the European region. The population of today's EU-28 countries grew from 376 million in 1960 to 512 million in 2017. Until the end of the 1980s, the 'natural increase' (live births minus deaths) was by far the major component of population growth. Yet falling birth rates in most EU member states has led to a steady decline of the 'natural increase', and migration has been the major force of population growth since the beginning of the 1990s. However, recent years have witnessed varying numbers of migrants coming into the EU, with net migration increasing from 590,000 persons in 1994 to 1.1 million in 2010, decreasing to 653,000 in 2013, and increasing to 1.5 million in 2016 (Figure 5.1). Migrants come from all parts of the world, but in particular from Africa, the Middle East and Asia.[20]

Regional analysis shows that in some European countries more people have left than have arrived. For example, this was the case in Latvia, Lithuania and Bulgaria., whereas Austria, Italy, Sweden and Germany, among others, experienced a positive net migration. These waves of immigration to Europe have meant that new ethnic groups are beginning to impact the economic, social and political scene – as consumers, workers and investors. Combined with growing numbers of EU residents moving between states, it has offset a gradual erosion of national boundaries and tastes, essentially changing the landscape for marketers, who are increasingly alert to where consumers are gathering and focusing on the importance of targeting their products and advertising efforts towards specific consumer groups.[21]

In the new EU countries, such as Hungary, Poland, Romania and Bulgaria, this erosion of national tastes is particularly notable, as consumers are developing a strong taste for Western lifestyles and brands. According to Euromonitor International, modern Europe's appetite for Western lifestyles offers strong growth opportunities for food and drinks companies especially. For example, the introduction of breakfast cereals in Bulgaria has been extremely successful, and the packaged food market in Ukraine has seen double-digit growth over the past years.[22]

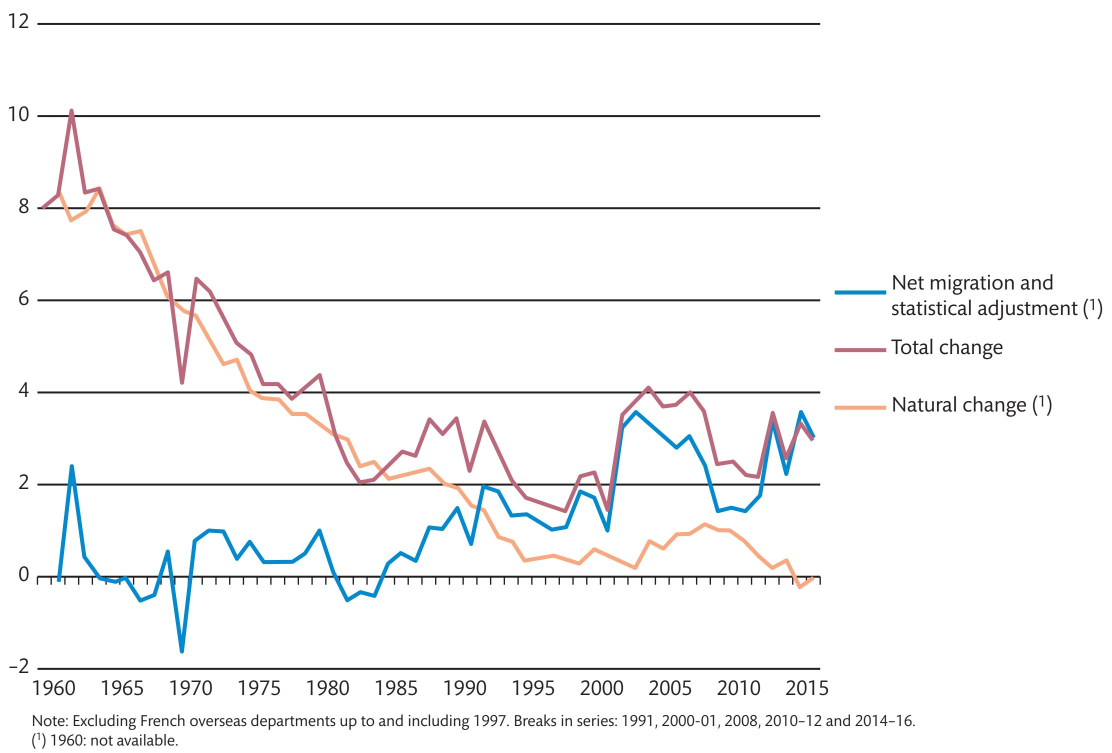


Figure 5.1 Population change by component (annual crude rates), EU-28, 1960–2016 (per 1,000 persons)
Source: Eurostat Data (available: http://ec.europa.eu/eurostat/statistics-explained/index.php/Population_and_population_change_statistics#Main_tables)

There are also regional developments in the 'old' EU member states: consumers in the United Kingdom eat more ready meals per capita (citizen) than people elsewhere in the EU; people in Italy prefer frozen soup; whereas the Germans buy more dehydrated soups; and the Spanish eat out more often than any other European nation.[23] Clearly, marketers are learning how to cope with the changes brought about by current population developments in Europe.

The economic environment

The available purchasing power in an economy depends on current income, prices, savings, debt and credit availability. Marketers must pay careful attention to trends affecting purchasing power, because they can have a strong impact on business, especially for companies whose products are geared to high-income and price-sensitive consumers.

Income distribution

There are four types of industrial structure: *subsistence economies* such as Papua New Guinea, with 85 per cent of the population directly deriving their livelihood from farming, leaving few opportunities for marketers; *raw material exporting economies* such as Zaire (copper) and Saudi Arabia (oil), with good markets for equipment, tools, supplies and luxury goods for the rich; *industrialising economies* such as India, Egypt and the Philippines, where a new rich class and a growing middle class demand new types of goods; and *industrial economies* such as countries in Western Europe, which are rich markets for all sorts of goods.

Marketers often distinguish countries using five different income-distribution patterns:

1 very low incomes;
2 mostly low incomes;
3 very low, very high incomes;
4 low, medium, high incomes; and
5 mostly medium incomes.

Consider the market for Lamborghinis, a car costing more than €100,000. The market would be very small in countries with type 1 or 2 income patterns. One of the largest single markets for Lamborghinis turns out to be Portugal (income pattern 3), one of the poorer countries in Western Europe but one with enough wealthy families to afford expensive cars.

There are wide inequalities in the distribution of income in the EU. A population-weighted average of national figures for each of the individual EU member states shows that the top 20 per cent of the population received 5.2 times as much income as the bottom 20 per cent. This ratio varied considerably across the member states, from 3.5 in Slovakia and the Czech Republic to 6.0 or more in Portugal, Estonia, Latvia, Greece, Spain, Bulgaria and Lithuania, peaking at 8.3 in Romania. Among non-member European countries Iceland (3.4) and Norway (3.5) also have particularly low ratios for the inequality of income distribution, while in Turkey (8.7) and Serbia (9.0) the ratios are higher than in any of the EU Member States.[24] There is a risk that this situation, if it continues, may lead to a two-tier European market, with wealthy households advancing and with middle- and lower-income Europeans struggling more than before. In such an economy, only affluent people are able to buy luxury goods, whereas middle- and lower-income people have to spend far more carefully, shopping only at discount stores and factory outlet malls, and selecting less-expensive store brands.

Savings, debt and credit

Consumer expenditure is affected by savings, debt and credit availability. Consumers are naturally concerned with how much they receive each month in the form of earnings from work, from pensions, from other government transfers such as unemployment benefits, family benefits or sick pay, and from their savings. However, two individuals with the same income can have very different living standards if their income does not measure adequately all the resources that are available to each of them (saving/debts, subsidised public goods and services, etc.) and/or if their needs differ (health, child care, transport). There is significant variation in indebtedness between countries and between age groups within countries. For instance, the overall mortgage take-up rates range from more than 50 per cent in Sweden, Denmark, Norway, Iceland and the Netherlands to the lows of a few per cent in eastern and southern Europe. Also, the shares of the elderly with mortgage debt are significantly lower than those of other age groups in all European countries.[25]

The social–cultural environment

Society shapes the beliefs, values and norms that largely define consumer tastes and preferences (see Chapter 7). People absorb, almost unconsciously, a worldview that defines their relationship to themselves, to others, to organisations, to society, to nature and to the universe.

- **Views of themselves.** At the turn of the millennium, a Eurobarometer survey looked into how Europeans viewed themselves and their lives. Overall, more than eight out of ten people felt positive about all things related to their lives, from personal happiness to their health, their family, the economic situation and society in general. In addition, a majority of Europeans felt positive about the legacy passed on in terms of freedom, quality of life, equality, solidarity and welfare. People were most pessimistic when asked about employment, the environment, ethics and personal safety.

  While the question is often asked whether a 'European' culture exists at all, this research shows that at least Europeans share a number of fundamental cultural values that guide their way of thinking and living. For instance, more than 90 per cent feel that it is extremely or very important to help others and to value people for who they are. And a majority consider being involved in creating a better society and putting time and effort into personal development are also positive and crucial values.[26]
- **Views of others.** People are concerned about the homeless, crime and victims, and other social problems. At the same time, they seek out their 'own kind' for serious and long-lasting relationships and they avoid strangers. These trends portend a growing market for social support products and services that promote direct relationships between human beings, such as health clubs, cruises and religious activity. They also suggest a growing market for 'social surrogates', such as interactive television, online video games and social media.
- **Views of organisations.** After a wave of company downsizings and corporate accounting and financial scandals, there has been an overall decline in organisational loyalty. Many people today see work not as a source of satisfaction but as a required chore to earn money to enjoy their non-work hours. Companies need to find new ways to win back consumer and employee confidence. They need to make sure they are good corporate citizens and that their consumer messages are honest.[27]
- **Views of society.** Some people defend society (preservers), some run it (makers), some take what they can from it (takers), some want to change it (changers), some are looking for something deeper (seekers) and still others want to leave it (escapers).[28] Consumption patterns often reflect social attitude. Makers tend to be high achievers who eat, dress and live well. Changers usually live more frugally, drive smaller cars and wear simpler clothes. Escapers and seekers are a major market for films, music, surfing and camping.
- **Views of nature.** People have woken up to nature's fragility and the finiteness of its resources. Business has responded to increased interest in being in harmony with and experiencing nature by producing wider varieties of camping, hiking, boating and fishing gear such as boots, tents, backpacks and accessories.
- **Views of the universe.** People vary in their beliefs about the origin of the universe and their place in it. Ethical behaviour among businesses has gained significant prominence in recent years and research suggests that religiosity may have a positive influence on corporate social responsibility (CSR) support among consumers.[29]

Other cultural characteristics of interest to marketers are the persistence of core cultural values and the existence of subcultures. Let's look at both.

High persistence of core cultural values

Although divorce rates are high in many European countries, most people in Europe still believe in work, in getting married, in giving to charity and in being honest. *Core beliefs* and values are passed on from parents to children and reinforced by major social institutions – schools, churches, businesses and governments. *Secondary beliefs* and values are more open to change. Believing in the institution of marriage is a core belief; believing that people ought to get married early is a secondary belief.

Marketers have some chance of changing secondary values, but little chance of changing core values. Although core values are fairly persistent, cultural swings do take place. In the 1960s, hippies, The Beatles, Elvis Presley and other cultural phenomena had a major impact on young people's hairstyles, clothing, sexual norms and life goals. Today's young people are influenced by new heroes such as Justin Bieber and Beyoncé and social network services such as Facebook and Twitter.

Existence of subcultures

Each society contains **subcultures**, groups with shared values, beliefs, preferences and behaviours emerging from their special life experiences or circumstances. There are sometimes unexpected rewards in targeting subcultures. Marketers have always loved teenagers because they are society's trendsetters in fashion, music, entertainment, ideas and attitudes. The online media platforms provide additional opportunities to marketers. Besides being of similar age, teenagers share on a global scale a youthful lifestyle that values growth and learning with an appreciation of future trends.[30] Marketers also know that if they attract someone as a teen, there is a good chance they will keep the person as a customer later in life.

Having reviewed the sociocultural and demographic environment, we now turn to the ecological and physical component of PEEST analysis.

The ecological and physical environment

The deterioration of the natural environment is a major global problem. There is great concern about 'greenhouse gases' in the atmosphere due to the burning of fossil fuels, about the depletion of the ozone layer due to certain chemicals and global warming, and about growing shortages of water. In Western Europe, 'green' parties have vigorously pressed for public action to reduce industrial pollution.

New regulations hit certain industries very hard. Steel companies and public utilities have had to invest billions of euros in pollution-control equipment and more environmentally friendly fuels. The soap industry has increased its products' biodegradability. Great opportunities await companies and marketers who can create solutions that reconcile prosperity with environmental protection. However, consumers often appear confused about product decisions that affect the natural environment. An ACNielsen study shows that Latin American shoppers are the most likely to buy organic food, while the North Americans are the least likely. The Europeans place themselves in between.[31] Europeans are willing to pay more for healthy and organic food, yet they are not willing to increase their overall food budget. Instead, they conduct a kind of food 'arbitrage': they spend more on fair trade or healthy products, but fund these purchases by buying certain staple products at discount shops. Actually increasing the number of green products they buy requires consumers to break such behavioural habits, overcome scepticism about the motives behind the introduction of the products and their quality level, and change their attitudes about the role such products play in environmental protection. See the 'Marketing insight' box.

Marketing insight

Green marketing

Environmental concerns may be manifested in many ways. Research conducted by UL Environment that catalogued the green product sourcing and supply chain initiatives of 12 retailers found that retailer efforts to get greener products on shelves are significant and growing.[32] Because greener products are often considered to be (or actually are) more expensive, marketers would be forgiven for avoiding that pitch in a recession. Clearly there is a belief that consumer interest is still rising.[33] In Europe, as well as in the United States, high proportions of consumers are willing to give up baths for showers to help save water, to use public transport, to buy a hybrid car or drive a smaller car as a means of reducing air pollution, to replace incandescent light bulbs with compact fluorescent bulbs or get solar panels installed at their homes to conserve energy. However, even if consumers are ready to change the way they wash themselves, only a small group is willing to shower less frequently or to pay a toll to drive their cars in city centres. Finally, between 16 and 37 per cent of respondents believe that industry and government are primarily responsible for global warming – and only between 7 and 12 per cent suggest that people in general share responsibility for climate change.

A church built in Rome to commemorate the 2000th anniversary of Christianity was designed to take sustainability to new levels. US architect Richard Meier worked with the project's technical sponsor to develop a 'smart', anti-pollution material that essentially cleans itself and simultaneously helps destroy air pollutants found in car exhaust and heating emissions. Or, in more popular terms, a compound that not only enhances the sculptural forms of the building but also 'eats' surrounding smog. Several companies are now developing 'smog-eating' products that can be used for the façades of buildings, as well as in paint, plaster and paving materials for roads. The new environment-friendly substances are being tried out in buildings, squares and highways in Europe as well as in Japan.

Questions

1 'Green marketing' programmes have not been entirely successful. How can managers improve consumers' perception of the quality of 'green' products?

2 What are the pros and cons of a 'green marketing' strategy?

Sources: R. M. Dangelico and D. Vocalelli (2017) 'Green Marketing': An analysis of definitions, strategy steps, and tools through a systematic review of the literature, *Journal of Cleaner Production*, 1 (November), 1,263–1,279; J. Roberts (2010) Voicing your ethical stance, *Marketing Week*, 4 March, www.marketingweek.co.uk/voicing-your-ethical-stance/3010615/article; J. F. Rock (2010) Green building: trend or megatrend? *Dispute Resolution Journal*, 65(2/3), 72–7; J. Adler (2006) Going green, *Newsweek*, 17 July, 43–52; J. A. Ottman, E. R. Stafford and C. L. Hartman (2006) Avoiding green marketing myopia, *Environment*, June, 22–36; J. Meredith Ginsberg and P. N. Bloom (2004) Choosing the right green marketing strategy, *MIT Sloan Management Review*, Fall, 79–84.

Global warming/climate change
Source: Dmitry Rukhlenko/Shutterstock

Corporate environmentalism is the recognition of the importance of environmental issues facing the firm and the integration of those issues into the firm's strategic plans.[34] Marketers practising corporate environmentalism need to be aware of the threats and opportunities associated with four major trends in the natural environment: the shortage of raw materials, especially water, the increased cost of energy, increased pollution levels and the changing role of governments.

- The earth's raw materials consist of the infinite, the finite renewable and the finite non-renewable. *Finite non-renewable resources* – oil, coal, platinum, zinc, silver – pose a particularly serious problem as the point of depletion approaches. Firms making products that require these increasingly scarce minerals face substantial cost increases. Firms engaged in research and development have an excellent opportunity to develop substitute materials.

- One finite non-renewable resource, oil, has created serious problems for the world economy. As oil prices soar to record levels, companies and governments are searching for practical means to harness solar, nuclear, wind and other alternative forms of energy.
- Some industrial activity will inevitably damage the natural environment. A large market has been created for pollution-control solutions, such as scrubbers, recycling centres and landfill systems. Its existence leads to a search for alternative ways to produce and package goods.
- Governments vary in their concern for and efforts to promote a clean environment. Many less-developed nations are doing little about pollution, largely because they lack the funds or the political will. It is in the richer nations' interest to help the poorer nations control their pollution, but even the richer nations today lack the necessary funds.

The technological environment

One of the most dramatic forces shaping people's lives is technology. Through the years, technology has led to such wonders as penicillin, open-heart surgery and the birth control pill, and such horrors as the hydrogen bomb, nerve gas and the submachine gun. It has also given us such mixed blessings as mobile phones and PC games.

Every new technology is a force for 'creative destruction'. Transistors hurt the vacuum-tube industry, xerography hurt the carbon-paper business, cars hurt the railways and television hurts the newspapers. Instead of moving into the new technologies, many old industries fought or ignored them and their businesses declined. Yet it is the essence of market capitalism to be dynamic and tolerate the creative destructiveness of technology as the price of progress.

The number of major new technologies we discover affects the economy's growth rate. Unfortunately, technological discoveries do not arise evenly through time – the railway industry created a lot of investment, then investment petered out until the car industry emerged. In the period between major innovations, an economy can stagnate. In the meantime, minor innovations fill the gap: freeze-dried coffee, combination shampoo and conditioner, anti-perspirants and deodorants, and so on. They require less risk, but they can also divert research effort away from major breakthroughs. New technology also creates major long-run consequences that are not always foreseeable. The contraceptive pill, for example, helped lead to smaller families, more working wives and larger discretionary incomes, resulting in greater expenditure on holiday travel, durable goods and luxury items. Mobile phones, PC games and the internet are not only reducing attention to traditional media, they are reducing face-to-face social interaction as people listen to music, watch a film on their mobile, and so on. Technologies also compete with each other. For instance, consumers may view video material by a variety of means, including mobile phones, TV and the internet.

Marketers should monitor the following four trends in technology: the accelerating pace of change, the unlimited opportunities for innovation, varying R&D budgets and the increased regulation of technological change.

The accelerating pace of change

Many of today's common products (computers, iPods, mobile phones and so on) were not available 40 years ago. Electronics researchers are building smarter chips to make our cars, homes and offices connected and more responsive to changing conditions. More ideas than ever are in the works, and the time between the appearance of new ideas and their successful implementation is all but disappearing, as is the time between introduction and peak production. Apple quickly ramped up production in a little over five years to sell 23.5 million iPods in 2006. In April 2007 the company announced that the 100 millionth iPod had been sold and in September 2010 the figure reached 275 million, making the iPod the fastest-selling music player in history.[35] However, in 2014, 12 years after its introduction and 26 devices later, the generation-defining iPod was about to fade into history. 'I think all of us have known for some time that iPod is a declining business,' said Apple boss Tim Cook.[36] From 2015 and onwards Apple has stopped reporting sales for the iPod as its own category.

The unlimited opportunities for innovation

Some of the most exciting work today is taking place in biotechnology, computers, microelectronics, telecommunications, robotics and designer materials. The Human Genome project promises to usher in the Biological Century as biotech workers create new medical cures, new foods and new materials. Researchers are working on AIDS vaccines, totally safe contraceptives and non-fattening foods. They are designing robots for firefighting, underwater exploration and home nursing.

Varying R&D budgets

A large portion of EU R&D expenditure is going into applied and basic research as opposed to experimental development. Hence, basic research is more important in the EU compared with the United States, Japan and China, and accounts for more than one-third of total R&D expenditure in many new member states.[37] To gain sustainable competitive advantage, many companies are no longer content just to put their money into copying competitors' products and making minor feature and style improvements. The top ten R&D countries spend about 80 per cent of the total €1.67 trillion invested in R&D around the world; the combined investments by the US, China and Japan make up more than half of the total. The EU had a slightly negative R&D growth in 2017 and accounted for 20.8 per cent of world R&D.[38]

The increased regulation of technological change

Many European governments have expanded their agencies' powers to investigate and ban potentially unsafe products. In the EU, either the European Commission or the individual member state must approve all drugs before they can be legally sold. Safety and health regulations have also increased in the areas of food, cars, clothing, electrical appliances and construction.

The political–legal environment

The political and legal environment consists of laws, government agencies and pressure groups that influence and limit various organisations and individuals. Sometimes these laws also create new opportunities for business. For example, mandatory recycling laws have given the recycling industry a major boost and spurred the creation of dozens of companies making new products from recycled materials. Two major trends in the political–legal environment are the increase in business legislation and the growth of special interest groups.

The increase in business legislation

Business legislation has four main purposes: to protect companies from unfair competition, to protect consumers from unfair business practices, to protect the interests of society from unbridled business behaviour, and to charge businesses with the social costs created by their products or production processes. Although each new law may have a legitimate rationale, it may also have the unintended effect of sapping initiative and retarding economic growth.

Legislation affecting business has increased steadily over the years. The European Commission has been active in establishing a new framework of laws covering competitive behaviour, product standards, product liability and commercial transactions for the 28 member nations of the European Union. The EU concept of 'Common Commencement Dates' is an innovative solution to improve the life of SMEs (small and medium-sized enterprises). The idea is that business-related legislation comes into force on a limited number of fixed dates, with a view to ensuring a more streamlined flow and early information on new regulation concerning SMEs.[39]

Several countries have passed strong consumer protection legislation. Norway bans several forms of sales promotion – trading stamps, contests, premiums – as inappropriate or 'unfair' instruments for promoting products. Thailand requires food processors selling national brands to market low-price alternatives also, so that low-income consumers can find economy brands. In India, food companies need special approval to launch brands that duplicate what already exists on the market, such as another cola drink or brand of rice.

Companies generally establish legal review procedures and promulgate ethical standards to guide their marketing managers, and as more business takes place in cyberspace, marketers must establish new parameters for doing electronic business ethically.

The growth of special interest groups

Political action committees (PACs) lobby government officials and pressure business executives to pay more attention to consumers' rights, women's rights, senior citizens' rights, minority rights and gay rights.

Many companies have established public affairs departments to deal with these groups and issues. An important force affecting business is the **consumerist movement**, an organised movement of citizens and government designed to strengthen the rights and powers of buyers in relationship to sellers. Consumerists have advocated and won the right to know the true interest cost of a loan, the true cost per standard unit of competing brands (unit pricing), the basic ingredients in a product, the nutritional quality of food as a percentage of their calorie allowance, the freshness of products and the true benefits of a product.

With consumers increasingly willing to swap personal information for customised products from firms – as long as they can be trusted – privacy issues will continue to be a public policy hot issue. Consumers worry that they will be robbed or cheated, that private information will be used against them, that someone will steal their identity, that they will be bombarded by solicitations and that children will be targeted.[40] Wise companies establish consumer affairs departments to help formulate policies and resolve and respond to consumer complaints.

Clearly, new laws and growing numbers of pressure groups have put more restraints on marketers. Marketers must clear their plans with the company's legal, public relations, public affairs and consumer affairs departments. Insurance companies directly or indirectly affect the design of smoke detectors; scientific groups affect the design of spray products. In essence, many private marketing transactions have moved into the public domain.

Although every manager in an organisation needs to observe the outside environment, the major responsibility for identifying significant marketplace changes falls to the company's marketers. Assisting with such tasks is the key purpose of the **marketing information system** (MIS).

Managing the marketing information system

Components of a modern marketing information system

Marketers have two advantages: they have disciplined methods for collecting information, and they spend more time than anyone else interacting with customers and observing competition and other outside firms and groups. Marketers may also be assisted by companies that specialise in delivering marketing information (concerning buyer behaviour, market trends, brand and corporate image information and so on) to business managers.

Marketers have extensive information about how consumption patterns vary across countries. On a per capita basis within Western Europe, for example, the Swiss consume the most chocolate, the Greeks eat the most cheese, the Irish drink the most tea and the Austrians smoke the most cigarettes.

Nevertheless, many business firms are not sophisticated about gathering information. Many do not have a marketing research department. Others have a department that limits its work to routine forecasting, sales analysis and occasional surveys (see Chapter 6). Some managers complain about not knowing how to get hold of critical information, getting too much information that they cannot use and too little that they really need, and getting important information too late. Companies with superior information enjoy a competitive advantage. They can choose their markets better, develop better offerings and execute better marketing planning.

Every firm must organise and distribute a continuous flow of information to its marketing managers. A marketing information system consists of people, equipment and procedures to gather, sort, analyse, evaluate and distribute needed, timely and accurate information to marketing decision makers. A marketing information system relies on internal company records, marketing intelligence activities and marketing research. We will discuss the first two topics here and the third one in the next chapter.

The company's marketing information system should be a cross between what managers think they need, what they really need and what is economically feasible. An internal MIS committee can interview a cross-section of marketing managers to discover their information needs. Table 5.1 shows some useful questions.

Table 5.1 Information needs questions

- What decisions do you make regularly?
- What information do you need to make these decisions?
- What information do you get regularly?
- What special studies do you periodically request?
- What information would you want that you are not getting now?
- What information would you want daily? Weekly? Monthly? Yearly?
- What magazines and trade reports would you like to see on a regular basis?
- What topics would you like to be kept informed of?
- What data analysis programs would you want?
- What are the four most helpful improvements that could be made in the present marketing information system?

Internal records

Marketing managers rely on internal reports of orders, sales, prices, costs, inventory levels, receivables, payables and so on. By analysing this information they can spot important opportunities and problems.

The order-to-payment cycle

The heart of the internal records system is the order-to-payment cycle. Sales representatives, dealers and customers send orders to the firm. The sales department prepares invoices, transmits copies to various departments and back-orders out-of-stock items. Shipped items generate shipping and billing documents that go to various departments.

Today's companies need to perform these steps quickly and accurately, because customers favour firms that can promise timely delivery. An increasing number of companies are using the internet and extranets to improve the speed, accuracy and efficiency of the order-to-payment cycle.

Sales information systems

Marketing managers need timely and accurate reports on current sales. Tesco is the UK's national leader in the food sector and a global player in retailing, with outlets in Ireland, central Europe and Asia. Tesco uses point-of-sale (POS) data (available from the electronic cash register) to understand and anticipate customer behaviour and to manage stock in individual stores. Above all, the speedy availability and accuracy of POS data makes a fundamental difference to a retailer's competitiveness and the strength of its supply chain. Simon Alcock, technical specialist at Tesco, says:

> **Managing the supply chain is critical for Tesco in maintaining its leadership in the industry. If customers can't find the product they like on the supermarket shelves, then they can't buy it. The media has highlighted 'out of stocks' as an issue for some of our competitors, this solution will help us tackle the problem.**[41]

Companies that make good use of **cookies** – records of website usage stored on personal browsers – are smart users of targeted marketing. Although the perception is that most people delete cookies out of concern for their privacy, the numbers tell a different story. Not only do many consumers *not* delete cookies, they also expect customised marketing appeals and deals once they accept cookies. 'Consumers want and expect to receive information that is relevant and personal, especially when it comes to financial services marketing', said Michael Penney, executive vice president of Epsilon's Strategic and Analytic Consulting Group.[42] Technological gadgets are revolutionising sales information systems and allowing representatives to have up-to-the-second information. When visiting a golf shop, sales reps for TaylorMade used to spend up to two hours counting golf clubs in stock before filling new orders by hand. Since the company adopted handheld devices with bar-code readers and internet connections, the reps simply point their handhelds at the bar codes and automatically tally inventory. By using the two hours they saved to focus instead on boosting sales to retail customers, sales reps improved productivity by 20 per cent.[43]

Companies must carefully interpret the sales data so as not to draw the wrong conclusions. Founder of Dell computers Michael Dell, gave this illustration:[44]

> **If you have three yellow Mustangs sitting on a dealer's lot and a customer wants a red one, the salesman may be really good at figuring out how to sell the yellow Mustang. So the yellow Mustang gets sold, and a signal gets sent back to the factory that, hey, people want yellow Mustangs.**

The marketing intelligence system

The internal records system supplies *results* data, but the marketing intelligence system supplies *happenings* data. A **marketing intelligence system** is a set of procedures and sources that managers use to obtain everyday information about developments in the marketing environment. Marketing managers collect marketing intelligence by reading books, newspapers and trade publications, talking to customers, suppliers and distributors, monitoring social media on the internet via online discussion groups, emailing lists and blogs, and meeting with other company managers.

A company can take several steps to improve the quality of its marketing intelligence:

- **Train and motivate the sales force to spot and report new developments.** The company must 'sell' its sales force on their importance as intelligence gatherers. The front-line people know and observe customer behaviour first hand, and their knowledge needs to be integrated into marketing strategy and tactics. Using a business intelligence system, a chain of chemists discovered that two of its stores, managed by the same person, had significantly higher sales in chocolate on Valentine's Day. They then discovered that instead of placing the lower-priced chocolates on a lower shelf and the more expensive chocolates higher up, this manager mixed shelf content. He knew that customers came in, reaching for the lower-priced items, but then stopped to revise their decision when they noticed the more expensive products, thinking 'she's worth it'. Communicating such practices and observations is extremely important for generating new business ideas.[45]
- **Motivate distributors, retailers and other intermediaries to pass along important intelligence.** Many companies hire specialists to gather marketing intelligence. Service providers and retailers often send mystery shoppers, also known as 'secret shoppers', to their stores to assess cleanliness of facilities, product quality and the way employees treat customers. Healthcare facilities that use mystery shoppers say the reports have led to a number of changes in the patient experience, including improved estimates of waiting times, better explanations of medical procedures and even less stressful programming on the television in the waiting room.[46]
- **Network externally.** The firm can purchase competitors' products, attend open houses and trade shows, read competitors' published reports, attend stockholders' meetings, talk to employees, dealers, distributors, suppliers and freight agents, collect competitors' ads and look up news stories about competitors.

  Competitive intelligence gathering must be legal and ethical, however. Procter & Gamble reportedly paid a multi-million-dollar settlement to Unilever when some external operatives (people from an outside firm) hired as part of a P&G corporate intelligence programme to learn about Unilever's hair care products were found to have engaged in such unethical behaviour as 'dumpster diving' (also known as 'rubbish archaeology'), including rummaging through skips on Unilever's property in search of unshredded documents containing key strategic plans.[47]
- **Set up a customer advisory panel.** Members might include representative customers, the company's largest customers or its most outspoken or sophisticated customers. Many business schools have advisory panels made up of alumni and recruiters who provide valuable feedback on the curriculum.
- **Take advantage of government data resources.** EUROSTAT, the Statistical Office of the EU, provides an in-depth look at the population swings, demographic groups, regional migrations and changing family structure of 508 million people in the 28 EU member states. Acxiom Europe assists companies in maximising the value of information that already exists within the company, or from external sources. Having acquired and integrated Claritas Europe

(including BPK and Altwood) and Consodata (the UK, France, Germany, Spain), Acxiom Europe represents one of Europe's leading sources of marketing and information management solutions.[48]

- **Purchase information from outside suppliers.** Well-known data suppliers include Nielsen Company and Information Resources, Inc. These research firms gather consumer panel data at a much lower cost than a company could manage on its own.
- **Use online customer feedback systems to collect competitive intelligence.** Online customer review boards, discussion forums, chatrooms and blogs can distribute one customer's evaluation of a product or a supplier to a large number of other potential buyers and, of course, to marketers seeking information about the competition. Chatrooms allow users to share experiences and impressions, but their unstructured nature makes it difficult for marketers to find relevant messages. Thus some companies have adopted structured systems, such as customer discussion boards or customer reviews.

Fat Face

Clothing retailer Fat Face (www.fatface.com) is learning how to use social media to harness customer input and sales. Gavin Ford, ecommerce operations manager at Fat Face, says: 'Since we gained a Facebook presence with 20,000 fans we have seen our net promoter score [which shows the level of customer satisfaction] go off the scale. We've previously had a presence on social media sites because we felt we should, not because we wanted to do anything specific with it. But now we are trying to tie in our Twitter and Twitter updates with survey responses. It is starting to give some really exciting results.'[49]

Some companies circulate marketing intelligence. The staff scan the internet and major publications, abstract relevant news and disseminate a news bulletin to marketing managers. The competitive intelligence function works best when intelligence operations collaborate closely with key users in the decision-making process. In contrast, organisations where intelligence is seen as a distinct, separate function that only produces reports and does not get involved are less effective.[50]

The information gathered from the company's internal records and from the marketing intelligence system must be properly stored and managed in order for the company to take advantage of the information obtained. Databases, **data warehousing** and **data mining** may assist managers in performing these tasks.

Databases, data warehousing and data mining

Today, companies organise their information into databases – customer databases, product databases, salesperson databases – and then combine data from the different databases. For example, the customer database will contain every customer's name, address, past transactions and sometimes even demographics and psychographics (activities, interests and opinions). Instead of sending a mass 'carpet bombing' mailing of a new offer to every customer in its database, a company will rank its customers according to purchase recency, frequency and monetary value (RFM) and send the offer to only the highest-scoring customers. Besides saving on mailing expenses, this manipulation of data can often achieve a double-digit response rate. Companies warehouse this data and make it easily accessible to decision makers. Furthermore, by hiring analysts skilled in sophisticated statistical methods, they can 'mine' the data and garner fresh insights into neglected customer segments, recent customer trends and other useful information. Managers can cross-tabulate customer information with product and salesperson information to yield still deeper insights.

Database marketing

Marketers must know their customers.[51] And in order to know the customer, the company must collect information and store it in a database from which to conduct **database marketing**. A **customer database** is an organised collection of comprehensive information about individual customers or prospects that is current, accessible and actionable for such marketing purposes as lead generation, lead qualification, sale of a product or service, or maintenance of customer relationships. American Express Business Insights uses spending information from its database of 90 million card members to help businesses better understand their customers. 'Our ability to quickly identify and interpret trends across our global network provides our customers with an unparalleled advantage in understanding their customer base and ultimately helps them make more strategic decisions,' says Sujata Bhatia, vice president of American Express Business Insights for Europe.[52]

Database marketing is the process of building, maintaining and using customer and other databases (products, suppliers, resellers) to contact, transact and build customer relationships. The marketing database can assist marketing managers in tasks ranging from daily operation, resource allocation and budget planning to strategic decision processes.[53] Businesses increasingly have the capability to accumulate huge amounts of customer data in large databases (see the 'Marketing insight' box).

Many organisations have realised that the knowledge in these huge databases is key to supporting the various organisational decisions. In particular, the knowledge about customers from these databases is critical for the marketing function. However, many of the useful marketing insights into customer characteristics and their purchase patterns are largely hidden and untapped.

Marketing insight

The big dig

As companies gather more and more information, their ability to collect and analyse data to generate insights is more critical. Here is what some companies are doing.

Park Resorts, the UK's leading provider of family holidays, entered into database marketing with its 2010 holiday brochure. 'That is when we really started to use data to support our positioning of "creating amazing memories"', says Hayley Jones, database marketing manager at the holiday parks company. 'We're fairly new to using data to drive our marketing and have just built a single customer view. That goes a long way to support this type of activity', she says. For the annual brochure, Park Resorts started by looking at transactional history, such as which park the customer had visited, their frequency of booking and the time of their visit. This analysis was then used to define the personalised brochure. 'We used images of the park they stayed at to play on notions of memory. People always have memories of holidays – that is the vision we are trying to put forward. That drove the relevance of the brochure', says Jones. Images were not just linked to the resort, but also to demographics, such as family group. Results from the new, relevant communication were strongly positive and have led the company to go further in looking at what messages and channels it uses with customers. In 2013, Park Resorts upgraded its data centre and speeded up application performance using DataCore storage virtualisation software. Recently, Park Resorts merged with Parkdean, another UK holiday company with 24 award-winning parks, together offering 67 holiday parks across England, Scotland and Wales.

The need for richer information about customers is also being recognised in marketing and business planning functions. Fiona Sweeney, industry strategist at Acxiom, says scenario planning is becoming a critical tool for clients. 'We have built a fuel price indicator to look at what happens to discretionary income in every household if petrol prices go up', she says. 'For the very affluent, it has no effect, but there are those in the middle who will be disproportionally affected.' The purpose of this sort of data enhancement is to sense-check marketing plans and the assumptions they make about the affordability of products and services.

Capturing online customer behaviour can yield a wealth of insights. A new customer signing up with a company to get a free weekly online newsletter is often required to give the company his or her name, age, gender and postcode. The company can then combine those facts with information such as observed online behaviour and characteristics of the area in which the customer lives, to better understand how to match the content of the newsletter with the interests of the customer. Although a company must be careful to preserve consumer privacy, it can also help other companies that wish to place an ad in the newsletter with behavioural targeting information. For example, it can help takeaway stores to zero-in on working parents aged 30–40 in a given neighbourhood with ads designed to reach them before 10 a.m., when they are most likely to be planning their evening meal.

Questions

1 What are some of the things Park Resorts is doing right to personalise its holiday brochure?

2 What else can be done?

Sources: https://www.park-resorts.com/about-us/ (2018); DataCore (2013) Park Resorts upgrades data center and speeds up application performance using DataCore Storage Virtualization Software and Dot Hill Solution, DataCore News Blog, 1 April; *Marketing Week* (2011) You can hit bullseye every time; D. Reed (2010) Giving your data a cleaner bill of health, www.marketingweek.co.uk/disciplines/data-strategy/giving-your-data-a-cleaner-bill-of-health/3019359.article; www.park-resorts.com; www.acxiom.com.

The complexity of business markets is increasing. A shortened life cycle of many products, increasing globalisation as well as the emergence of the internet are all examples of conditions that have contributed to making the environment in which the company must plan and execute its market behaviour increasingly complex. Therefore, the transformation process (i.e. the exchange of information, goods and money between buyer and seller) has become still more complicated, and market agents are facing increasing demands on their skills to communicate offerings, needs and expectations in the marketplace.

In response to such challenges, a growing interest in customer relationship management (CRM) can be detected. CRM deals with the identification, attraction and retention of profitable customers by managing relationships with them.[54] Customer knowledge is one of a company's most valuable resources. Over the last decade, direct channels to the customer, such as e-business, call centres and loyalty programmes, have produced huge volumes of data. Much of these data are being channelled into CRM databases for use in targeted relationship management and statistical modelling of consumer behaviour. Such enhanced knowledge should provide improved business results. However, some companies confuse a customer mailing list with a customer database. A **customer mailing list** is simply a set of names, addresses and telephone numbers. A customer database contains far more information, accumulated through customer transactions, registration information, telephone queries, cookies and every customer contact. Ideally, a customer database also contains the consumer's past purchases, demographics (age, income, family members, birthdays), psychographics (activities, interests and opinions), mediagraphics (preferred media) and other useful information. Ideally, a **business database** would contain business customers' past purchases, past volumes, prices and profits, buyer-team member names (and ages, birthdays, hobbies and favourite foods), status of current contracts, an estimate of the supplier's share of the customer's business, competitive suppliers, assessment of competitive strengths and weaknesses in selling and servicing the account, and relevant buying practices, patterns and policies.

Data warehousing and data mining

Savvy companies are capturing information every time a customer comes into contact with any of their departments. Touchpoints include a customer purchase, a customer-requested service call, an online query or a mail-in rebate card. Banks and credit card companies, telephone companies, catalogue marketers and many other companies have a great deal of information about their customers, including not only addresses and phone numbers but also transactions and enhanced data on age, family size, income and other demographic information. Companies with a well-functioning database system are capable of providing answers to the following questions:[55] What data do we potentially have available? What data are needed to achieve our goals? What data are missing that we ought to have? What data will be necessary in the future in order to address the market?

Data are collected by the company's contact centre and organised into a data warehouse where marketers can capture, query and analyse them to draw inferences about an individual customer's needs and responses. Telemarketers can respond to customer enquiries about products and services based on a total picture of the customer relationship. Through data mining, marketing statisticians can extract useful information about individuals, trends and segments from the mass of data. Using sophisticated statistical and mathematical techniques such as cluster analysis, automatic interaction detection, predictive modelling and neural networking,[56] data mining is a process of knowledge discovery and of distilling this knowledge into actionable information.[57] One of the problems data miners are often confronted with is how to present statistics to the general audience, which could be the public, other researchers, decision makers, etc.

Consider a simple statement such as 'The probability that it will rain on 31 January is 30 per cent'. What may seem unambiguous is actually interpreted by different people in different ways. A survey of people in five international cities found no agreement on what a 30 per cent chance of rain meant. Some thought it meant rain on 30 per cent of the day's minutes, others thought rain on 30 per cent of the land area, and so on.[58] There have been attempts to formalise the data-mining process into models, procedures and standards. Useful outputs of these attempts are simple diagrams that convey the steps in the process.

Some observers believe that a proprietary (i.e. company-owned) database can provide a company with a significant competitive advantage. In general, companies can use their databases in five ways:

1 **To identify prospects.** Many companies generate sales leads by advertising their product or service. The ads generally contain a response feature, such as a business reply card or freephone number, and the company builds its database from customer responses. It sorts through the database to identify the best prospects, then contacts them by mail, phone or personal contact to try to convert them into customers.
2 **To decide which customers should receive a particular offer.** Companies are interested in selling, up-selling and cross-selling their products and services. Companies set up criteria describing the ideal target customer for a particular offer. Then they search their customer databases for those who most closely resemble the ideal type. By noting response rates, a company can improve its targeting precision over time. Following a sale, it can set up an automatic sequence of activities: one week later, send a thank-you note; five weeks later, send a new offer; ten weeks later (if the customer has not responded), phone the customer and offer a special discount.
3 **To deepen customer loyalty.** Companies can build interest and enthusiasm by remembering customer preferences and by sending appropriate gifts, discount coupons and interesting reading material.
4 **To reactivate customer purchases.** Companies can install automatic mailing programs (automatic marketing) that send out birthday or anniversary cards, Christmas shopping reminders or off-season promotions. The database can help the company make attractive or timely offers.
5 **To avoid serious customer mistakes.** A major bank confessed to a number of mistakes it had made by not using its customer database well. In one case, the bank charged a customer a penalty for late payment on his mortgage, failing to note he headed a company that was a major depositor in the bank. He closed his account. In a second case, two different staff members of the bank phoned the same mortgage customer, offering a home equity loan at different prices. Neither knew that the other had made the call. In a third case, the bank gave a premium customer only standard service in another country.

The downside of database marketing and CRM

Having covered the good news about database marketing, we also need to cover the bad news. Four problems can prevent a firm from using CRM effectively. The first is that building and maintaining a customer database requires a large investment in computer hardware, database software, analytical programs, communication links and skilled personnel. It is difficult to collect the right data, especially to capture all the occasions of company interaction with individual customers. Building a customer database would not be worthwhile in the following cases:

1 When the product is a once-in-a-lifetime purchase (a grand piano).
2 When customers show little loyalty to a brand (there is lots of customer brand switching).
3 When the unit sale is very small (a chocolate bar).
4 When the cost of gathering information is too high.

The second problem is the difficulty of getting everyone in the company to be customer orientated and to use the available information. Employees find it far easier to carry on traditional **transaction marketing** than to practise customer relationship marketing. Effective database marketing requires managing and training employees as well as dealers and suppliers.

The third problem is that not all customers want a relationship with the company and they may resent knowing that the company has collected so much personal information about them. Marketers must be concerned about customer attitudes towards privacy and security. Online companies would be wise to explain their privacy policies and to give consumers the right not to have their information stored in a database.

A fourth problem is that the assumptions behind CRM may not always hold true.[59] For example, it may not cost less to serve more loyal customers. High-volume customers often know their value to a company and can leverage it to extract premium service and/or price discounts. Loyal customers may expect and demand more from the firm and resent any attempt to charge full or higher prices. They may also be jealous of attention lavished on other customers. Loyal customers may not necessarily be the best ambassadors for the brand. One study found that customers who scored high on behavioural loyalty and bought a lot of a company's products were less active word-of-mouth marketers than customers who scored high on attitudinal loyalty and expressed greater commitment to the firm.

Thus, the benefits of database marketing do not come without heavy costs, not only in collecting the original customer data but also in maintaining and mining it. When it works, a data warehouse yields more than it costs, but the data must be in good condition and the discovered relationships must be valid.

Database marketing is most frequently used by business marketers and service providers (hotels, banks, airlines, and insurance, credit card and telephone companies) that normally and easily collect a lot of customer data. Other types of company in the best position to invest in CRM are those that do a lot of cross-selling and up-selling (such as Amazon.com) or whose customers have highly differentiated needs and are of highly differentiated value to the company. Packaged goods retailers and consumer packaged goods companies use database marketing less frequently, though some (such as Kraft) have built databases for certain brands. Businesses with low customer lifetime value (CLV), high churn and no direct contact between the seller and the ultimate buyer may not benefit as much from CRM. Deloitte Consulting found that 70 per cent of firms found little or no improvement through CRM implementation. The reasons were many: the CRM system was poorly designed; it became too expensive; users did not make much use of it or report much benefit; and collaborators ignored the system.

SUMMARY

1. Marketers find many opportunities by identifying trends (directions or sequences of events that have some momentum and durability) and megatrends (major social, economic, political and technological changes that have long-lasting influence).
2. Within the rapidly changing global picture, marketers must monitor five major environmental forces: political/legal, economic, ecological/physical, social/cultural and demographic, and technological. The acronym PEEST is used to describe an analysis of the company's environment covering these five forces.
3. In the economic arena, marketers need to focus on income distribution and levels of savings, debt and credit availability.
4. In the social–cultural and demographic arena, marketers must understand people's views of themselves, others, organisations, society, nature and the universe. They must market products that correspond to society's core and secondary values and address the needs of different subcultures within a society. Marketers must also be aware of worldwide population growth, changing mixes of age, ethnic composition and educational levels, the rise of non-traditional families and large geographic shifts in population.
5. In the ecological/physical environment, marketers need to be aware of the public's increased concern about the health of the environment. Many marketers are now embracing sustainability and green marketing programmes that provide better environmental solutions as a result.
6. In the technological arena, marketers should take account of the accelerating pace of technological change, opportunities for innovation, varying R&D budgets and the increased governmental regulation brought about by technological change.
7. In the political–legal environment, marketers must work within the many laws regulating business practices and with various special interest groups.
8. To carry out their analysis, planning, implementation and control responsibilities, marketing managers need a marketing information system. The role of the MIS is to assess the managers' information needs, develop the needed information and distribute that information in a timely manner.
9. An MIS has three components: (1) an internal records system, which includes information on the order-to-payment cycle and sales information systems; (2) a marketing intelligence system, a set of procedures and sources used by managers to obtain everyday information about pertinent developments in the marketing environment; and (3) a marketing research system that allows for the systematic design, collection, analysis and reporting of data and findings relevant to a specific marketing situation.
10. Today, companies organise their information into databases – customer databases, product databases, salesperson databases – and then combine data from the different databases.
11. A customer database is an organised collection of comprehensive information about individual customers or prospects that is current, accessible and actionable for such marketing purposes as lead generation, lead qualification, sale of a product or service, or maintenance of customer relationships.
12. Database marketing is the process of building, maintaining and using customer and other databases (products, suppliers, resellers) to contact, transact and build customer relationships.

13 Data are collected by the company's contact centre and organised into a data warehouse where marketers can capture, query and analyse them to draw inferences about an individual customer's needs and responses.

14 Through data mining, marketing statisticians can extract useful information about individuals, trends and segments from the mass of data.

15 Customer relationship management deals with the identification, attraction and retention of profitable customers by managing relationships with them. Four main problems can prevent a firm from effectively using CRM. Building a CRM-related customer database would not be worthwhile in the following cases: (1) when the product is a once-in-a-lifetime purchase (a grand piano); (2) when customers show little loyalty to a brand (there is lots of customer churn); (3) when the unit sale is very small (a chocolate bar); and (4) when the cost of gathering information is too high.

APPLICATIONS

Marketing debate

Is consumer behaviour more a function of a person's age? One of the widely debated issues in developing marketing programmes that target certain age groups is how much consumers change over time. Some marketers maintain that age differences are critical and that the needs and wants of a 25-year-old in 2019 are not that different from those of a 25-year-old in 1982. Others dispute that contention and argue that cohort and generation effects are critical, and that marketing programmes must therefore suit the times.

Take a position: age differences are fundamentally more important than cohort effects *versus* cohort effects can dominate age differences.

Marketing discussion

1 What brands and products do you feel successfully 'speak to you' and effectively target your age group? Why? Which ones do not? What could they do better?

2 What are the opportunities from database marketing and CRM? What are the pitfalls? How may the opportunities and pitfalls be moderated by company and market characteristics?

FURTHER READING

I. Worthington and C. Britton (2014) *The Business Environment*, 7th edn, Harlow: Pearson Education.

This book contains a thorough analysis of the external influences that affect business activity. Theory is complemented by statistical data, commentary and mini case studies. Specifically, this book offers a comprehensive, yet accessible, introduction to the wide range of external influences that affect business operations and decisions in today's increasingly globalised world.

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CHAPTER 6
Managing market research and forecasting

In this chapter, you will learn about the following topics:

1. What constitutes good marketing research
2. The marketing research process
3. How marketers can assess their return on investment of marketing expenditure
4. How companies can measure and forecast demand

Young people using their mobile phone
Source: highwaystarz/123RF.

Chapter Journey

Good marketers want insights to help them interpret past performance as well as plan future activities. They need timely, accurate and actionable information about consumers, competition and their brands. They also need to make the best possible tactical decisions in the short run and strategic decisions in the long run. Discovering a consumer insight and understanding its marketing implications can often lead to a successful product launch or spur the growth of a brand. It is especially important to stay tuned in online.

In launching its Galaxy S III smartphone, Samsung faced a formidable opponent in Apple. To gain the upper hand, Samsung sifted through hundreds of thousands of Tweets and online conversations to uncover recurring negative comments about the iPhone. One ad in its new campaign mocked Apple fanatics eagerly waiting in line for the latest iPhone model. With a tagline 'The Next Big Thing Is Already Here', the ad showcased features such as screen size and NFC file-swapping technology where Samsung had an advantage. It ended with the clever twist that the Samsung phone user in the line – whose phone had all the features the Apple users were hoping for – was just saving a spot for his parents. A huge hit online, the ad attracted millions of YouTube downloads. The TV ad was a follow-up to an earlier print ad contrasting a long list of Galaxy S III features with a much smaller list for the iPhone. It also poked fun at Apple and its Genius retail employees, adding the tagline 'It Doesn't Take a Genius'.

In this chapter, we consider the marketing research system. We also review the steps involved in the marketing research process. Finally, we outline how marketers can develop good sales forecasts.

The marketing research system

Marketing managers often commission formal marketing studies of specific problems and opportunities. They may request a market survey, a product-preference test, a **company sales forecast** by region or an advertising evaluation. It is the job of the marketing researcher to produce insight into the customers' attitudes and buying behaviour. **Marketing insights** provide diagnostic information about how and why we observe certain effects in the **marketplace** and what that means to marketers.[1] Gaining marketing insights is crucial for marketing success. If marketers lack consumer insights, they often get in trouble. When Tropicana redesigned its orange juice packaging, dropping the iconic image of an orange skewered by a straw, it failed to test adequately for consumer reactions, with disastrous results. Sales dropped by 20 per cent and Tropicana reinstated the old package design after only a few months.[2]

We define **marketing research** as the systematic design, collection, analysis and reporting of data and findings relevant to a specific marketing situation facing the company. The global revenue of the market research industry exceeded €40 billion in 2017, rising year on year since it experienced a slight dip in 2009 during the Great Recession.[3]

Most large companies have their own marketing research departments, which often play a crucial role within the organisation. Telecommunications operator Orange, the key brand of France Telecom serving two-thirds of the company's more than 200 million customers, has developed a global innovation network called Orange Labs. It is made up of 5,000 employees on three continents and includes marketers, researchers and other professional groups. The international Orange Labs network reflects Orange's ambition to put innovation at the heart of its strategy, firmly focused on its clients. Thus, it is a main priority of the network to anticipate technological advances and changes in uses worldwide – for instance, by conducting both internal and external survey research, and by designing customer analysis programs to identify where improvements can be made and to suggest appropriate responses.[4] Yet marketing research is not limited to large companies with big budgets and marketing research departments.

Companies normally budget marketing research at 1–2 per cent of company sales. A large percentage of that is spent on the services of outside marketing research firms, which fall into three categories:

1 **Syndicated-service research firms.** These firms gather consumer and trade information, which they sell for a fee. Examples: TNS Gallup, Business Monitor (Europe Service), Euromonitor.
2 **Custom marketing research firms.** These firms are hired to carry out specific projects. They design the study and report the findings. Example: Kantar TNS (www.tnsglobal.com), which is the world's largest custom market research specialist.
3 **Speciality-line marketing research firms.** These firms provide specialised research services. The best example is the field-service firm, which sells field interviewing services to other firms. Marketing research, however, is not limited to large companies with big budgets and marketing research departments. Often, at much smaller companies, everyone carries out marketing research – including the customers.

Small companies can also hire the services of a marketing research firm or conduct research in creative and affordable ways, such as:

- **Engaging students or professors to design and carry out projects.** Companies such as Danske Bank, Carlsberg, IBM, Mars and Price Chopper engage in 'crowdcasting'. Some of them are also sponsors of student competitions such as the 'Danske Bank Future Banking Challenge' and the 'Copenhagen Business School (CBS) Case Competition', where top MBA students from countries such as Latvia, the Netherlands, New Zealand, the UK, Thailand, the US, Pakistan, China and Brazil compete in teams. The payoff to the students is experience and visibility; the payoff to the companies is fresh sets of eyes to solve problems at a fraction of what consultants would charge.[5]

- **Using the internet.** A company can collect considerable information at very little cost by examining competitors' websites, monitoring chatrooms and accessing published data.
- **Checking out rivals.** Many small businesses, such as restaurants, hotels or speciality retailers, routinely visit competitors to learn about changes they have made.
- **Tapping into marketing partner expertise.** Marketing research firms, ad agencies, distributors and other marketing partners may be able to share relevant market knowledge they have accumulated.
- **Tapping into employee creativity and wisdom.** No one may come into more contact with customers and understand a company's products, services, and brands better than its employees. Software maker Intuit puts employees into four- to six-person 'two pizza' teams – called that because it takes only two pizzas to feed them. They observe customers in all walks of life and try to identify problems Intuit might be able to solve. Intuit takes all the employees' proposed solutions and experiments with them, building products behind the ideas that seem to work best.[6]

Most companies use a combination of marketing research resources to study their industries, competitors, audiences and channel strategies. To take advantage of all these different resources and practices, good marketers adopt a formal marketing research process.

The marketing research process

Effective marketing research follows the six steps shown in Figure 6.1. We illustrate them with the situation shown in the following case.

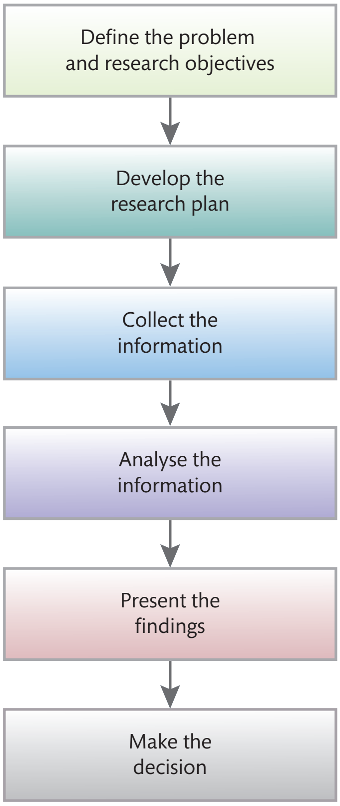

Figure 6.1 The marketing research process

HWL: 3

Hutchison Whampoa Limited (HWL) is a leading telecommunications and data services provider operating in a number of European countries including Austria, Denmark, Italy, Sweden and the United Kingdom. In 2003, HWL was the first to market an international 3G mobile service under the brand 3 (mobile phone network). 3G means third-generation mobile communication and can be viewed as wireless broadband for mobile phones.

Since then, 3 has been a first mover in many fields: in 2006 it was the first to introduce MSN Messenger as a mobile service and the first to launch High-Speed Downlink Packet Access (HSDPA) with a speed of 3.6 megabits per second (Mbps) (100 times as fast as the global system for mobile communication (GSM)) in Denmark. In 2010, the speed was increased to 21 Mbps and Mobile TV was launched, enabling all 3's customers to watch TV on their mobile for €5 per month.

The company invested heavily to update and extend its network, as well as to develop new products and services, relying on its major strength in anticipating and meeting customers' needs. 3's market research was directed at investigating which consumer groups found 3G services appealing and which types of benefit were emphasised by these groups. In 2014, the concept 3LikeHome was introduced, which allows customers to go on the internet in a range of European countries without paying roaming fees. In the beginning of 2019, 3's 4G network could potentially be accessed by 98 per cent of the Danish population.

As illustrated in Figure 6.2, 4G offers a number of multimedia services.[7]

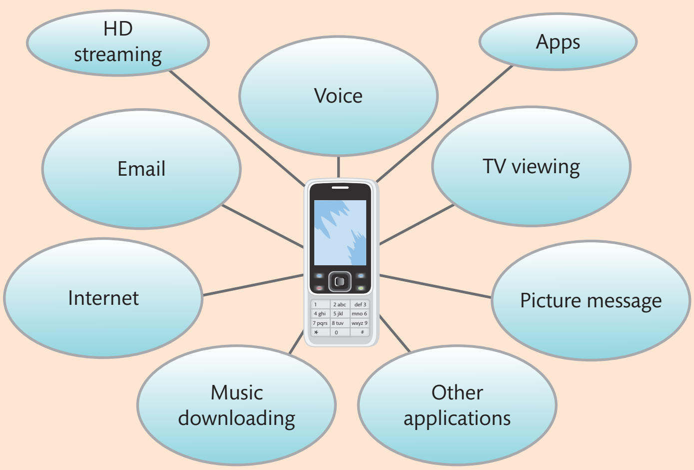

Figure 6.2 In the highly competitive mobile communication industry, marketing research is focusing on which new services customers might be willing to pay extra for, such as television viewing apps and music downloading.

Step 1: define the problem, the decision alternatives and the research objectives

Marketing managers must be careful not to define the problem too broadly or too narrowly for the marketing researcher. A marketing manager who says, 'Find out everything you can about mobile phone customers' needs' will collect a lot of unnecessary information. One who says, 'Find out whether enough 3 customers would be willing to pay €5 a month for a mobile TV service for 3 to break even in two years on the cost of offering this service' is taking too narrow a view of the problem. The marketing researcher might respond, 'Why does the mobile broadband connection have to be priced at €5 as opposed to €3, €10 or some other price?' 'Why does 3 have to break even on the cost of the service, especially if it attracts new customers?' Another relevant question is: How important is it to be first mover in the market, and how long can the company sustain its lead?

Let's say that the marketing manager and marketing researcher agreed to define the problem as follows: 'Will offering a TV service for mobile phones create enough incremental preference and profit for 3 to justify its cost against other possible investments that Hutchison Whampoa might make?' To help in designing the research, management should first spell out the decisions it might face and then work backwards. Suppose management outlines these decisions:

1 Should 3 offer a mobile TV service?
2 If so, should the offer be tailored to a specific consumer segment?
3 What price(s) should be charged?
4 What types of mobile phones, data cards, etc. should complement the service?

Now management and marketing researchers are ready to set specific research objectives:

1 What types of customer would respond positively to a mobile TV service?
2 How many customers are likely to sign up for this service at different price levels?
3 How many additional customers might choose 3 over competitors because of this new service?
4 How much long-term goodwill will this service add to 3's image?
5 How important is a mobile TV service to consumers relative to other services, such as video messaging or game playing?

Not all research projects can be this specific. Some research is exploratory – its goal is to shed light on the real nature of the problem and to suggest possible solutions or new ideas. Some research is *descriptive* – it seeks to quantify demand, such as how many customers would purchase a mobile broadband service at €5. Some research is *causal* – its purpose is to test a cause-and-effect relationship.

Step 2: develop the research plan

The second stage of marketing research is where we develop the most efficient plan for gathering the needed information and what that will cost. Suppose the company made a prior estimate that launching a mobile TV service would yield a long-term profit of €500,000. If the manager believes that doing the marketing research will lead to an improved pricing and promotional plan and a long-term profit of €600,000, the company should be willing to spend up to €100,000 on this research. If the research will cost more than €100,000, it is not worth doing.[8]

To design a research plan we need to make decisions about the data sources, research approaches, research instruments, sampling plan and contact methods.

Data sources

The researcher can gather secondary data, primary data, or both. *Secondary data* are data that were collected for another purpose and already exist somewhere, such as in surveys or market reports from research organisations or government agencies. Secondary data may also take the form of internal company information, such as sales records or financial data. *Primary data* are data freshly gathered for a specific purpose or for a specific research project, such as identifying Norwegian consumers' preferences for various supermarket formats.

Researchers usually start their investigation by examining some of the rich variety of low-cost and readily available secondary data, to see whether they can partly or wholly solve the problem without collecting costly primary data. For instance, European cosmetics companies wishing to reach out to consumer groups in Asia might purchase a copy of Euromonitor's report on 'Oral care in China' – a survey that provides insights into market trends and pinpoints future growth sectors.[9] Among the helpful findings they would discover in the report are:

- oral care in China currently grows by approximately 10 per cent in value per year;
- the demand for oral care products is expected to remain healthy in the coming years;
- more intense competition leads to a changing competitive landscape.

When the necessary data do not exist or are dated, inaccurate, incomplete or unreliable, the researcher will need to collect primary data. Most marketing research projects do include some primary-data collection.

Research approaches

Marketers collect primary data in five main ways: through observation, focus groups, surveys, behavioural and big data, and experiments.

A picture is worth a thousand words to skilled marketing researchers, who can glean a number of insights from this photo of a Swedish kitchen
Source: © Anna G. Tufvesson/Nordicphotos/Alamy.

Observational research

Researchers can gather fresh data by observing the relevant actors and settings,[10] unobtrusively observing as they shop or as they consume products. Sometimes they equip consumers with pagers and instruct them to write down what they are doing whenever prompted, or they hold informal interview sessions at a café or bar. Photographs can also provide a wealth of detailed information.

Ethnographic research is a particular observational research approach that uses concepts and tools from anthropology and other social science disciplines to provide deep understanding of how people live and work.[11] The goal is to immerse the researcher into consumers' lives to uncover unarticulated desires, meanings or behaviour that might not be captured in other forms of research. Firms such as LEGO, IBM, Intel and Microsoft have embraced ethnographic research to design breakthrough products.

Pan-European supermarket chain Lidl, catering to the price-conscious, bottom end of the market, found that data on the brand and its sector were scarce. It asked Ogilvy, an international advertising, marketing and public relations agency, to carry out an extensive audit of the shopping experience by talking to customers in the stores and filming them. The results proved an eye opener for Lidl. It underlined the retailer's strengths – its low prices and quality goods – but also its weaknesses, such as its limited and unfamiliar range – its 'foreignness' in many markets. However, when Ogilvy asked four consumers who usually value well-known, branded products to test shop in a Lidl supermarket, they were all positive in their evaluation of the actual experience. Today, Lidl focuses on simplicity in its brand offer and on its core strength in providing quality products at the lowest possible prices across the EU.[12] At Orange, ethnographic market research is applied to get to know the mindset of the company's consumers and as input in the product development process. 'For example, it can be difficult to ask consumers what they do in their "dead time", while commuting, between meetings and so on, because it is not in their particular language', says research analyst Gino Zisa. 'So we thought it would be helpful to observe people in those circumstances in their own environment, rather than in a focus group.'

Ethnographic research can be especially useful in developing markets, particularly in far-flung rural areas, where companies do not know consumers as well. Also, ethnographic research may assist companies wishing to glean a greater understanding of the population at large and how cultural attitudes affect spending. For example, 'co-creation' specialist Promise has been working with financial services companies and government departments to develop a better understanding of people coming to live in the UK from abroad and how best to communicate with them. Following ethnographic research in targeted branches of a high-street bank, Promise conducted focus groups in the respondent's mother tongue, wherever possible. Respondents were also able to bring along a friend, who might have a better level of English. On the back of Promise's research, its financial client was able to develop and tailor its product to individuals who have just moved to the UK. Rather than targeting these people by demographics, it found the common experience of immigration meant customers were looking for greater flexibility as opposed to extensive cover of goods that they might not yet have acquired.[13]

Focus group research

A **focus group** is a gathering of six to ten people carefully selected by researchers based on certain demographic, psychographic or other considerations and brought together to discuss at length various topics of interest. Participants are normally paid a small sum for attending. A professional research moderator provides questions and probes based on the marketing manager's discussion guide or agenda.

Moderators try to discern consumers' real motivations and why they say and do certain things. They typically record the sessions, and marketing managers often remain behind two-way mirrors in the next room. Focus-group research is a useful exploratory step, but researchers must avoid generalising from focus-group participants to the whole market, because the sample size is too small and the sample is not drawn randomly.

In fact, an increasing number of marketers are relying on other means of collecting information that they believe are less artificial. DDB, part of the Omnicom Group, feels that it is better to 'read the signs' of consumption than to ask consumers to comment self-consciously on their own patterns. For instance, DDB's sign spotters in several markets noticed that dinner-party guests were bringing their hosts flowers instead of chocolates, in a nod to current concerns over obesity and health. Anthon Berg, a Danish chocolate company and DDB client, used that information to associate its chocolate more closely with different social occasions.

An exploratory research session, with people writing down their motivations and beliefs
Source: OJO Images Ltd/Alamy Stock Photo.

The 'Marketing insight' box offers some practical tips to improve the quality of focus groups. In 3's market research, the moderator might start with a broad question such as 'How do you feel about mobile phone services?'. Questions might then move to how people view the different providers, different existing services, different proposed services and, specifically, a mobile TV service.

Marketing insight

Conducting informative focus groups

Focus groups allow marketers to observe how and why consumers accept or reject concepts, ideas or any specific notion. The key to using focus groups successfully is to *listen and observe*. Marketers should eliminate their own biases as much as possible. Although many useful insights can emerge from thoughtfully run focus groups, questions can arise about their validity, especially in today's marketing environment.

Some researchers believe that consumers have been so bombarded with ads that they unconsciously (or perhaps cynically) parrot back what they have already heard instead of what they really think. There is always a concern that participants are just trying to maintain their self-image and public persona or have a need to identify with the other members of the group. Participants also may not be willing to admit in public – or may not even recognise – their behaviour patterns and motivations. And the 'loudmouth' or 'know-it-all' problem often crops up, when one highly opinionated person drowns out the rest of the group. It may be expensive (€2,000 to €3,500 per group of subjects) to recruit qualified subjects who meet the sampling criteria, but getting the right participants is crucial.

Even when marketers use multiple focus groups, it may be difficult to generalise the results to a broader population. For example, within Europe, focus-group findings may vary from region to region because of differences in culture, shopping habits, economic welfare, etc. Also, within individual countries there could be lifestyle differences between people living in major cities and people living in the countryside. Participants must feel as relaxed as possible and strongly motivated to be truthful. Physical surroundings can be crucial to achieving the right atmosphere. As one agency executive noted, 'We wondered why people always seemed grumpy and negative – people were resistant to any idea we showed them'. Finally, in one session a fight broke out between participants. The problem was the room itself: cramped, stifling, forbidding: 'It was a cross between a hospital room and a police interrogation room.' To fix the problem, the agency gave the room a make-over. Other firms are adapting the look of the room to fit the theme of the topic, such as designing the room to look like a playroom when speaking to children.

Many firms are substituting focus groups with observational research, but ethnographic observation can be expensive and tricky: researchers must be highly skilled and participants on the level. Then there are the mounds of data to analyse. The beauty of focus groups, as one marketing executive noted, is, 'It's still the most cost-effective, quickest, dirtiest way to get information in rapid time on an idea'. In analysing the pros and cons, Wharton's Americus Reed might have said it best: 'A focus group is like a chain saw. If you know what you're doing, it's very useful and effective. If you don't, you could lose a limb.'

Sources: S. Thorne (2016) *Interpretive Description: Qualitative Research for Applied Practice*, 2nd edn., Routledge; T. Ross (2014) Conducting focus groups for rapid needs analysis, *Training*, 52(2), 14; C. S. Jones (2010) Encouraging healthy eating at restaurants: More themes uncovered through focus group research, *Services Marketing Quarterly*, 31(4), 448–65; N. R. Henderson (2005) Beyond top of mind, *Marketing Research*, 1 September; R. Harris (2005) Do focus groups have a future?, *Marketing*, 6 June, 17; M. Gladwell (2005) *Blink: The Power of Thinking Without Thinking*, New York: Little, Brown; L. Tischler (2004) Every move you make, *Fast Company*, April, 73–5; A. S. Wellner (2003) The new science of focus groups, *American Demographics*, March, 29–33; D. Rook (2003) Out-of-focus groups, *Marketing Research*, 15(2), 11; D. W. Rook (2003) Loss of vision: Focus groups fail to connect theory, current practice, *Marketing News*, 15 September, 40; S. J. Kasner (2001) Fistfights and feng shui, *Boston Globe*, 21 July.

Survey research

Companies undertake surveys to learn about people's knowledge, beliefs, preferences and satisfaction, and to measure these magnitudes in the general population. A company such as 3 might prepare its own survey instrument to gather the information it needs, or it might add questions to an omnibus survey that carries the questions of several companies (at a much lower cost). It can also put the questions to an ongoing consumer panel run by itself or another company. It may do a mall intercept study by getting researchers to approach people in a shopping mall and ask them questions.

As we will discuss in more detail later in this chapter, many marketers are taking their surveys online, where they can easily develop, administer and collect email and web-based questionnaires. However they conduct their surveys – online, by phone or in person – companies must feel the information they are getting from the mounds of data makes it all worthwhile. Here are two companies that do:

- **TDC.** This major player in the Danish telecommunications market regularly surveys and interviews its customers on subjects such as needs, motivation and product satisfaction. Customer feedback has resulted in, for example, a low-priced broadband product (TDC Netway) tailored especially to young customers (aged between 18 and 28). This 'no nonsense' solution offers broadband internet access and allows customers to call free of charge at all times on fixed-line connections in Denmark, but includes no technical support and can be ordered online only.[14]
- **Tui.** Scandinavian travel agency Tui continually collects surveys from customers at the end of their holiday (and at www.tui.dk).

Of course, by putting out so many surveys, companies may run the risk of creating 'survey burnout' and seeing response rates plummet. Keeping a survey short and simple and avoiding contacting the same customers too often are two keys to drawing people into the data-collection effort. Offering incentives is another way companies get consumers to respond. Companies such as UK-based StaTravel offer the chance to win cash prizes, gift certificates or computer equipment in exchange for taking part in its survey. Although a survey is generally accepted as a means of data collection, there is little control over the contextual setting and over the response behaviour of respondents. Thus, consumers may behave differently when engaging in specific choice situations.[15]

Behavioural and big data

Customers leave traces of their purchasing behaviour in store-scanning data, catalogue purchases and customer databases. Marketers can learn much by analysing these data. Actual purchases reflect consumers' preferences and are often more reliable than statements they offer to market researchers. For example, grocery shopping data show that high-income people don't necessarily buy the more expensive brands, contrary to what they might state in interviews, and many low-income people buy some expensive brands. Clearly, companies such as 3 can learn many useful things about their customers by analysing mobile service purchase records and online behaviour.

Some behavioural data may be characterised as 'big data'. Big data represents a new era in data exploration and utilisation and has three defining characteristics:[16]

- Big data is 'high volume' and is often reported in multiple terabytes and petabytes.
- Big data often comprises large 'variations' in text, images, audios, videos and/or clickstream data. For instance, clickstream data provides a wealth of information on the sequence and timing of webpages viewed by the consumer.
- Big data is 'high-velocity' in the sense that it is often generated at high speed and frequency.

Using big data analytics, even small and medium-sized enterprises (SMEs) can mine massive volumes of semi-structured data to improve website designs and implement effective cross-selling and personalised product recommendation systems.[17]

Experimental research

The most scientifically valid research is **experimental research**, designed to capture cause-and-effect relationships by eliminating competing explanations of the observed findings. If the experiment is well designed and executed, research and marketing managers can have confidence in the conclusions.

Experiments call for selecting matched groups of subjects, subjecting them to different treatments, controlling extraneous variables and checking whether observed response differences are statistically significant. If we can eliminate or control extraneous factors, we can relate the observed effects to the variations in the treatments or stimuli. For instance, 3 might introduce a package of mobile internet services in one of its mobile packages and charge €35 one week and €25 the next. If approximately the same number of potential customers visited 3's shops each week and the particular weeks were 'normal' and similar, the company could then relate a significant difference in the number of new customers to the difference in price charged.

The 'Marketing insight' box outlines some of the advantages and disadvantages of the various research approaches.

Marketing insight

Advantages and disadvantages of research approaches

	Advantages	**Disadvantages**
Observation	Limited subject bias Relates to 'real' behaviour	Expensive Often limited information Difficult to control unforeseen factors
Focus group	Richness of data Relatively fast data collection	Limited generalisability Reliance on interpretive skills of researcher Difficult to replicate findings
Survey	Relatively inexpensive High reliability and generalisability if properly done Replicability of findings	Potential survey errors and measurement errors Often low response rates
Behavioural and big data	Relates to 'real' behaviour Limited subject bias High reliability of behaviour	May violate consumer privacy May be difficult to handle Needs specialised analysts
Experiment	May capture cause-and-effect relationships Control over variables Replicability of findings	Often artificial Ethical concerns Often costly in terms of time and money

Research instruments

In the previous section you learned about the main research *approaches* that marketers use to collect primary data. Depending on the research problem and approach taken, marketing researchers can choose between a number of research *instruments* for collecting primary data. In this section, we will review three commonly used research instruments: questionnaires, qualitative measures and technological devices.

Questionnaire

A **questionnaire** consists of a set of questions presented to respondents. Because of its flexibility, it is by far the most common instrument used to collect primary data. Researchers need to carefully develop, test and de-bug questionnaires before administering them on a large scale. The form, wording and sequence of the question can all influence the response. *Closed questions* specify all the possible answers and provide answers that are easier to interpret and tabulate. *Open-ended questions* allow respondents to answer in their own words and often reveal more about how people think. They are especially useful in exploratory research, where the researcher is looking for insight into how people think rather than measuring how many people think a certain way.

Table 6.1 gives examples of both types of question; see also the 'Marketing in practice' box.

Table 6.1 Types of questions

Name	Description	Example
A. Closed questions		
Dichotomous	A question with two possible answers	In considering this service, did you personally contact 3? Yes No
Multiple choice	A question with three or more answers	For whom are you considering purchasing this service? ❑ Myself ❑ Entire family ❑ Spouse ❑ Business associates/friends/relatives ❑ Children ❑ An organisation
Likert scale	A statement with which the respondent shows the amount of agreement/disagreement	Small mobile service providers generally give better service than large ones Strongly disagree / Disagree / Neither agree nor disagree / Agree / Strongly agree 1 _____ 2 _____ 3 _____ 4 _____ 5 _____
Semantic differential	A scale connecting two bipolar words. The respondent selects the point that represents his or her opinion	Which of these words best describes 3? Large _____________Small Experienced ___________Inexperienced Modern _____________ Old-fashioned
Importance scale	A scale that rates the importance of some attribute	3G mobile service to me is Extremely Important / Very important / Somewhat important / Not very important / Not at all important 1 _____ 2 _____ 3 _____ 4 _____ 5 _____
Intention-to-buy scale	A scale that describes the respondent's intention to buy	If a mobile internet service was available, I would Definitely buy / Probably buy / Not be sure whether to buy / Probably not buy / Definitely not buy 1 _____ 2 _____ 3 _____ 4 _____ 5 _____
B. Open-ended questions		
Completely unstructured	A question that respondents can answer in an almost unlimited number of ways	What is your opinion of 3?
Word association	Words are presented, one at a time, and respondents mention the first word that comes to mind	What is the first word that comes to mind when you hear the following? Mobile provider _________________ 3 ___________________________ Mobile ________________________
Sentence completion	An incomplete sentence is presented and respondents complete the sentence	When I choose a mobile service provider, the most important consideration in my decision is ____ ____
Story completion	An incomplete story is presented and respondents are asked to complete it	'I went to a 3 shop a couple of days ago. I noticed that the exterior and interior of the shop had very bright colours. This aroused in me the following thoughts and feelings . . .' Now complete the story.

Continued

Table 6.1 *Continued*

Name	Description	Example
Picture	A picture of two characters is presented, with one making a statement. Respondents are asked to identify with the other and fill in the empty balloon	
Thematic apperception test (TAT)	A picture is presented and respondents are asked to make up a story about what they think is happening or may happen in the picture	

Marketing in practice

Questionnaire dos and don'ts

1 **Ensure that questions are without bias.** Don't lead the respondent into an answer.

2 **Make the questions as simple as possible.** Questions that include multiple ideas or two questions in one will confuse respondents.

3 **Make the questions specific.** Sometimes it is advisable to add memory cues. For example, be specific with time periods.

4 **Avoid jargon or shorthand.** Avoid trade jargon, acronyms and initials not in everyday use.

5 **Steer clear of sophisticated or uncommon words.** Only use words in common speech.

6 **Avoid ambiguous words.** Words such as 'usually' or 'frequently' have no specific meaning.

7 **Avoid questions with a negative in them.** It is better to say 'Do you ever . . . ?' than 'Do you never . . . ?'

8 **Avoid hypothetical questions.** It is difficult to answer questions about imaginary situations. Answers are not necessarily reliable.

9 **Don't use words that could be misheard.** This is especially important when administering the interview over the telephone. 'What is your opinion of sects?' could yield interesting but not necessarily relevant answers.

10 **Desensitise questions by using response bands.** To ask people their age or ask companies about employee turnover rates, offer a range of response bands instead of precise numbers.

11 **Ensure that fixed responses do not overlap.** Categories used in fixed-response questions should be distinct and not overlap.

12 **Allow for 'other' in fixed-response questions.** Precoded answers should always allow for a response other than those listed.

Sources: Based on P. Hague and P. Jackson (2002) *Market Research: A Guide to Planning, Methodology and Evaluation*, London: Kogan Page.

Qualitative measures

Some marketers prefer more qualitative methods for gauging consumer opinion, because consumer actions don't always match their answers to survey questions. *Qualitative research techniques* are relatively unstructured measurement approaches that permit a range of possible responses. Their variety is limited only by the creativity of the marketing researcher.

Because of the freedom afforded both researchers in their probes and consumers in their responses, qualitative research can often be a useful first step in exploring consumers' brand and product perceptions, but it has its drawbacks. Marketers must temper the in-depth insights that emerge with the fact that the samples are often very small and may not necessarily generalise to broader populations. And different researchers examining the same qualitative results may draw very different conclusions. There is increasing interest in using qualitative methods. The 'Marketing insight' box describes some popular approaches.

Marketing insight

Getting into consumers' heads with qualitative research

Here are some popular qualitative research approaches to getting inside consumers' minds and finding out what they think or feel about brands and products:

1. **Word associations.** Ask subjects what words come to mind when they hear the brand's name. 'What does the name Fiat mean to you?' or 'Tell me what comes to mind when you think of Samsung mobile phones'. The primary purpose of free-association tasks is to identify the range of possible brand associations in consumers' minds. But they may also provide some rough indication of the relative strengths, favourability and uniqueness of brand associations.
2. **Projective techniques.** Give people an incomplete stimulus and ask them to complete it, or give them an ambiguous stimulus and ask them to make sense of it. One such approach is 'bubble exercises', in which empty bubbles, such as those found in cartoons, appear in scenes of people buying or using certain products or services. Subjects fill in the bubble, indicating what they believe is happening or being said. Another technique is comparison tasks, in which people compare brands to people, countries, animals, activities, fabrics, occupations, cars, magazines, vegetables, nationalities or even other brands.
3. **Visualisation.** Visualisation requires people to create a collage from magazine photos or drawings to depict their perceptions of brands, experiences, ideas or other research topics. The ZMET technique asks participants to select in advance a minimum of 12 images from their own sources (magazines, catalogues, family photo albums) to represent their thoughts and feelings about the research topic. In a one-to-one interview, the study administrator uses advanced interview techniques to explore the images with the participant and reveal hidden meanings. Finally, the participants use a computer program to create a collage with these images that communicates their subconscious thoughts and feelings about the topic. In one ZMET study about tights, some of the respondents' pictures showed fence posts encased in plastic wrap or steel bands strangling trees, suggesting that tights are close fitting and inconvenient. Another picture showed tall flowers in a vase, suggesting that the product made a woman feel thin, tall and sexy. In this way, the technique seeks to unveil 'hidden knowledge' of underlying beliefs and feelings that influence the behaviour and reactions of consumers.
4. **Brand personification.** Ask subjects what kind of person they think of when the brand is mentioned: 'If the brand were to come alive as a person, what would it be like, what would it do, where would it live, what would it wear, who would it talk to if it went to a party (and what would it talk about)?' For example, the IKEA brand might make someone

Drawings or other pictures that express consumers' feelings about products are part of ZMET studies; these photos represent thoughts and feelings about 'premium coffee'
Source: (a) Somsak Sudthangtum/123RF (b) Praweena style/Shutterstock (c) subbotina/123RF (d) CREATISTA/Shutterstock (e) yampi/shutterstock (f) Y Photo Studio/Shutterstock (g) lightwavemedia/Shutterstock (h) fotografos/Shutterstock (i) michaeljung/Shutterstock (j) PhotoBarmaley/Shutterstock

think of a straightforward Scandinavian female who is reliable and values quality at an affordable cost. The brand personality delivers a picture of the more human qualities of the brand.

5 **Laddering.** This technique involves asking a series of increasingly more specific 'why' questions that can reveal consumer motivation and consumers' deeper, more abstract goals. Think about how you might answer the following line (or ladder) of questions: 'Why does someone want to buy a Samsung mobile phone?' 'They look well built' (attribute). 'Why is it important that the phone be well built?' 'It suggests that the Samsung is reliable' (a functional benefit). 'Why is reliability important?' 'Because my colleagues or family can be sure to reach me' (an emotional benefit). 'Why must you be available to them at all times?' 'I can help them if they're in trouble' (brand essence). The brand makes this person feel like a Good Samaritan, ready to help others.

Sources: K. Kubacki and D. Siemieniako (2017) Projective techniques, in K. Kubacki and S. Rundle-Thiele (eds) *Formative Research on Social Marketing*, 165–181; O. Horeni, T. A. Arentze, B. G. C. Dellaert and H. J. P. Timmermans (2014) Online measurement of mental representations of complex spatial decision problems: Comparison of CNET and hard laddering, *Transportation Research*, Part F 22, 170–183; E. Kaciak, C. W. Cullen and A. Sagan (2010) The quality of ladders generated by abbreviated hard laddering, *Journal of Targeting, Measurement and Analysis for Marketing*, 18(3/4), 159–66; C. Marshall and G. B. Rossman (2010) *Designing Qualitative Research*, 5th edn, Thousand Oaks, CA: Sage; B. L. Berg (2006) *Qualitative Research Methods for the Social Sciences*, 6th edn, Boston, MA: Allyn & Bacon; N. K. Denzin and Y. S. Lincoln (eds) (2005) *The Sage Handbook of Qualitative Research*, 3rd edn, Thousand Oaks, CA: Sage.

Marketers don't necessarily have to choose between qualitative and quantitative measures, however, and many marketers use both approaches, recognising that their pros and cons can offset each other. For example, companies can recruit someone from an online panel to participate in an in-home use test in which the subject is sent a product and told to capture his or her reactions and intentions with both a video diary and an online survey.[18]

Technological devices

There has been much interest in recent years in various technological devices. Galvanometers can measure the interest or emotions aroused by exposure to a specific ad or picture. The tachistoscope flashes an ad to a subject with an exposure interval that may range from less than one hundredth of a second to several seconds. After each exposure, the respondent describes everything he or she recalls. Eye cameras study respondents' eye movements to see where their eyes land first, how long they linger on a given item and so on.

Technology has now advanced to such a degree that marketers can use devices such as skin sensors, brainwave scanners and full-body scanners to get consumer responses. The 'Marketing insight' box provides a glimpse into some new marketing research frontiers in studying the brain.

Technology has replaced the diaries that participants in media surveys used to keep. Audiometers attached to television sets in participating homes now record when the set is on and to which channel it is tuned. Electronic devices can record the number of radio programmes a person is exposed to during the day or, using global positioning system (GPS) technology, how many billboards a person may walk by or drive by during a day. Technology is also used to capture consumer reactions to internet and mobile services.

Marketing insight

Understanding brain science

As an alternative to traditional consumer research, some researchers have developed sophisticated techniques from neuroscience that monitor brain activity to better gauge consumer responses to marketing stimuli.

For example, Oxford-based neuromarketing research firm Neurosense used functional magnetic resonance imaging (fMRI) to measure how consumers' brains responded to TV programming and ads. This study showed that ads generated activity in eight out of nine brain regions, indicating that consumers indeed register commercial content. Yet programming largely dominated the region of the brain that controls absorption, and hence occupied by far the largest part of consumers' attention. The study also confirmed that ads work best when they are in congruence with the programmes they accompany. Thus, more viewer interest was registered for an ad for the alcopop WKD than for a Red Cross appeal when these were aired during the anarchic cult comedy *South Park*.[19]

Although it can be more effective in uncovering inner emotions than conventional techniques, neurological research is costly, running to as much as €70,000 per project. One major finding to emerge from neurological consumer research is that many purchase decisions are characterised less by the logical weighing of variables than was previously assumed and more 'as a largely unconscious habitual process, as distinct from the rational, conscious, information-processing model of economists and traditional marketing textbooks'. Even basic decisions, such as the purchase of gasoline, are influenced by brain activity at the subrational level.

Neurological research can be used to measure the type of emotional response that consumers exhibit when presented with marketing stimuli. A group of researchers in England used an electroencephalograph (EEG) to monitor cognitive functions related to memory recall and attentiveness for 12 different regions of the brain as subjects were exposed to advertising. Brainwave activity in different regions indicated different emotional responses. For example, heightened activity in the left prefrontal cortex is characteristic of an 'approach' response to an ad and indicates an attraction to the stimulus. In contrast, a spike in brain activity in the right prefrontal cortex is indicative of a strong revulsion to the stimulus. In yet another part of the brain, the degree of memory formation activity correlates with purchase intent. Other research has shown that people activate different regions of the brain in assessing the personality traits of people versus brands.

The term *neuromarketing* has been used to describe brain research on the effect of marketing stimuli. By adding neurological techniques to their research arsenal, marketers are trying to move towards a more complete picture of what goes on inside consumers' heads. These research activities have not been universally applauded, however. Given the complexity of the human brain, many researchers caution that neurological research should not form the sole basis for marketing decisions. The measurement devices to capture brain activity can be highly obtrusive, such as skull caps studded with electrodes, creating artificial exposure conditions. Others question whether they offer unambiguous implications for marketing strategy. Some critics think that such a development will only lead to more marketing manipulation by companies. Despite all this controversy, marketers' endless pursuit of deeper insights into consumers' response to marketing virtually guarantees continued interest in neuromarketing.

For many years, brain imaging was purely the reserve of the academic or the scientist. Neuromarketing, however, has tapped into the incredible potential of fMRI imaging to grant us insights into human behaviour and consumer habits. One example of how neuromarketing has made use of fMRI is to compare advertising campaigns before releasing them to the general public. In one particular study, three different ads for the National Cancer Institute's telephone hotline were viewed by participants. The ad campaign that elicited the highest amount of brain activity in a particular region led to significantly higher calls to the hotline. This novel approach is a new avenue for identifying ad campaigns that will genuinely engage the public.

Neuroscience monitors brain activity
Source: Teeradej/Shutterstock.

Sources: P. Mahler (2017) 15 powerful examples of neuromarketing in action, *Imotions*, 7 March; N. Lee, L. Brandes, L. Chamberlain and C. Senior (2017) This is your brain on neuromarketing: Reflections on a decade of research, *Journal of Marketing Management*, 30(11/12), 878–892; H. Plassmann, T. Z. Ramshøy and M. Milosavljevic (2012) Branding the brain: A critical review and outlook, *Journal of Consumer Psychology*, 22(1), 18–36; W. S. Mcdowell and S. J. Dick (2013) The marketing of neuromarketing: Brand differentiation strategies employed by prominent neuromarketing firms to attract media clients, *Journal of Media Business Studies*, 10(1), 25–40; (2010) Brain scans: The advertising tool of the future *Trend Letter*, 29(7), 12; P. Ciprian-Marcel, R. Lacramioara, M. A. Ioana and Z. M. Maria (2009) Neuromarketing – getting inside the customer's mind, *Economic Science Series*, 18(4), 804–807; C. Yoon, A. H. Gutchess, F. Feinberg and T. A. Polk (2006) A functional magnetic resonance imaging study of neural dissociations between brand and person judgments, *Journal of Consumer Research*, 33, 31–40.

After deciding on the research approach and instruments, the marketing researcher must design a *sampling plan*. This calls for three decisions:

1 **Sampling unit: who should we survey?** In the 3 survey, should the sampling unit consist only of mobile broadband customers, 'regular' mobile service customers, or both? Should it include customers under the age of 15? Seniors, parents, children, teenagers? Once they have determined the sampling unit, marketers must develop a sampling frame so that everyone in the target population has an equal or known chance of being sampled.
2 **Sample size: how many people should we survey?** Large samples give more reliable results, but it is not necessary to sample the entire target population to achieve reliable results. Samples of less than 1 per cent of a population can often provide good reliability, with a credible sampling procedure.
3 **Sampling procedure: how should we choose the respondents?** Probability sampling allows us to calculate confidence limits for sampling error and make the sample more representative. Thus we could conclude, after choosing the sample, that 'the interval five to seven trips per year has 95 chances in 100 of containing the true number of trips taken annually by first-class

passengers flying between Stockholm and Rome'. Three types of probability sampling are described in Table 6.2(a). When the cost or time needed to use probability sampling is too great, marketing researchers will take non-probability samples. Table 6.2(b) describes three types.

Contact methods

Now the marketing researcher must decide how to contact the subjects: by mail, by telephone, in person or online.

Mail questionnaire

The mail questionnaire is the best way to reach people who would not give personal interviews or whose responses might be biased or distorted by the interviewers. Mail questionnaires require simple and clearly worded questions. Unfortunately, the response rate is usually low or slow.

Telephone interview

Telephone interviewing is the best method for gathering information quickly; the interviewer is also able to clarify questions if respondents do not understand them. The response rate is typically higher than for mailed questionnaires, but interviews must be brief and not too personal. Telephone interviewing is getting more difficult because of consumers' growing antipathy towards telemarketers. In Sweden, for example, a registry known as 'Nix Telefon', through which consumers can request not to receive telemarketing calls, has been highly popular. In 2013 it was made possible also to register mobile phone numbers. At the beginning of 2013, 1.6 million Swedish telephone consumers had registered.[20] While telemarketers are obligated by law to check the phone numbers they call against the 'Nix' registry, marketing research firms are so far exempt from this legislation. However, many think it spells the beginning of the end for telephone surveys as a marketing research method. In other parts of the world, such marketing customs and restrictive legislation do not exist. At the beginning of 2011, the number of mobile phone subscribers in Africa exceeded the number of North American subscribers, so mobile phones in Africa are used to convene focus groups in rural areas and to interact with text messages.[21]

Personal interview

Personal interviewing is the most versatile method. The interviewer can ask more questions and record additional observations about the respondent, such as dress and body language. At the same time, however, personal interviewing is the most expensive method, is subject to interviewer bias and requires more administrative planning and supervision. Personal interviewing takes two forms. In *arranged interviews,* marketers contact respondents for an appointment and often offer a small payment or incentive. In *intercept interviews,* researchers stop people at a shopping mall or on a busy street corner and request an interview on the spot. Intercept interviews must be quick, and they run the risk of including non-probability samples.

Table 6.2 Probability and non-probability samples

(a) Probability sample	
Simple random sample	Every member of the population has an equal chance of selection
Stratified random sample	The population is divided into mutually exclusive groups (such as age groups) and random samples are drawn from each group
Cluster (area) sample	The population is divided into mutually exclusive groups (such as city blocks) and the researcher draws a sample of the groups to interview
(b) Non-probability sample	
Convenience sample	The researcher selects the most accessible population members
Judgement sample	The researcher selects population members who are good prospects for accurate information
Quota sample	The researcher finds and interviews a prescribed number of people in each of several categories

Online interview

An approach of increasing importance, the internet offers many ways to do research. A company can embed a questionnaire on its website in different ways and offer an incentive to answer it, or it can place a banner on a frequently visited site such as Google, inviting people to answer some questions and possibly win a prize. Marketers can also sponsor a chatroom or bulletin board and introduce questions from time to time, or host a real-time consumer panel or virtual focus group. The company can learn about individuals who visit its site by tracking how they *clickstream* through the website and move to other sites. It can post different prices, use different headlines and offer different product features on different websites or at different times to learn the relative effectiveness of its offerings. Online product testing, in which companies float trial 'balloons' for new products, is also growing and providing information much faster than traditional new product marketing research techniques.

Marketers can also host a real-time consumer panel or virtual focus group, or sponsor a chatroom, bulletin board or blog and introduce questions from time to time. They can ask customers to brainstorm or get followers of the company on Twitter to rate an idea. Online communities and networks of customers serve as a resource for a wide variety of companies. Insights from Kraft-sponsored online communities helped the company develop its popular line of 100-calorie snacks. 'Online is not a solution in and of itself to all of our business challenges', said Seth Diamond, former director of consumer insights and strategy, 'but it does expand our toolkit'.[22]

The 'Marketing in practice' box outlines some of the advantages and disadvantages of online research thus far. Online researchers also use instant messaging in various ways – to conduct a chat with a respondent, to probe more deeply with a member of an online focus group, or to direct respondents to a website.[23] Instant messaging is also a useful way to get teenagers to open up on topics.

Step 3: collect the information

The data-collection phase of marketing research is generally the most expensive and the most prone to error. Four major problems arise in surveys. Some respondents will not be at home and must be contacted again or replaced. Other respondents will refuse to cooperate. Still others will give biased or dishonest answers. Finally, some interviewers will be biased or dishonest. Data-collection methods are improving rapidly thanks to computers and telecommunications. Some telephone research firms interview from a central location, using professional interviewers to read a set of questions from a monitor and type the respondents' answers into a computer. This procedure eliminates editing and coding, reduces errors, saves time and produces all the required statistics. Other research firms have set up interactive terminals in shopping centres, where respondents sit at a terminal, read questions from the monitor and type in their answers.

One of the biggest obstacles to collecting information internationally is the need to achieve consistency. Nan Martin, global accounts director for Synovate, Inc., a market research firm with offices in 46 countries, says:

> **In global research, we have to adapt culturally to how, where and with whom we are doing the research. A simple research study conducted globally becomes much more complicated as a result of the cultural nuances, and it's necessary for us to be sensitive to those nuances in data collection and interpretation.**

Marketing in practice

Pros and cons of online research

Advantages

- **Online research is inexpensive.** A typical email survey can cost only 5–20 per cent of paper surveys and return rates can be as high as 50 per cent and in some cases even higher.
- **Online research is fast.** Online surveys are fast because the survey can automatically direct respondents to applicable questions and transmit results immediately. One estimate says that 75–80 per cent of a survey's targeted response can be generated in 48 hours using online methods, compared with a telephone survey that can take 70 days to obtain 150 interviews.
- **Survey tracking.** Online surveys can provide researchers with detailed traces about survey response time and

pattern, including the exact time when a respondent filled out a survey and the exact page where one abandoned a survey. This information enables survey researchers to better understand response patterns, which in turn allows them to continue refining their methodology.

- **People tend to be honest online.** Britain's online polling company YouGov.com surveyed 250 people via intercom in a booth and the other half online, asking questions such as 'Should there be more aid to Africa?'. Online answers were deemed far more honest. People may be more open about their opinions when they can respond privately and not to another person whom they feel might be judging them, especially on sensitive topics.
- **Online research is versatile.** Increased broadband penetration offers online research even more flexibility and capabilities. For instance, virtual reality software lets visitors inspect 3D models of products such as cameras, cars and medical equipment, and manipulate product characteristics. Even at the basic tactile level, online surveys can make answering a questionnaire easier and more fun than paper-and-pencil versions.

Disadvantages

- **Samples can be small and skewed.** In the 28 EU member states, 87 per cent of households had access to the internet by the end of 2017, compared with 49 per cent during the first quarter of 2006. Household internet access ranged from 67 per cent in Bulgaria to 98 per cent in the Netherlands and 97 per cent in Denmark. Although it is certain that more and more will go online, online market researchers must find creative ways to reach population segments on the other side of the 'digital divide'. One option is to combine online and offline data-collection instruments – for example, by using both online and postal (offline) questionnaires. Providing temporary internet access at locations such as shopping centres and leisure centres is another strategy. Some research firms use statistical models to fill in the gaps in market research left by offline consumer segments.
- **Online panels and communities can suffer from excessive turnover.** Members may become bored with the company's efforts and flee. Or, perhaps even worse, they may stay but only half-heartedly participate. Panel and community organisers are taking steps to address the quality of the panel and the data they provide by raising recruiting standards, downplaying incentives and carefully monitoring participation and engagement levels. New features, events and other activities must be constantly added to keep members interested and engaged.[24]
- **Online market research can suffer from technological problems and inconsistencies.** Problems can arise with online surveys because browser software varies. The web designer's final product may look very different on the research subject's screen.

Online researchers are also using text messaging in various ways – to conduct a chat with a respondent, to probe more deeply with a member of an online focus group, or to direct respondents to a website.[25] Text messaging is also a useful way to get teenagers to open up on topics.

Sources: Central Bureau voor de Statistiek (2018) The Netherlands, https://www.internetworldstats.com/europa.htm#nl; (2006) Survey: Internet should remain open to all, 25 January, www.consumeraffairs.com; (2005) Highlights from the National Consumers League's survey on consumers and communications technologies: Current and future use, 21 July, www.nclnet.org; C. Arnold (2004) Not done net: New opportunities still exist in online research, *Marketing News*, 1 April, 17; L. Miles (2004) Online, on tap, *Marketing*, 16 June, 39–40.

Step 4: analyse the information

The next step in the process is to extract findings by tabulating the data and developing frequency distributions. The researchers now compute averages and measures of dispersion for the major variables and apply some advanced statistical techniques and decision models in the hope of discovering additional findings. They may test different hypotheses and theories, applying sensitivity analysis to test assumptions and the strength of the conclusions.

Step 5: present the findings

The researcher presents findings relevant to the major marketing decisions facing management. Researchers are increasingly being asked to play a more proactive, consulting role in translating data and information into insights and recommendations.[26] They are also considering ways to present research findings in as understandable and compelling a fashion as possible.

One way of organising and presenting complex and information-rich research findings that may be difficult to express in verbal or linear form, is to create visual, artistic collages. The photo here visualises the many aspects of a modern family segment.

The many aspects of modern families
Source: Buccina Studios/Stockbyte/Getty images.

'Personas' is another approach that some researchers are using to maximise the impact of their consumer research findings. Personas are detailed profiles of one, or perhaps a few, hypothetical target market consumers, imagined in terms of demographic, psychographic, geographic or other descriptive attitudinal or behavioural information. Researchers may use photos, images, names or short bios to help convey the particulars of the persona. The rationale behind personas is to provide exemplars or archetypes of how the target customer looks, acts and feels that are as true to life as possible, to ensure marketers within the organisation fully understand and appreciate their target market and therefore incorporate a target-customer point of view in all their marketing decision making. Unilever's biggest and most successful hair-care launch, for Sunsilk, was aided by insights into the target consumer whom the company dubbed 'Katie'. The Katie persona outlined the twenty-something female's hair-care needs, but also her perceptions and attitudes and the way she dealt with her everyday life 'dramas'.

Although personas provide vivid information to aid marketing decision making, marketers also have to be careful to not overgeneralise. Any target market may have a range of consumers varying along a number of key dimensions. To accommodate these potential differences, researchers sometimes employ between two and six personas.

Returning to the 3 case, the main survey findings might indicate the following:

1. The chief reasons for having a mobile broadband connection are to browse the web and download data files using the handset, regardless of where the customer is. Also, constant access to information and staying in touch with others are essential consumer motivations.
2. At €35, about five out of ten 3 customers would choose a product package including mobile TV service; about six would choose it at €25. Thus, a fee of €25 would produce less revenue ($€150 = 6 \times €25$) than €35 ($€175 = 5 \times €35$).
3. Offering a mobile TV service would strengthen the public's image of 3 as an innovative and progressive mobile provider. The company would gain new customers and customer goodwill.

Step 6: make the decision

The managers who commissioned the research need to weigh up the evidence. If their confidence in the findings is low, they may decide against introducing the mobile TV service. If they are predisposed to launching the service, the findings support their inclination. They may even decide to

Table 6.3 The seven characteristics of good marketing research

1	Scientific method	Effective marketing research uses the principles of the scientific method: careful observation, formulation of hypotheses, prediction and testing.
2	Research creativity	At its best, marketing research develops innovative ways to solve a problem: a clothing company catering to teenagers gives several young men video cameras, then uses the videos for focus groups held in restaurants and other places that teens frequent.
3	Multiple methods	Marketing researchers shy away from overreliance on any one method. They also recognise the value of using two or three methods to increase confidence in the results.
4	Interdependence of models and data	Marketing researchers recognise that data are interpreted from underlying models that guide the type of information sought.
5	Value and cost of information	Marketing researchers show concern for estimating the value of information against its cost. Costs are typically easy to determine, but the value of research is harder to quantify. It depends on the reliability and validity of the findings and management's willingness to accept and act on those findings.
6	Healthy scepticism	Marketing researchers show a healthy scepticism towards glib assumptions made by managers about how a market works. They are alert to the problems caused by 'marketing myths'.
7	Ethical marketing	Marketing research benefits both the sponsoring company and its customers. The misuse of marketing research can harm or annoy consumers, increasing resentment at what consumers regard as an invasion of their privacy or a disguised sales pitch.

study the issues further and do more research. The decision is theirs, but rigorously done research provides them with insight into the problem (see Table 6.3).

A growing number of organisations are using a **marketing decision support system** (MDSS) to help their marketing managers make better decisions. A marketing decision support system is a coordinated collection of data, systems, tools and techniques, with supporting software and hardware, by which an organisation gathers and interprets relevant information from business and the environment and turns it into a basis for marketing action.[27]

Once a year, *Marketing News* lists hundreds of current marketing and sales software programs that assist in designing marketing research studies, segmenting markets, setting prices and advertising budgets, analysing media and planning sales force activity.

Overcoming barriers to the use of marketing research

In spite of the rapid growth of marketing research, many companies still fail to use it sufficiently or correctly, for several reasons:[28]

- **A narrow conception of the research.** Many managers see marketing research as a fact-finding operation. They expect the researcher to design a questionnaire, choose a sample, conduct interviews and report results, often without them providing a careful definition of the problem. When the fact finding then fails to be useful, management's idea of the limited usefulness of marketing research is reinforced.
- **Uneven calibre of researchers.** Some managers view marketing research as little more than a clerical activity and treat it as such. As a result of this view, they hire less competent, and perhaps less costly, marketing researchers, whose weak training and low creativity lead to unimpressive results. The disappointing results reinforce management's prejudice against marketing research. Low salaries perpetuate the basic problem.
- **Poor framing of the problem.** The famous failure of New Coke was largely due to a failure to set up the research problem correctly, from a marketing perspective. Coca-Cola's market share

lead had been slowly declining for 15 consecutive years. Consumer awareness and preference were plummeting, too. Against this backdrop, Coca-Cola decided to change the secret formula and adopt a new taste preferred in taste tests of nearly 200,000 consumers. Nevertheless, the real issue turned out to be how consumers felt about Coca-Cola as a brand, not how they felt about its taste in isolation. The consumer upheaval that followed the introduction of New Coke ended with the return of the original formula, now called Coca-Cola Classic.

- **Late and occasionally erroneous findings.** Managers want results that are accurate and conclusive. They may want the results tomorrow. Yet good marketing research takes time and money. Managers are disappointed when marketing research costs too much or takes too long.
- **Personality and presentational differences.** Differences between the styles of line managers and marketing researchers often get in the way of productive relationships. To a manager who wants concreteness, simplicity and certainty, a marketing researcher's report may seem abstract, complicated and tentative. Yet in the more progressive companies, marketing researchers are being included as members of the product management team, and their influence on marketing strategy is growing.
- **Illusions of seeing.** Most marketing issues usually involve a high level of ambiguity, as issues are often laden with doubt and controversy. In spite of this ambiguity, managers may just see what is already lodged in their memories and preferences. This process of perceiving reality as it fits our preconceptions is a natural human process. As psychologist Daniel Gilbert puts it: 'We cook the facts. The brain and the eye have a contractual relationship in which the brain has agreed to believe what the eyes see, but the eye has agreed to look for what the brain wants.'[29]

Forecasting and demand measurement

One major reason for undertaking marketing research is to identify market opportunities. Once the research is complete, the company must measure and forecast the size, growth and profit potential of each market opportunity. Sales forecasts are used by finance departments to raise the necessary cash for investment and operations, by the manufacturing department to establish capacity and output levels, by purchasing to acquire the right amount of supplies and by human resources to hire the necessary number of workers. Marketing is responsible for preparing the sales forecasts. If its forecast is far off the mark, the company will face excess or inadequate inventory.

Sales forecasts are based on estimates of demand. Managers need to define what they mean by market demand. For example, Sweden's Autoliv is a market leader in state-of-the-art automotive safety systems. However, Autoliv does not see itself as having more than 40 per cent of the world market for side airbags. Rather, the company evaluates the brand far more broadly in terms of the entire €24.1 billion automobile occupant restraint market.[30]

The measures of market demand

Companies can prepare as many as 90 different types of demand estimates for six different product levels, five space levels and three time periods (see Figure 6.3).

Each **market demand** measure serves a specific purpose. A company might forecast short-run demand for a particular product for the purpose of ordering raw materials, planning production and borrowing cash. It might forecast regional demand for its major product line to decide whether to set up regional distribution.

The size of a market hinges on the number of buyers who might exist for a particular market offer. But there are many productive ways to break down the market:

- The **potential market** is the set of consumers professing a sufficient level of interest in a market offer. However, consumer interest is not enough to define a market for marketers unless they also have sufficient income and access to the product.
- The **available market** is the set of consumers with interest, income and access to a particular offer. For some market offers, the company or government may restrict sales to certain groups. For example, a particular country might ban alcohol sales to anyone under 18 years of age.

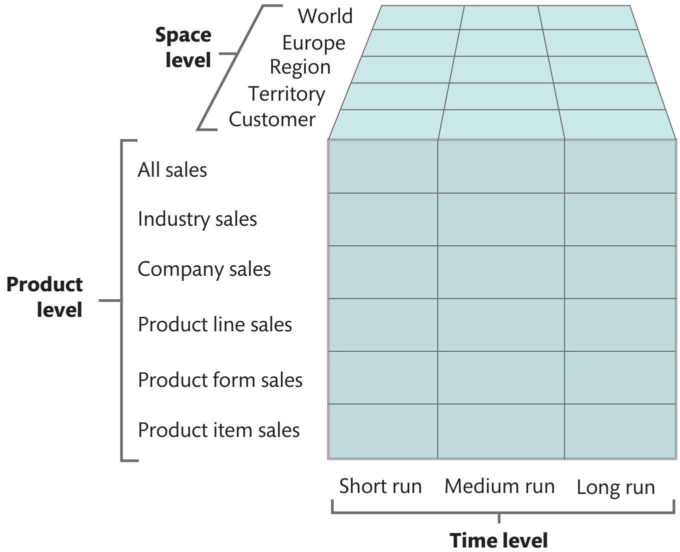

Figure 6.3 Ninety types of demand measurement (6 × 5 × 3)

Eligible adults constitute the qualified available market – the set of consumers with interest, income, access and qualifications for the particular market offer.

- The **target market** is the part of the qualified available market the company decides to pursue. The company might decide to concentrate its marketing and distribution effort in southern Europe.
- The **penetrated market** is the set of consumers buying the company's product.

These definitions are a useful tool for market planning. If the company is not satisfied with its current sales, it can take a number of actions. It can try to attract a larger percentage of buyers from its target market. It can lower the qualifications for potential buyers. It can expand its available market by opening distribution elsewhere or lowering its price, or it can reposition itself in the minds of its customers.

Estimating current demand

Marketing executives want to estimate total market potential, area market potential, and total industry sales and market shares.

Total market potential

Total market potential is the maximum amount of sales that might be available to all the firms in an industry during a given period, under a given level of industry marketing effort and environmental conditions. A common way to estimate total market potential is to multiply the potential number of buyers by the average quantity each purchases, times the price. The average quantity of buyer purchases may be estimated based on existing company sales data and/or on primary data collected for this purpose.

If 100 million people buy books each year, and the average book buyer buys three books a year, and the average price of a book is €20, then the total market potential for books is €6 billion (100 million × 3 × €20). The most difficult component to estimate is the number of buyers for the specific product or market. We can always start with the total population in the EU(28), which was 512.6 million people in 2018.[31]

Next we eliminate groups that obviously would not buy the product. Assume that illiterate people and children under 12 don't buy books and constitute 20 per cent of the population. This means 80 per cent of the population, or 410 million people, are in the potentials pool. We might do further research and find that people belonging to the 20 per cent of the EU population with the lowest income and/or with lower secondary education (or less) don't read books, and they constitute more than 30 per cent of the potentials pool. Eliminating them, we arrive at a prospect pool of approximately 287 million book buyers. We use this number of prospective buyers to calculate total market potential.

A variation on this method is the *chain-ratio method*, which multiplies a base number by several adjusting percentages. Suppose a brewery is interested in estimating the market potential for a new light beer. It can make an estimate with the following calculation:

$$\begin{array}{c} \text{Demand} \\ \text{for the} \\ \text{new light} \\ \text{beer} \end{array} = \text{Population} \times \begin{array}{c} \text{Average} \\ \text{percentage} \\ \text{of personal} \\ \text{discretionary} \\ \text{income per} \\ \text{capita spent} \\ \text{on food} \end{array} \times \begin{array}{c} \text{Average} \\ \text{percentage} \\ \text{of amount} \\ \text{spent on} \\ \text{food that} \\ \text{is spent on} \\ \text{beverages} \end{array} \times \begin{array}{c} \text{Average} \\ \text{percentage of} \\ \text{amount spent} \\ \text{on beverages} \\ \text{that is spent} \\ \text{on alcoholic} \\ \text{beverages} \end{array} \times \begin{array}{c} \text{Average} \\ \text{percentage of} \\ \text{amount spent} \\ \text{on alcoholic} \\ \text{beverages that} \\ \text{is spent on} \\ \text{beer} \end{array} \times \begin{array}{c} \text{Expected} \\ \text{percentage} \\ \text{of amount} \\ \text{spent on} \\ \text{beer that will} \\ \text{be spent on} \\ \text{light beer} \end{array}$$

Area market potential

Because companies must allocate their marketing budget optimally among their best territories, they need to estimate the market potential of different cities, states and nations. Two major methods of assessing area market potential are the market-buildup method, used primarily by business marketers, and the multiple-factor index method, used primarily by consumer marketers.

Market-buildup method

The **market-buildup method** calls for identifying all the potential buyers in each market and estimating their potential purchases. This method produces accurate results if we have a list of all potential buyers and a good estimate of what each will buy. Unfortunately, such information is not always easy to gather.

Consider a machine-tool company that wants to estimate the area market potential for its wood lathe in Greece. Its first step is to identify all potential buyers of wood lathes in the area, primarily manufacturing establishments that shape or ream wood as part of their operations. The company could compile a list from a directory of all manufacturing establishments in Greece. Then it could estimate the number of lathes each industry might purchase, based on the number of lathes per thousand employees or per €1 million of sales in that industry.

An efficient method of estimating area market potentials makes use of the statistical classification of economic activities in the European Union (Nomenclature des Activités Economiques, NACE), consisting of a six-digit code. The first four digits of the code are the same in all European countries. The two last digits might vary from country to country. On 1 January 2008, the classification changed considerably with the implementation of the NACE Regulation 1893/2006 (Rev. 2).[32]

The NACE classifies all manufacturing into 21 major industry sectors and further breaks each sector into a six-digit, hierarchical structure:

C	Industry sector (manufacturing)
10	Industry subsector (food)
10.3	Industry group (fruit and vegetables)
10.3.2	Industry (fruit and vegetable juice)
10.3.2.00	(Country specific, the fruit and vegetable juice industry in this country has no sub-industries as illustrated by the last two digits, '00').

To use the NACE, the lathe manufacturer must first determine the NACE codes that represent products whose manufacturers are likely to require lathe machines. To get a full picture of NACE industries that might use lathes, the company can: (1) determine past customers' NACE codes; (2) go through the NACE manual and check off all the six-digit industries that might have an interest in lathes; (3) mail questionnaires to a wide range of companies enquiring about their interest in wood lathes.

The company's next task is to determine an appropriate base for estimating the number of lathes that each industry will use. Suppose customer industry sales are the most appropriate base. Once the company estimates the rate of lathe ownership relative to the customer industry sales, it can compute the market potential.

Multiple-factor index method

Like business marketers, consumer companies also need to estimate area market potentials, but the customers of consumer companies are too numerous to list. The method most commonly used in consumer markets is a straightforward index method. A drug manufacturer, for example, might assume that the market potential for drugs is directly related to population size. If Sweden has 1.83 per cent of the EU population, the company might assume that Sweden would be a market for 1.83 per cent of total drugs sold in the EU.

A single factor, however, is rarely a complete indicator of sales opportunity. Regional drug sales are also influenced by per capita income and the number of physicians per 10,000 people. Thus it makes sense to develop a multiple-factor index, with each factor assigned a specific weight. The numbers are the weights attached to each variable. For example, suppose Sweden has 2.50 per cent of the EU disposable personal income, 2.60 per cent of EU retail sales and 1.83 per cent of the EU population, and the respective weights are 0.5, 0.3 and 0.2. The buying-power index for Sweden is then 2.40 [0.5(2.50) + 0.3(2.60) + 0.2(1.83)]. Thus 2.40 per cent of the EU drug sales (not 1.83 per cent) might be expected to take place in Sweden.

The weights in the buying-power index are somewhat arbitrary and companies can assign others if appropriate. A manufacturer might also want to adjust the market potential for additional factors, such as competitors' presence in that market, local promotional costs, seasonal factors and local market idiosyncrasies.

Many companies compute other area indexes as a guide to allocating marketing resources. Suppose the drug company is reviewing the six cities listed in Table 6.4. The first two columns show its percentage of EU brand and category sales in these six cities. Column 3 shows the **brand development index** (BDI), which is the index of brand sales to category sales. London, for example, has a BDI of 114 because the brand is relatively more developed than the category in that city. Paris has a BDI of 65, which means that the brand in Paris is relatively underdeveloped. Normally, the lower the BDI, the higher the market opportunity, in that there is room to grow the brand. However, other marketers would argue the opposite – that marketing funds should go into the brand's *strongest* markets, where it might be important to reinforce loyalty or more easily capture additional brand share.

Industry sales and market shares

Besides estimating total potential and area potential, a company needs to know the actual industry sales taking place in its market. This means identifying competitors and estimating their sales.

The industry trade association will often collect and publish total industry sales, although it does not usually list individual company sales separately. With this information, however, each company can evaluate its own performance against the whole industry. If a company's sales are increasing by 5 per cent a year, and industry sales are increasing by 10 per cent, the company is losing its relative standing in the industry.

Another way to estimate sales is to buy reports from a marketing research firm that audits total sales and brand sales. Nielsen Media Research audits retail sales in various product categories in supermarkets and drugstores and sells this information to interested companies. These audits let a company compare its performance to the total industry or to any particular competitor to see whether it is gaining or losing share, either overall or on a brand-by-brand basis.

Table 6.4 Calculating the brand development index (BDI)

Territory	(a) Percentage of EU brand Sales	(b) Percentage of EU category Sales	BDI $(a \div b) \times 100$
London	3.09	2.71	114
Paris	6.74	10.41	65
Berlin	3.49	3.85	91
Madrid	0.97	0.81	120
Rome	1.13	0.81	140
Amsterdam	3.12	3.00	104

Because distributors typically will not supply information about how much of the competitors' products they are selling, business-goods marketers operate with less knowledge of their market share results.

Estimating future demand

The few products or services that lend themselves to easy forecasting generally enjoy an absolute level or a fairly constant trend and competition that is either non-existent (public utilities) or stable (pure oligopolies). In most markets, in contrast, good forecasting is a key factor in success.

Companies commonly prepare a macroeconomic forecast first, followed by an industry forecast, followed by a company sales forecast. The macroeconomic forecast calls for projecting inflation, unemployment, interest rates, consumer spending, business investment, government expenditures, net exports and other variables. Some researchers believe that it is the macroeconomic and industry-specific conditions more than the microeconomic conditions that may constitute the main determinants of success and failure for most businesses.[33] The end result is a forecast of gross national product, which the firm uses (along with other environmental indicators) to forecast industry sales. The company derives its sales forecast by assuming that it will win a certain market share.

How do firms develop their forecasts? They may create their own or buy forecasts from outside sources such as marketing research firms, which interview customers, distributors and other knowledgeable parties. All forecasts are built on one of three information bases: what people say, what people do, or what people have done. Using what people say requires surveying the opinions of buyers or those close to them, such as sales people or outside experts, with surveys of buyers' intentions, composites of sales force opinions and expert opinion. Building a forecast on what people do means putting the product into a test market to measure buyer response. To use the final basis – what people have done – firms analyse records of past buying behaviour or use time-series analysis or statistical demand analysis.

Survey of buyers' intentions

Forecasting is the art of anticipating what buyers are likely to do under a given set of conditions. For major consumer durables such as appliances, several research organisations conduct periodic surveys of consumer buying intentions and ask questions such as: 'Do you intend to buy a car within the next six months?' and put the answers on a **purchase probability scale**:

0.00	0.20	0.40	0.60	0.80	1.00
No chance	Slight possibility	Fair possibility	Good possibility	High possibility	Certain

Surveys also inquire into consumers' present and future personal finances and their expectations about the economy. They combine various bits of information into a consumer confidence measure (e.g. European Commission Consumer Surveys, ACNielsen Consumer Confidence Index). The European Commission indicator is based on a monthly survey conducted across the countries of the European Union and those in the euro currency area (EA), with a total sample size of more than 32,000 consumers. It is based on answers to questions about expectations of the financial situation of households, the general economic situation, the unemployment situation and savings. The ACNielsen six-monthly survey is conducted online with 21,000 consumers across Europe.[34]

For business buying, research firms can carry out buyer-intention surveys regarding plant, equipment and materials. Estimates (of demand) are then based on buyers' *intentions,* meaning that some degree of deviance from actual behaviour will necessarily exist. Such estimates tend to fall within a 10 per cent error band around the actual level of demand/sales. Buyer-intention surveys are particularly useful in estimating demand for industrial products, consumer durables, product purchases where advanced planning is required, and new products. The value of a buyer-intention survey increases to the extent that buyers are few, the cost of reaching them is low, and they have clear intentions that they willingly disclose and implement.

Composite of sales force opinions

When buyer interviewing is impractical, the company may ask its sales representatives to estimate their future sales. Few companies use sales force estimates without making some adjustments. Sales representatives might be pessimistic or optimistic, they might not know how their company's marketing plans will influence future sales in their territory, and they might deliberately underestimate demand so the company will set a low sales quota. To encourage better estimating, the company could offer incentives or assistance, such as information about marketing plans or past forecasts compared with actual sales.

Sales force forecasts bring a number of benefits. Sales reps might have better insight into developing trends than any other group, and forecasting might give them greater confidence in their sales quotas and more incentive to achieve them. Also, a 'grassroots' forecasting procedure provides detailed estimates broken down by product, territory, customer and sales rep.

Expert opinion

Companies can also obtain forecasts from experts, including dealers, distributors, suppliers, marketing consultants and trade associations. Dealer estimates are subject to the same strengths and weaknesses as sales force estimates. Many companies buy economic and industry forecasts from well-known economic-forecasting firms that have more data available and more forecasting expertise.

Occasionally, companies will invite a group of experts to prepare a **market forecast**. The experts exchange views and produce an estimate as a group (*group discussion method*) or individually, in which case another analyst might combine them into a single estimate (*pooling of individual estimates*). Further rounds of estimating and refining follow (this is the Delphi method).[35]

Past sales analysis

Firms can develop sales forecasts on the basis of past sales. *Time-series analysis* breaks past time series into four components (trend, cycle, seasonal and erratic) and projects them into the future. *Exponential smoothing* projects the next period's sales by combining an average of past sales and the most recent sales, giving more weight to the latter. *Statistical demand analysis* measures the impact of a set of causal factors (such as income, marketing expenditure and price) on the sales level. Finally, *econometric analysis* builds sets of equations that describe a system and statistically derives the different parameters that make up the equations.

Market-test method

When buyers don't plan their purchases carefully, or experts are unavailable or unreliable, a direct-market test can help forecast new-product sales or established-product sales in a new distribution channel or territory.

SUMMARY

1 Knowing the market and its dynamics is at the heart of a truly market-orientated organisation. In this chapter, you have seen how marketing research spawns an informational foundation that is imperative to a company's efforts to make the best decisions possible, both tactically and strategically. And since marketing information has come to be regarded as vital to company success, it is also an industry in rapid growth and development.

2 Some of the current trends in marketing research are neuromarketing research, online research – including data collection in social networking groups, such as Facebook or Twitter – and observational research. The latter type of research is furthered by technological advances, which make it possible to follow consumers' actual behaviour accurately – in a still stronger focus on what consumers do and how they go about their daily lives.

3 Companies can conduct their own marketing research or hire other companies to do it for them. Good marketing research is characterised by the scientific method, creativity, multiple research methods, accurate model building, cost–benefit analysis, healthy scepticism and an ethical focus.

4 The marketing research process consists of defining the problem, decision alternatives and research objectives, developing the research plan, collecting the information, analysing the information, presenting the findings to management and making the decision.

5 In conducting research, firms must decide whether to collect their own data or use data that already exist. They must also decide which research approach (observational, focus group, survey, behavioural data or experimental) and which research instruments (questionnaire, qualitative measures or

technological devices) to use. In addition, they must decide on a sampling plan and contact methods (by mail, by phone, in person or online).

6 Two complementary approaches to measuring marketing productivity are: (1) marketing metrics to assess marketing effects; and (2) marketing-mix modelling to estimate causal relationships and measure how marketing activity affects outcomes. Marketing dashboards are a structured way to disseminate the insights gleaned from these two approaches within the organisation.

7 There are two types of demand: market demand and company demand. To estimate current demand, companies attempt to determine total market potential, area market potential, industry sales and market share. To estimate future demand, companies survey buyers' intentions, solicit their sales force's input, gather expert opinions, analyse past sales or engage in market testing. Mathematical models, advanced statistical techniques and computerised data-collection procedures are essential to all types of demand and sales forecasting.

APPLICATIONS

Marketing debate

What is the best type of marketing research? Many market researchers have their favourite research approaches or techniques, although different researchers often have different preferences. Some researchers maintain that the only way to really learn about consumers or brands is through in-depth, qualitative research. Others contend that the only legitimate and defensible form of marketing research involves quantitative measures.

Take a position: the best marketing research is quantitative in nature *versus* the best marketing research is qualitative in nature.

Marketing discussion

When was the last time you participated in a survey? How helpful do you think was the information you provided? How could the research have been done differently to make it more effective?

FURTHER READING

N. K. Malhotra, D. Nunan and D. F. Birks (2017) *Marketing Research: An Applied Approach*, 5th edn, Harlow: Pearson Education.

This book offers a clear explanation and discussion of marketing research concepts. It provides a sufficient overview and discussion of the nature of marketing research and offers an easy-to-understand introduction to the most common marketing research methods such as qualitative interviews, surveys and experiments. It also discusses a range of statistical techniques, including regression analysis, factor analysis and cluster analysis, among many others.

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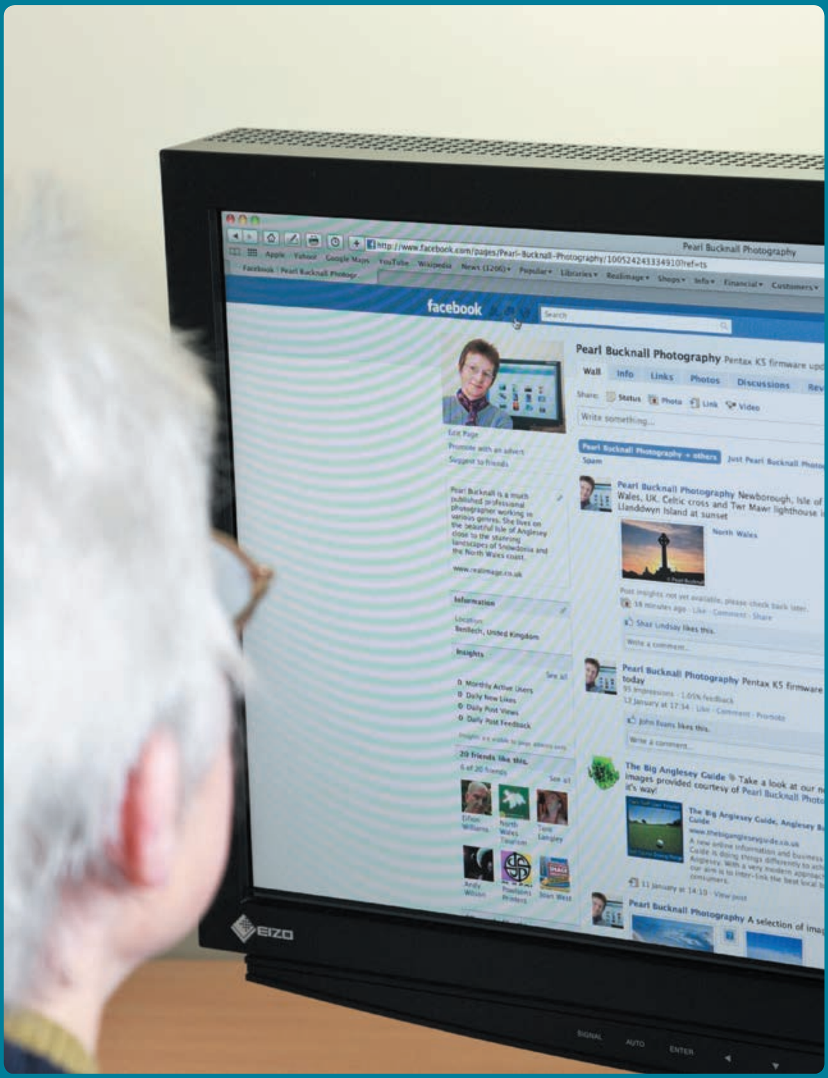
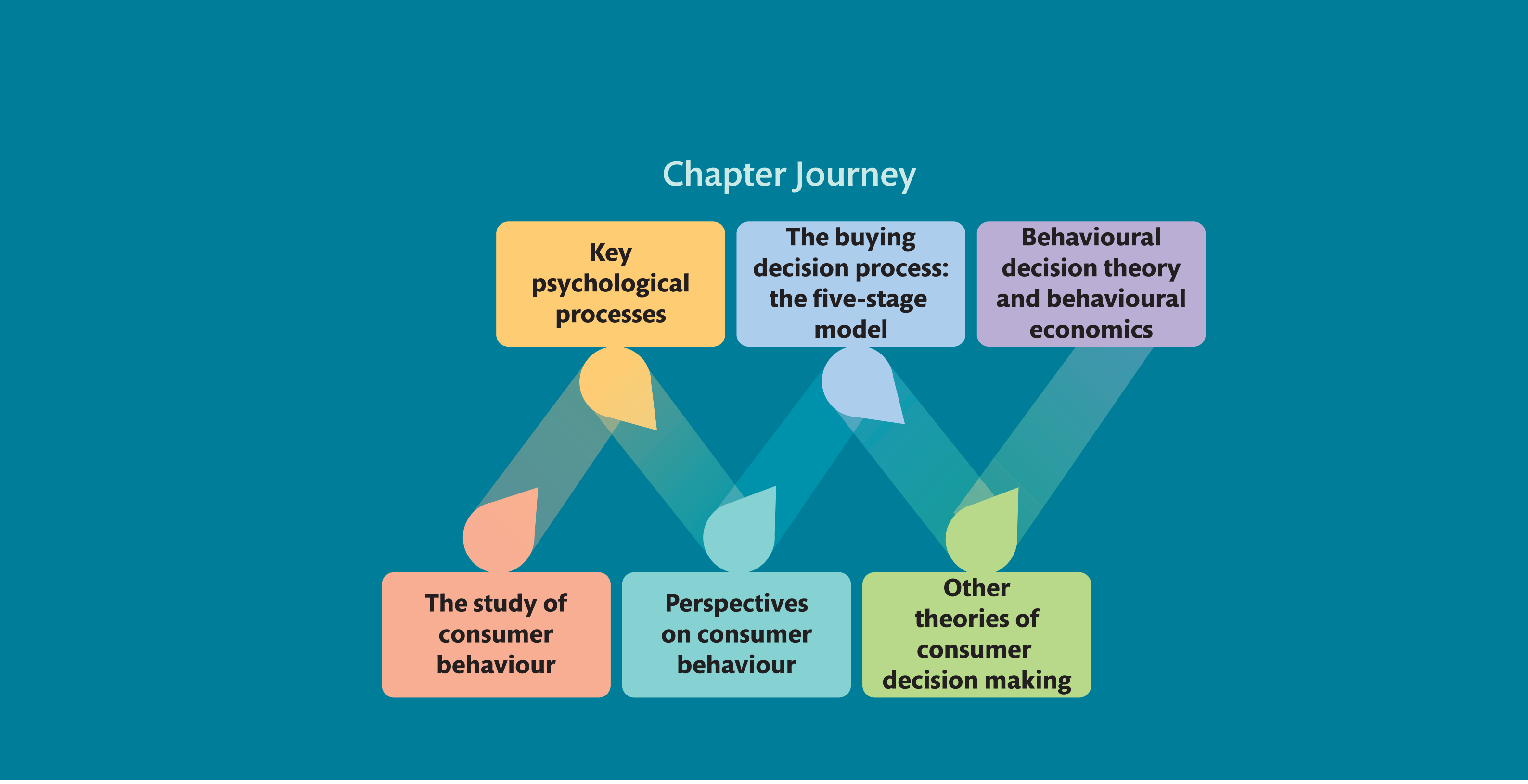
CHAPTER 7
Analysing consumer markets

In this chapter, you will learn about the following topics:

1. How consumer and situational characteristics influence buying behaviour
2. How psychological and behavioural processes influence consumer responses to the marketing programme
3. How consumers make purchasing decisions
4. How marketers may analyse consumer decision making



Social network services are now among the major tools for market communication
Source: Realimage/Alamy Stock Photo



The aim of marketing is to meet and satisfy target customers' needs and wants better than competitors do. Marketers are always looking for emerging customer trends that suggest new marketing opportunities.

The emergence of the social web, especially with teens and young adults, has made marketers rethink their practices. Social network services such as Facebook, Myspace, Twitter and Tagged represent a major opportunity for marketers to enter into dialogue with their customers. Essentially, social network services are dedicated to social networking, offering their members an easy and free way of creating personal profiles that may contain all sorts of content, such as photographs, music, blogs and so on. Members can link their profile to those of their friends or can search for new friends who share their interests. In this way the social web takes form – and becomes a sphere for building and maintaining relationships between people.

These popular social networks accumulate a wealth of information about their members that marketers find valuable, and they have paved the way for new forms of communication between marketers and consumers.

Worldwide social network spending on advertising reached approximately €33 billion in 2017. Facebook has developed an advertising system that invites marketers to present ads to individual Facebook members, based on the details they share with friends on the site. This includes not only the types of data commonly available to marketers, such as demographic data, geographic location and content purchasing habits, but also much more personal information such as interests, preferences, attitudes and relationship status. The system provides a means for businesses to build profiles on Facebook to connect with their audiences, an ad system that facilitates the spread of brand messages virally, and an interface to gather insights into people's activity on Facebook that marketers care about. Examples of organisations and businesses joining Facebook range from small, local firms such as national supermarkets to multinational corporations such as BMW, Novo Nordisk, Unilever and Siemens.[1]

Successful marketing requires that companies fully connect with their customers. Adopting a holistic marketing orientation means understanding customers – gaining a 360-degree view of their daily lives, their plans for the future and the changes that actually occur during their lifetimes so that the right products are marketed to the right customers in the right way. This chapter explores consumer buying dynamics; the next chapter explores the buying dynamics of business buyers.

The study of consumer behaviour

Consumer behaviour is the study of how individuals or groups buy, use and dispose of goods, services, ideas or experiences to satisfy their needs and wants. The needs and wants of consumers often vary across different cultures, situations and individual characteristics. The study of consumer behaviour can be divided into three interdependent dimensions (Figure 7.1):

1. The study of culture.
2. The study of social groups.
3. The study of the individual.

While it is possible to treat the three dimensions separately, they also have a mutual influence on each other. In the following sections, each dimension will first be considered separately and then some possible interdependencies between the dimensions are discussed.

Culture

Culture, subculture and social class are particularly important influences on consumer buying behaviour. **Culture** is the fundamental determinant of a person's wants and behaviour. Culture can be conceptualised as the 'meanings that are shared by (most) people in a social group'[2] and can be thought of as the blueprint for human behaviour. In a culture, values and norms are developed that serve as guidelines for human behaviour. Each culture consists of smaller **subcultures** that provide more specific identification and socialisation for their members. Subcultures include nationalities, religions, racial groups and geographic regions. When subcultures grow large and affluent enough, companies often design specialised marketing programmes to serve them. *Multicultural marketing* grew out of careful marketing research, which revealed that different ethnic and demographic niches did not always respond favourably to mass-market advertising.

Companies have capitalised on well-thought-out multicultural marketing strategies in recent years, as illustrated in the 'Marketing insight' box. As countries become more culturally diverse, however, marketing campaigns aimed at a specific cultural target can spill over and have a positive influence on other cultural groups.[3]

Virtually all human societies exhibit *social stratification*,[4] most often in the form of **social classes** – relatively homogeneous and enduring divisions in a society, hierarchically ordered and with members who share similar values, interests and behaviour. One classic depiction of social classes in the EU is the EGP (Erikson–Goldthorpe–Portocarero) class schema, defined as 11 descending levels:

1. Service class I (comprising higher-grade professionals, administrators and officials; managers in large industrial establishments; large proprietors).
2. Service class II (comprising lower-grade professionals, administrators and officials; higher-grade technicians; managers in small industrial establishments; supervisors of non-manual employees).
3. Routine non-manual.
4. Routine non-manual employees.
5. Self-employed with employees.
6. Self-employed with no employees.
7. Self-employed, farmers, etc.
8. Manual supervisors.
9. Skilled workers.
10. Unskilled workers.
11. Farm labourer.[5]

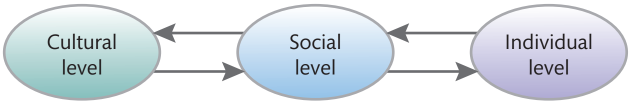


Figure 7.1 The interaction of the cultural, the social and the individual level

Social classes have several characteristics. First, those within each tend to be more alike in dress, speech patterns and recreational preferences than persons from two different social classes. Second, persons are perceived as occupying inferior or superior positions according to social class. Third, a *cluster* of variables – for example, occupation, income, wealth, education and value orientation – indicates social class, rather than any single variable. Fourth, individuals can move up or down the social class ladder during their lifetimes – how easily and how far depends on how rigid the social stratification is and on the level of equality in a society.

Social classes show distinct product and brand preferences in many areas, including clothing, home furnishings, leisure activities and automobiles. They also differ in media preferences, with

Marketing insight

Multicultural marketing in Europe

Marketing targeted at national cultures

Comprising 47 independent countries,[6] Europe has had a tradition of national companies designing marketing programmes for specific national cultures. Many global corporations operating in the European market have followed this practice with success. Coca-Cola in Europe is a characteristic example of a global corporation with a local approach to marketing. During recent years, Coca-Cola has pursued a strategy of moving into niche markets by launching non-traditional soft drinks, such as Avra water in Greece, Cappy juice in Croatia, BURN (energy) in Poland, Fernandes sodas in the Netherlands and Fioravanti in Spain.

As the expansion of the EU has led to increasing numbers of immigrants, the market potential for ethnic drinks has grown. A case in point is Fernandes sodas, produced by

Large multi ethnic group of smiling young people isolated on a white background
Source: Markus Mainka/Shutterstock

Fernandes Concern Beheer NV, one of the oldest corporations in Suriname. Fernandes sodas is a sweet, lemonade-like drink that comes in several brightly coloured flavours such as red cherry bouquet and green punch.

For decades, many Dutch residents with ties to Suriname – a former Dutch colony in South America – had been bringing home cases of Fernandes in their luggage.[7] But in the 1980s Coca-Cola Enterprises Nederland BV began bottling Fernandes under licence and selling the sodas in small ethnic grocery stores in big cities such as Amsterdam. The South American soda soon became popular. Marte van Esser, spokesperson for Coca-Cola in the Netherlands, commented on its success: 'Every country has its specific needs and Coca-Cola knows how to meet those needs . . . Although originally targeted at the Surinamese, the sodas really are for everyone.'

Marketing targeted at minority groups

In recent years, however, Europe has also witnessed a trend towards multicultural strategies that go across traditional national lines of cultural identity, revolving around ethnic identities. In Ireland, foreign nationals constitute more than 10 per cent of the population, and companies are taking on new challenges in targeting and creating brand awareness among the growing ethnic communities. For instance, local phone company Meteor has tailored advertising campaigns and translated its website into Polish, Latvian, Mandarin and Lithuanian in order to optimise customer experiences.

In the United Kingdom, the need for companies to understand and communicate with ethnic groups has never been greater, as they now account for up to 14 per cent of the UK population, with a purchasing power of more than €370 billion and rising. The average British Indian man is now on a higher income than his white British counterpart and Asians account for 10 per cent of the richest people in the country. Thus, corporations such as British Telecom have increased their investments targeting the ethnic minority market. In one of their campaigns, a black family was portrayed to reach out to ethnic minority customers as well as white customers. The aim of the campaign was to encourage overseas calling, a perfect example of targeting ethnic minority communities. Along similar lines, healthcare chain Boots launched a range of halal baby food. They worked with the Muslim Food Board to develop it and make sure it was properly labelled and within Muslim law. The range featured in the *Muslim Food Guide*, which is distributed throughout the United Kingdom via mosques. Boots ensured its staff were up to speed on the new range to advise customers.

Despite these developments, researchers found that ethnic consumers in the United Kingdom often feel overlooked. At least one in two people from all ethnic groups – including the white population – believed that consumer brands often use ethnic faces in advertising as a token gesture. Also, more than three-quarters of Asian (77 per cent) and black (78 per cent) people and half (50 per cent) of Chinese people in the United Kingdom believed mainstream brands to be of no relevance to them. In addition, 75 per cent of black, 63 per cent of Asian and 50 per cent of Chinese people did not see marketers as knowledgeable on how to market to individuals from ethnically diverse backgrounds. These are important sentiments to bear in mind when designing strategies and campaigns intended for minority communities.

Sources: Based on N. Baporikar (2017) Management education for global leadership, *IGI Global*, 321 pages; J. D. Napoli (2013) Ignored: The 14% of consumers big firms do not target, *The Guardian*, 16 January; Coca-Cola Enterprises sales and revenue rise in Europe, *Business Today*, February 2011; S. Emling (2007) Coke goes local to win wider market in Europe, Cox News Service, 13 October; Firms target ethnic sector, TCH Archives, Sunday Business Post, 5 August 2007; Fokusgruppe hjælper politiet med etnisk rekruttering (www.politi.dk/da/aktuelt/nyheder/2006/etniskfokusgruppe_11102006.htm); Metropolitan Police Authority (2006) The recruitment of black and minority ethnic groups to the Metropolitan Police Authority, Report 8, Co-ordination and Policing Committee, 1 September: London, UK; W. Shandwick (2007), Understanding the multicultural market, The multicultural insight study, Weber Shandwick: London, UK; Weber Shandwick Insight Studies, London, UK, https://www.webershandwick.com/insight/.

upper-class consumers often preferring magazines and books and lower-class consumers often preferring television. Even within a category such as TV, upper-class consumers tend to prefer news and drama, and lower-class consumers tend to prefer soap operas and sports programmes. There are also language differences – advertising copy and dialogue must ring true to the targeted social class.

Social groups

Social factors such as reference groups, family and social roles and statuses affect consumers' buying behaviour.

Reference groups

A person's **reference groups** are all the groups that have a direct (face-to-face) or indirect influence on their attitudes or behaviour. Groups having a direct influence are called **membership groups**. Some of these are **primary groups** with which the person interacts fairly continuously and informally, such as family, friends, neighbours and co-workers. People also belong to **secondary groups**, such as religious, professional and trade union groups, which tend to be more formal and require less continuous interaction.

Reference groups influence members in at least three ways. They expose an individual to new behaviours and lifestyles, they influence attitudes and self-concept, and they create pressures for conformity that may affect product and brand choices. For instance, inspired by their friends and colleagues, women may choose to buy high-quality branded products for their child in order to be perceived as a 'good mother'.[8] People are also influenced by groups to which they do *not* belong and by groups to which they do *not want* to belong. **Aspirational groups** are those a person hopes to join; **dissociative groups** are those groups to which a person does not belong and whose values, norms or behaviour an individual rejects; **disclaimant groups** are those groups to which a person belongs but whose values, norms or behaviour an individual seeks to avoid.

Where reference group influence is strong, marketers must determine how to reach and influence the group's opinion leaders or other influential persons of the group. An **opinion leader** (or 'market influencer') is the person who offers informal advice or information about a specific product or product category, such as which of several brands is best or how a particular product may be used.[9] Opinion leaders are often highly confident, socially active (both online and offline) and involved with the category, and are often perceived by other consumers as highly credible information sources. **Market mavens** are also perceived by other consumers to offer credible advice, but in contrast to opinion leaders market mavens are not influential because of a specialised product or product category expertise. Instead, they possess a more broad expertise concerning many different products and decisions related to the marketplace.[10] Marketers try to reach opinion leaders and market mavens by identifying their demographic and psychographic characteristics, identifying the media they read and directing messages at them. Today, important inroads into the lives of opinion leaders and market mavens include starting 'friendships' with them in social web forums such as Twitter or Facebook, or offering sponsorships of popular personal blogs or communities based on interests or hobbies.

Family

The family is the most important consumer buying organisation in society, and family members constitute the most influential primary reference group.[11] There are two families in the buyer's life. The **family of orientation** consists of parents and siblings. From parents a person acquires an orientation towards religion, politics and economics, and a sense of personal ambition, self-worth and love.[12] Even if the buyer no longer interacts very much with their parents, their influence on behaviour can be significant. Parents have been found to influence their children's future orientation towards areas as diverse as education, savings, food, smoking, drinking and driving, teen pregnancy, and even the choice of bank or insurance company.[13]

A more direct influence on everyday buying behaviour is the **family of procreation** – one's spouse and children. In Europe, husband–wife involvement in purchases has traditionally varied widely by product category. The wife has usually acted as the family's main purchasing agent, especially for food, sundries and staple clothing items. Now, traditional purchasing roles are changing and marketers would be wise to see both men and women as possible targets. For expensive products and services such as cars, holidays and housing, the vast majority of husbands and wives engage in joint decision making.[14] Marketers are realising that women actually buy more technology than men do, but consumer electronics stores have been slow to catch on to this fact. Some savvy electronics stores are starting to heed women's complaints of being ignored, patronised or offended by salespeople.

Nevertheless, men and women may respond differently to marketing messages. One study showed that women valued connections and relationships with family and friends and placed a high priority on people. Men, meanwhile, related more to competition and placed a high priority on action. Marketers are taking more direct aim at women, with products such as Kellogg's Special K brand or paint manufacturer Jotun's brand 'Lady'.[15] Bang & Olufsen is in the lead when it comes to targeting female consumers – Beolab 11 is among the many product offerings targeted specifically at gaining acceptance among women.

Another shift in buying patterns is an increase in the number of euros spent and the direct and indirect influence wielded by children and teens. Direct influence describes children's hints,

Beolab 11 subwoofer – a producted targeted specifically at gaining acceptance among women
Photo: © Bang & Olufsen/Gunnar Merrild.

requests and demands – 'I want to go to McDonald's'. Indirect influence means that parents know the brands, product choices and preferences of their children without hints or outright requests ('I think Tommy would want to go to McDonald's'). Research conducted at the University of Vienna, Austria, suggests that twice as many purchases in supermarkets are triggered by children than their parents are aware of. A total of 178 parents shopping with their child in Austrian supermarkets were unobtrusively observed while strolling through the aisles, after which they were interviewed. When asked how many products their children had made them buy, on average parents reported only half the number that had been secretly observed.[16] On a similar note, other studies found that English (UK) and Israeli children exercise quite strong influence on family decision making.[17] Children are highly involved and influential in regard to products of which they are primary users, such as toys, clothing, education and entertainment. Approximately 25 per cent of Israeli children, 40 per cent of English children and a little over two-thirds of US children were reported to be involved in decision making regarding family consumption matters as well. Indeed, research has shown that teenagers are playing a more active role than before in helping parents choose a car, audio/mobile phone equipment or a holiday spot.[18] That is why car manufacturers are upping their marketing programmes for children as young as five. Television can be especially powerful in reaching children and marketers are using it to target them at younger ages than ever before with product tie-ins for just about everything. By the time children are around two years old, they can often recognise characters, logos and specific brands. They can distinguish between advertising and programming by about ages six or seven. A year or so later, they can understand the concept of persuasive intent on the part of advertisers. By nine or ten, they can perceive the discrepancies between message and product.[19] Millions of young people under the age of 17 are also online. Marketers have jumped online with them, offering freebies in exchange for personal information. Many have come under fire for this practice and for not clearly differentiating ads from games or entertainment. Establishing ethical and legal boundaries in marketing to children online and offline continues to be a hot topic as consumer advocates decry the commercialism they believe such marketing engenders.

Roles and status

A person participates in many groups – family, clubs, organisations. Groups are often an important source of information and help to define norms for behaviour. We can define a person's position in each group to which he belongs in terms of role and status. A **role** consists of the activities a person is expected to perform. Each role carries a **status**. A senior vice president of marketing has more status than a sales manager, and a sales manager has more status than an office clerk. People choose products that reflect and communicate their role and actual or desired status in society. Thus, marketers must be aware of the symbol potential of products, brands and company logos. Niels van Quaquebeke and Steffen Giessner of the Rotterdam School of Management showed logos of 100 Global 500 companies to two groups of participants. One group rated them on attractiveness and symmetry; the other judged whether the logo suggested that the company behaved ethically. Their finding? Rationally or not, people associate symmetrical logos with more ethical, socially responsible behaviour.

The individual consumer

A buyer's decisions are also influenced by personal characteristics. These include the buyer's age and stage in the life cycle, occupation and economic circumstances, personality and self-concept, and lifestyle and values. Because many of these characteristics have a direct impact on consumer behaviour, it is important for marketers to follow them closely.

Age and stage in the life cycle

Our taste in food, clothes, furniture and recreation is often related to our age. For example, it is not at all uncommon for parents and teens to have different clothing preferences.[20] Consumption is also shaped by the *family life cycle* and the number, age and gender of people in the household at any point in time. Western households are increasingly fragmented – the traditional family of four with a husband, wife and two children makes up a much smaller percentage of total households than it once did.[21] In addition, *psychological life cycle* stages may matter. Adults experience certain 'passages' or 'transformations' as they go through life.[22] Yet the behaviour people exhibit as they go through these passages, such as becoming a parent, is not necessarily fixed but changes with the times.

Marketers should also consider *critical life events or transitions* – marriage, childbirth, illness, relocation, divorce, career change, widowhood – as giving rise to new needs. These should alert service providers – banks, lawyers, and marriage, employment and bereavement counsellors – to ways they can help.

Occupation and economic circumstances

Occupation also influences consumption patterns. A blue-collar worker will buy work clothes, work shoes and lunchboxes. A company president will buy lounge suits, air travel and country club membership. Marketers try to identify the occupational groups that have above-average interest in their products and services, and even tailor products for certain occupational groups. Computer software companies, for example, design different products for brand managers, engineers, lawyers and physicians.

Product choice is greatly affected by economic circumstances: spendable income (level, stability and time pattern), savings and assets (including the percentage that is liquid), debts, borrowing power and attitudes towards spending and saving. Luxury goods makers such as Gucci, Prada and Burberry can be vulnerable to an economic downturn. If economic indicators point to a recession, marketers can take steps to redesign, reposition and reprice their products, or introduce or increase the emphasis on discount brands so that they can continue to offer value to target customers.

Personality and self-concept

Each person has personality characteristics that influence his or her buying behaviour. By **personality**, we mean a set of distinguishing human psychological traits that leads to relatively consistent and enduring responses to environmental stimuli (including buying behaviour). We often describe it in terms of such traits as self-confidence, dominance, autonomy, deference, sociability, defensiveness and adaptability.[23] Personality can be a useful variable in analysing consumer brand choices. The idea is that brands also have personalities and consumers are likely to choose brands whose personalities match their own. For example, some people may buy a BMW X5 (a large off-road vehicle) to signal self-confidence and dominance. We define **brand personality** as the specific mix of human traits that we can attribute to a particular brand.

Marketing professor Jennifer Aaker researched brand personalities and identified the following traits:[24]

- sincerity (down to earth, honest, wholesome and cheerful);
- excitement (daring, spirited, imaginative and up to date);
- competence (reliable, intelligent and successful);
- sophistication (upper class and charming);
- ruggedness (outdoorsy and tough).

She analysed some well-known brands and found that a number of them tended to be strong on one particular trait: Levi's with 'ruggedness'; MTV with 'excitement'; CNN with 'competence'; Campbell's with 'sincerity'. The implication is that these brands will attract people who are high on the same personality traits. A brand personality may have several attributes: Levi's suggests a personality that is youthful, rebellious, authentic and American.

A cross-cultural study exploring the generalisability of Aaker's scale found that three of the five factors applied in Japan and Spain, but a 'peacefulness' dimension replaced 'ruggedness' in both countries, and a 'passion' dimension emerged in Spain instead of 'competence'.[25] Research on brand personality in Korea revealed two culture-specific factors – passive likeableness and ascendancy – reflecting the importance of Confucian values (i.e. respect for one's parents, humaneness and ritual) in Korea's social and economic systems.[26]

Consumers often choose and use brands that have a brand personality consistent with their own *actual self-concept* (how we view ourselves), although the match may instead be based on the consumer's *ideal self-concept* (how we would like to view ourselves) or even on *others' self-concept* (how we think others see us).[27] These effects may also be more pronounced for publicly consumed products than for privately consumed goods.[28] Consumers who are high 'self-monitors' – that is, sensitive to how others see them – are more likely to choose brands whose personalities fit the consumption situation.[29] Finally, consumers often have multiple aspects of self (serious professional, caring family member, active fun lover) that may be evoked differently in different situations or around different types of people.

Lifestyle and values

People from the same subculture, social class and occupation may lead quite different lifestyles. A **lifestyle** is a person's pattern of living in the world as expressed in activities, interests and opinions. It portrays the 'whole person' interacting with his or her environment. Marketers search for relationships between their products and lifestyle groups. For example, a computer manufacturer might find that most computer buyers are achievement orientated and then aim the brand more clearly at the achiever lifestyle. LOHAS is an example of one of the latest lifestyle trends that businesses are targeting.

Lifestyles are shaped partly by whether consumers are *money constrained* or *time constrained*. Companies aiming to serve money-constrained consumers will create lower-cost products and services. By appealing to thrifty consumers, Wal-Mart has become the largest company in the world. Its 'everyday low prices' have wrung tens of billions of dollars out of the retail supply chain, passing the larger part of savings along to shoppers in the form of rock-bottom bargain prices.[31] Another company focusing on offering low prices to consumers, and aiming to serve money-constrained consumers, is furniture retailer IKEA, which is enjoying global success by appealing to price-conscious shoppers in the furniture market. However, while IKEA may offer good value for money, the IKEA concept is not designed to serve time-constrained consumers. Consumers often have to queue to receive their chosen products from IKEA's storage and thereafter they must assemble the furniture on their own.

LOHAS

Consumers who worry about the environment, want products to be produced in a sustainable way and spend money to advance their personal health, development and potential have been named 'LOHAS', an acronym standing for *lifestyles of health and sustainability*.

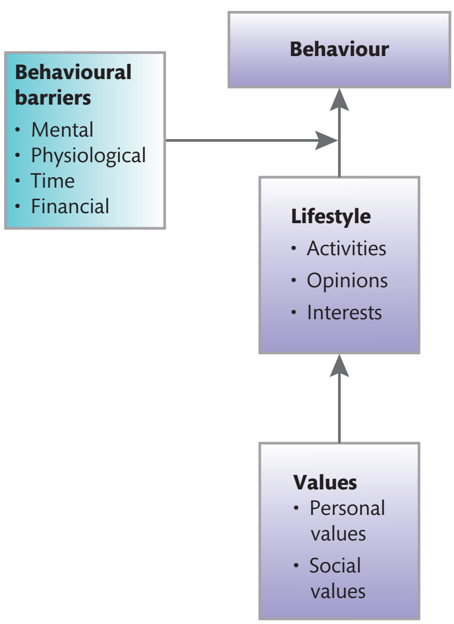
LOHAS consumers ('Lohasians') are interested in products covering a range of market sectors and subsectors, including alternative healthcare, organic clothing and food, energy-efficient appliances and solar panels, as well as socially responsible investing, yoga tapes and ecotourism. While ethical consumerism, eco-consciousness and expectations of positive exchanges among companies and their stakeholders are global phenomena, Europeans are 50 per cent more likely than Americans to buy 'green' products, including solar panels, hybrid cars, natural/organic foods, personal care and home products. Moreover, they are 25 per cent more likely to recycle and more than 30 per cent more likely to influence their friends and family about the environment than Americans. Researchers expect that differences in tax structures, subsidies and the longevity of the availability of LOHAS products induce these variations. Worldwide, this market segment is estimated to be worth €235 billion annually.[30]

Consumers who experience time famine are prone to **multitasking**, doing two or more things at the same time. They will also pay others to perform tasks because time is more important than money. Companies aiming to serve them will create convenient products and services for this group. In some categories, notably food processing, companies targeting time-constrained consumers need to be aware that these very same people want to believe they are *not* operating within time constraints. Marketers call those who seek both convenience and some involvement in the cooking process the 'convenience involvement segment'.[32]

Some marketers – for instance, food retailers and manufacturers – may believe that there is still a gender bias in the way that consumers conduct their lifestyle and in the way they perceive and engage with brands, and therefore they may seek to tailor their products and marketing efforts to female (or male) lifestyles.

Consumer decisions are also influenced by **core values**, the belief systems that underlie attitudes and behaviours. Core values go much deeper than behaviour or attitude and determine, at a basic level, people's choices and desires over the long term. In that sense, core values are trans-situational goals that serve the interests of individuals or groups and act as guiding principles in consumers' lives.[33] Marketers who target consumers on the basis of their values believe that with appeals to people's inner selves it is possible to influence their outer selves – their purchase behaviour. Marketing researchers have for a long time given prominence to values. Consider, for example, Clawson and Vinson, who in 1978 suggested that 'values may prove to be one of the most powerful explanations of, and influences on, consumer behaviour'.[34] The relationships between values, lifestyle and behaviour can be expressed as a hierarchical value–lifestyle–behaviour model (Figure 7.2).

Figure 7.2 Values, lifestyles, and behaviour
Source: T. Hansen (2010) Values and lifestyles, in K. M. Ekström (ed) *Consumer Behaviour – A Nordic Perspective*, Lund: Studentlitteratur, 307–324



In Figure 7.2 no link has been established between values and behaviour, because consumer research suggests that only a weak relationship exists between these two concepts.[35] A distinction is made between social values and personal values. Social values define the desired behaviour or end-state for a society or group, whereas personal values define the desired behaviour or end-state for an individual. Support for the value–lifestyle–behaviour hierarchy has been found in Scandinavian research,[36] which, based on face-to-face survey interviews with 1,000 consumers, found that lifestyle 'intervenes between abstract goal states (personal values) and situation-specific product perceptions and behaviours'. In a similar way, other marketing scholars have pointed out that 'lifestyles are defined as patterns in which people live and spend their time and money. They are primarily functions of consumers' values'.[37]

Consumers' preferences for certain values are likely to be expressed through their activities, interests and opinions, and ultimately through their consumption. For example, certain activities may be preferred by a person who values excitement (e.g. fast cars, mountain biking, bungee jumping), while a person who prioritises security would be likely to have a different set of preferred activities (e.g. going for long walks in the country, attending religious services).[38] Consumer lifestyles are often measured by asking consumers about their activities (work, hobbies and vocations), interests (family, job and community) and opinions (about themselves, others, social issues, politics and business). AIO (activities, interests and opinions) questions can be of a general nature or may be more specifically related to certain products or services. General types of AIO statements may be more useful for standardised mass-consumption products, whereas product/service-related questions may be more useful for differentiated products or services.[39]

The interaction between dimensions

As individuals we are not born with the values and norms that form a culture; we learn them gradually as we grow older. For this learning process to take place, the individual does need to be in contact with other individuals. Such contacts can be in the form of either direct social contacts (e.g. communicating with other individuals) or indirect social contacts (e.g. observing the behaviour or communication carried out by other individuals). In this way, the social dimension mediates the cultural and individual dimensions. Although the process of learning takes place within a certain cultural context that is saturated with ready-made knowledge of consumption,[40] individuals should not be seen as passive creatures who automatically adopt values and norms from other individuals – they also have independent thoughts and feelings. For example, values of individuality and uncertainty avoidance – dominant values in Sweden and Greece,[41] respectively – are not automatically transferred to new generations in those countries. Individuals' thoughts and feelings can be used for active construction and reconstruction of knowledge. Moreover, some thoughts and feelings may be shared with other individuals who have similar or different thoughts and feelings. Over time, such interactions may therefore influence values and norms in a society.

While the individual interacts with the cultural and social settings, the starting point for understanding consumer behaviour is the consumer themselves. Reflecting this, the next section reviews the key psychological processes that influence how an individual perceives, evaluates and responds to marketing stimuli.

Key psychological processes

The starting point for understanding consumer behaviour is the stimulus–response model shown in Figure 7.3. Marketing and environmental stimuli enter the consumer's consciousness, and a set of psychological processes combines with certain consumer characteristics to result in decision processes and purchase decisions. The marketer's task is to understand what happens in the consumer's consciousness between the arrival of the outside marketing stimuli and the ultimate purchase decisions. Four key psychological processes – motivation, perception, learning and memory – fundamentally influence consumer responses.[42]

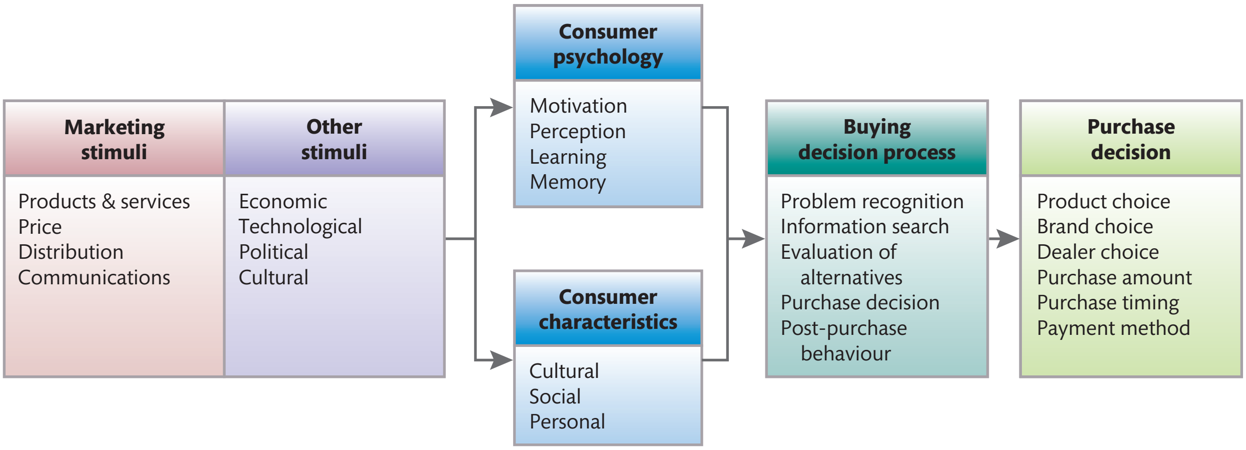


Figure 7.3 Model of consumer behaviour

Motivation: Freud, Maslow, Herzberg

We all have many needs at any given time. Some needs are *biogenic*: they arise from physiological states of tension such as hunger, thirst or discomfort. Other needs are *psychogenic*: they arise from psychological states of tension such as the need for recognition, esteem or belonging. A need becomes a **motive** when it is aroused to a sufficient level of intensity to drive us to act in order to reach a desired goal. Motivation has both direction (we select one goal over another), intensity (the vigour with which we pursue the goal) and persistency (is the motivation situational or enduring?).

Three of the best-known theories of human motivation – those of Sigmund Freud, Abraham Maslow and Frederick Herzberg – carry quite different implications for consumer analysis and marketing strategy.

Freud's theory

Sigmund Freud assumed that the psychological forces shaping people's behaviour are largely unconscious and that a person cannot fully understand, or may not even be aware of, his or her own motivations. When a person examines specific brands, she or he will react not only to their stated capabilities but also to other, less conscious cues such as shape, size, weight, material, colour and brand name. A technique called *laddering* lets us trace a person's motivations from the stated instrumental ones to the more terminal ones. Then the marketer can decide at what level to develop the message and appeal.[43]

Motivation researchers often conduct 'in-depth interviews' with a few dozen consumers to uncover deeper motives triggered by a product. They use various *projective techniques* such as word association, sentence completion, picture interpretation and role playing, many pioneered by Ernest Dichter, a Viennese psychologist who settled in the United States.[44]

Today, motivational researchers continue the tradition of Freudian interpretation. Jan Callebaut identifies different motives a product can satisfy. For example, whisky can meet the need for social relaxation, status or fun. Different whisky brands need to be motivationally positioned to one of these three appeals.[45] Another motivation researcher, Clotaire Rapaille, works on breaking the 'code' behind a lot of product behaviour.[46]

Maslow's theory

Abraham Maslow sought to explain why people are driven by particular needs at particular times.[47] His answer was that human needs are arranged in a hierarchy from most to least pressing: (1) physiological needs, (2) safety needs, (3) social needs, (4) esteem needs, and (5) self-actualisation needs (see Figure 7.4). People will try to satisfy their most important needs first. When a person succeeds in satisfying an important need, he or she will then try to satisfy the next most important need. For example, a starving man (need 1) will not take an interest in the latest happenings in the art world (need 5) or in how he is viewed by others (need 3 or 4), or even in whether he is breathing clean air (need 2), but when he has enough food and water, the next most important need will become salient.

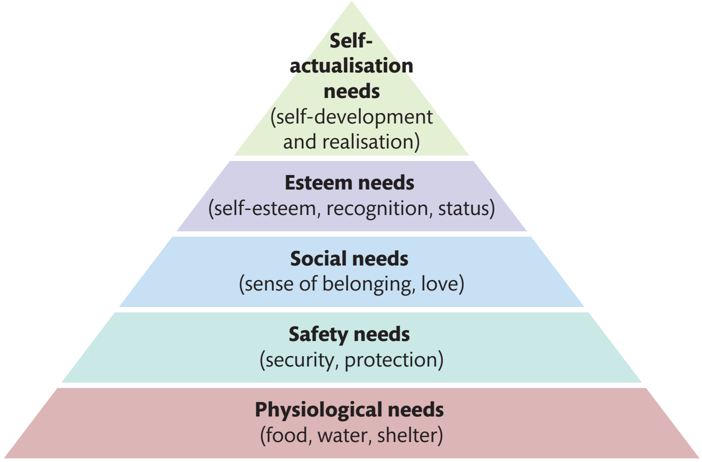


Figure 7.4 Maslow's hierarchy of needs
Source: A. H. Maslow, R. D. Frager (ed) and J. Fadiman (ed) (1987) *Motivation and Personality*, 3rd edn. Copyright © 1987. Printed and electronically reproduced by permission of Pearson Education Inc., Upper Saddle River, New Jersey.

Herzberg's theory

Frederick Herzberg developed a two-factor theory that distinguishes *dissatisfiers* (factors that cause dissatisfaction) from *satisfiers* (factors that cause satisfaction).[48] The absence of dissatisfiers is not enough to motivate a purchase; satisfiers must be present. For example, a computer that does not come with a warranty would be a dissatisfier. Yet the presence of a product warranty would not act as a satisfier or motivator of a purchase because it is not a source of intrinsic satisfaction. Ease of use would be a satisfier.

Herzberg's theory has two implications. First, sellers should do their best to avoid dissatisfiers (for example, a poor training manual or a poor service policy). Although these things will not sell a product, they might easily unsell it. Second, the seller should identify the major satisfiers or motivators of purchase in the market and then supply them. Support for Herzberg's two-factor theory was found in a Danish study investigating the effect of hygiene factors and motivators on visitors' experience and satisfaction with a visit to zoos and aquaria. Bad experiences with hygiene factors such as toilet facilities and eating or refreshment facilities created dissatisfaction with the visit as such, but positive experiences were obviously not capable of creating satisfaction by themselves.[49]

Perception

A motivated person is ready to act. *How* she acts is influenced by her view of the situation. In marketing, perceptions are more important than the reality, because it is perceptions that affect consumers' actual behaviour. **Perception** is the process by which we select, organise and interpret information inputs to create a meaningful picture of the world.[50] The key point is that it depends not only on the physical stimuli but also on the stimuli's relationship to the surrounding field and on conditions within each of us. One person might perceive a fast-talking salesperson as aggressive and insincere; another, as intelligent and helpful. Each will respond differently to the salesperson. People can emerge with different perceptions of the same object because of three perceptual processes: selective attention, selective distortion and selective retention.

Selective attention

Attention is the allocation of processing capacity to some stimulus. Voluntary attention is something purposeful; involuntary attention is grabbed by someone or something. It is estimated that the average person may be exposed to more than 1,500 ads or brand communications a day. Because we have limited mental resources we cannot possibly attend to all of these, so we screen out most stimuli – a process called **selective attention**. Selective attention means that marketers must work hard to attract consumers' notice. The real challenge is to explain which stimuli people will notice. Here are some findings:

1. **People are more likely to notice stimuli that relate to a current need.** A person who is motivated to buy a computer will notice computer ads; he or she will be less likely to notice mobile telephone ads.
2. **People are more likely to notice stimuli they anticipate.** You are more likely to notice computers than radios in a computer store because you don't expect the store to carry radios.
3. **People are more likely to notice stimuli whose deviations are large in relationship to the normal size of the stimuli.** You are more likely to notice an ad offering €5 off the list price of a bottle of wine than you are likely to notice an ad offering €5 off the list price of a computer. This phenomenon is also known as **Weber's law**.

Though we screen out much, we are influenced by unexpected stimuli, such as sudden offers in the mail, over the phone or from a salesperson. Marketers may attempt to promote their offers intrusively in order to bypass selective attention filters.

Selective distortion

Even noticed stimuli do not always come across in the way the senders intended. **Selective distortion** is the tendency to interpret information in a way that fits our preconceptions. Consumers will often distort information to be consistent with prior brand and product beliefs and expectations.[51]

For a stark demonstration of the power of consumer brand beliefs, consider that in 'blind' taste tests one group of consumers samples a product without knowing which brand it is, while another group knows. Invariably, the groups have different opinions, despite consuming *exactly the same product*.

When consumers report different opinions of branded and unbranded versions of identical products, it must be the case that their brand and product beliefs, created by whatever means (past experiences, marketing activity for the brand, something similar), have somehow changed their product perceptions. We can find examples with virtually every type of product.[52] When Coors changed its label from 'Banquet Beer' to 'Original Draft', consumers claimed the taste had changed even though the formulation had not.

Selective distortion can work to the advantage of marketers with strong brands when consumers distort neutral or ambiguous brand information to make it more positive. In other words, beer may seem to taste better, a car may seem to drive more smoothly, or the wait in a bank queue may seem shorter, depending on the particular brands involved.

Selective retention

Most of us do not remember much of the information to which we are exposed, but we do retain information that supports our attitudes and beliefs. Because of **selective retention**, we are likely to remember good points about a product we like and forget good points about competing products. Selective retention again works to the advantage of strong brands. It also explains why marketers need to use repetition – to make sure their message is not overlooked.

Subliminal perception

The selective perception mechanisms require consumers' active engagement and thought. A topic that has fascinated armchair marketers for ages is **subliminal perception**. They argue that marketers embed covert, subliminal messages on packaging or in ads – for example, saying 'buy it' or 'try it,' or displaying an ambiguous image. Consumers are not consciously aware of them, yet they affect behaviour. Although it is clear that our mental processes include many subtle subconscious effects,[53] no evidence supports the notion that marketers can systematically control consumers at that level, especially in terms of changing moderately important or strongly held beliefs.[54]

Learning

When we act, we learn. **Learning** induces changes in our behaviour arising from experience. Most human behaviour is learned, although much learning is incidental. Learning theorists believe that learning is produced through the interplay of drives, stimuli, cues, responses and reinforcement.

Two popular approaches to learning are classical conditioning and operant (instrumental) conditioning.

A **drive** is a strong internal stimulus impelling action. **Cues** are minor stimuli that determine when, where and how a person responds. Suppose you buy an Apple computer. If your experience is rewarding, your response to computers and Apple will be positively reinforced. Later on, when you want to buy a new mobile phone, you may assume that because Apple makes good computers, it also makes good mobile phones. In other words, you *generalise* your response to similar stimuli. A countertendency to generalisation is discrimination. **Discrimination** means we have learned to recognise differences in sets of similar stimuli and can adjust our responses accordingly: that is, the ability to notice even small differences in product attributes (e.g. taste, smell, freshness) between brands is learned.

Learning theory teaches marketers that they can build demand for a product by associating it with strong drives, using motivating cues and providing positive reinforcement. A new company can enter the market by appealing to the same drives that competitors use and by providing similar cues, because buyers are more likely to transfer loyalty to similar brands (generalisation); or the company might design its brand to appeal to a different set of drives and offer strong cue inducements to switch (discrimination).

Some researchers prefer more active, cognitive approaches when learning depends upon the inferences or interpretations that consumers make about outcomes (was an unfavourable consumer experience due to a bad product or did the consumer fail to follow instructions properly?). The **hedonic bias** says that people have a general tendency to attribute success to themselves and failure to external causes. Consumers are thus more likely to blame a product than themselves, putting pressure on marketers to carefully explicate product functions in well-designed packaging and labels, instructive ads and websites, and so on.

Memory

All the information and experiences we encounter as we go through life can end up in our long-term memory. Cognitive psychologists distinguish between **short-term memory (STM)** – a temporary and limited repository of information – and **long-term memory (LTM)** – a more permanent, essentially unlimited repository.

Most widely accepted views of long-term memory structure assume we form some kind of associative model.[55] For example, the **associative network memory model** views LTM as a set of nodes and links. Nodes are stored information connected by links that vary in strength. Any type of information can be stored in the memory network, including verbal, visual, abstract and contextual. A spreading activation process from node to node determines how much we retrieve and what information we can actually recall in any given situation. When a node becomes activated because we are encoding external information (when we read or hear a word or phrase) or retrieving internal information from LTM (when we think about some concept), other nodes are also activated if they are strongly enough associated with that node.

In this model, we can think of consumer brand knowledge as a node in memory with a variety of linked associations. The strength and organisation of these associations will be important determinants of the information we can recall about the brand. **Brand associations** consist of all brand-related thoughts, feelings, perceptions, images, experiences, beliefs, attitudes and so on that become linked to the brand node.

We can think of marketing as a way of making sure consumers have the right types of product and service experience to create the right brand knowledge structures and maintain them in memory. Companies such as Procter & Gamble like to create mental maps of consumers (i.e. representations of how consumers perceive the physical world) that depict their knowledge of a particular brand in terms of the key associations that are likely to be triggered in a marketing setting, and their relative strength, favourability and uniqueness to consumers.

Memory processes

Memory is a very constructive process because we don't remember information and events completely and accurately. Often we remember bits and pieces and fill in the rest based upon whatever else we know.

Memory encoding describes how and where information gets into memory. The strength of the resulting association depends on how much we process the information at encoding (how much we think about it, for instance) and in what way.[56] In general, the more attention we pay to the meaning of information during encoding, the stronger the resulting associations in memory will be.[57] When a consumer actively thinks about and 'elaborates' on the significance of product or service information, stronger associations are created in memory. It is also easier for consumers to create an association to new information when extensive, relevant knowledge structures already exist in memory. One reason why personal experiences create such strong brand associations is that information about the product is likely to be related to existing knowledge.

The ease with which we can integrate new information into established knowledge structures also clearly depends on its simplicity, vividness and concreteness. Repeated exposures to information provide greater opportunity for processing and thus the potential for stronger associations. Advertising research in a field setting, however, suggested that high levels of repetition for an uninvolving, unpersuasive ad are unlikely to have as much sales impact as lower levels of repetition for an involving, persuasive ad.[58]

Memory retrieval

Memory retrieval is the way information gets out of memory. According to the associative network memory model, a strong brand association is both more accessible and more easily recalled by 'spreading activation'. Our successful recall of brand information does not depend only on the initial strength of that information in memory. Three factors are particularly important.

First, the presence of *other* product information in memory can produce interference effects and cause us either to overlook or to confuse new data. One marketing challenge in a category crowded with many competitors – for example, airlines, financial services and insurance companies – is that consumers may mix up brands. Second, the time between exposure to information and encoding matters – the longer the time delay, the weaker the association. The time elapsed since the last exposure opportunity, however, has been shown generally to produce only gradual decay. Cognitive psychologists believe memory is extremely durable, so that once information becomes stored in memory, its strength of association decays very slowly.[59] Third, information may be *available* in memory but not be *accessible* (able to be recalled) without the proper retrieval cues or reminders. The particular associations for a brand that come to mind depend on the context in which we consider it. The more cues linked to a piece of information, however, the greater the likelihood that we can recall it. The effectiveness of retrieval cues is one reason why marketing *inside* a supermarket or any retail store is so critical – the actual product packaging, the use of in-store mini billboard displays, and so on. The information they contain and the reminders they provide of advertising or other information already conveyed outside the store will be prime determinants of consumer decision making. Memory can often be reconstructive, however, and consumers may remember an experience with a brand differently after the fact due to intervening factors or other events.[60]

Perspectives on consumer behaviour

Understanding consumer behaviour may often be complicated since many different factors influence the behaviour and many different forms of behaviour exist. Several perspectives on consumer behaviour can be considered.

The behaviourist perspective

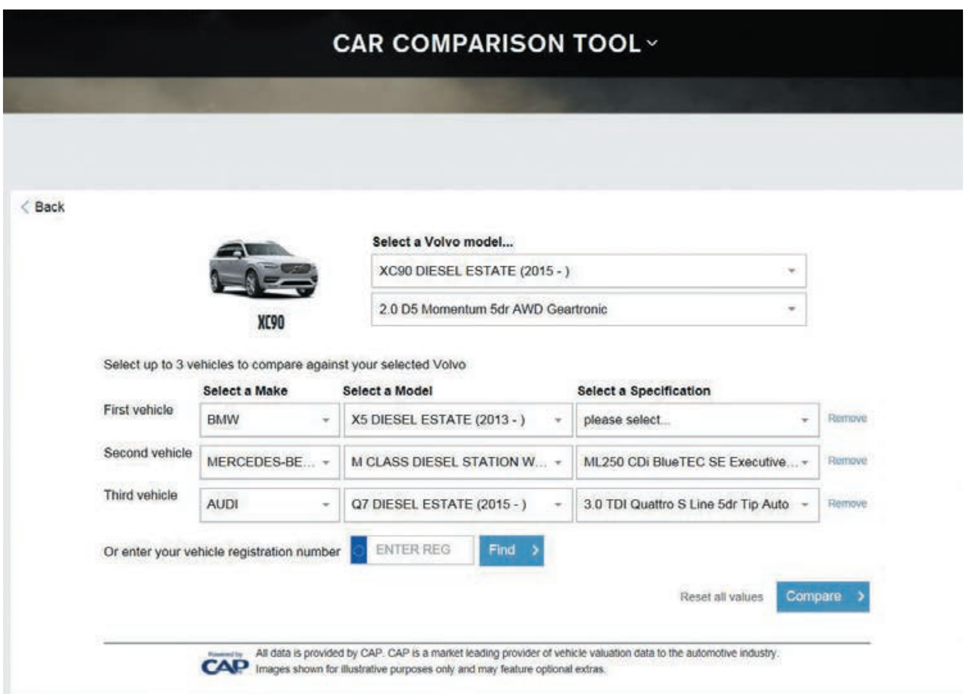
The behaviourist perspective focuses on the impact of external influences on consumer behaviour. In the behaviourist perspective, the consumer is viewed as a 'black box' in the sense that the consumer's behaviour is a conditioned response to marketing stimuli. The complex mental processes that a consumer may undertake in relation to a certain choice situation are not given much attention in the behaviourist perspective and therefore this perspective is also often referred to as an S–R (stimuli–response) approach. Classical conditioning and operant conditioning are two main theories that have been developed to explain the S–R mechanism.

In classical conditioning, a stimulus with a 'known', or unconditioned, response (for example, lightning is regarded by most people as something powerful, fresh and natural) is paired with a stimulus with a 'neutral' response (for example, a chewing-gum brand). After several exposures to the two stimuli paired together, the consumer gradually learns to associate the chewing gum brand with – for a chewing gum producer – the very favourable characteristics of lightning. Classical conditioning is very often used in advertising – another example is pairing popular music with the products presented in TV commercials to generate positive feelings and liking towards the products.[61]

Operant conditioning presupposes that consumers are likely to repeat a behaviour for which they are positively rewarded (reinforced). For example, if a consumer receives a friendly smile when shopping at a retail outlet, she may be more likely to shop there again than if she has been ignored or, even worse, been exposed to a rude employee. While classical and operant conditioning are both part of the behaviourist perspective, they differ on when the learning takes place. In classical conditioning, the learning of associations between stimuli takes place before the response, whereas learning in operant conditioning takes place after the response.

The information-processing perspective

The information-processing perspective emerged in consumer behaviour in the 1960s and 1970s and considers how consumers mentally process, store, retrieve and use marketing information in the decision process. The information-processing perspective posits that the interaction between the consumer and marketing information is an ongoing cognitive process in which the consumer develops beliefs and attitudes towards the marketing offer. The information-processing perspective presupposes that consumers behave as problem-solving cognitive individuals reaching for a reasoned decision.[62] The 'hierarchy of effects' information-processing model[63] suggests that a stimulus is first processed at its most basic level and then at more abstract levels. Consumers are expected to use their cognitive resources in forming beliefs (cognitive component) about the attributes of a product, which in turn may result in the development of an overall feeling or attitude (affective component) in the sense of liking/disliking a product. Consumers with a positive attitude towards a product are expected to be more willing to consider buying it (**conative** component) than consumers with a less positive attitude towards the same product.



Marketing communication reflecting the information-processing perspective
Source: www.volvocars.com/uk/buy/sales/car-comparison-tool.

The direct marketing implication of the information-processing perspective is that in order to sell their products and services, marketers should expose consumers to information about their offers. Consumers are assumed to use the information actively for the purpose of completing five decision-making activities, comprising problem recognition, information search, alternative evaluation, choice and post-purchase evaluation, where problem recognition and information search relate to the cognitive component, alternative evaluation relates to the cognitive and the affective components, choice relates to the conative component, and post-purchase evaluation relates to the cognitive and affective components. The Volvo website photo illustrates how market communication sometimes reflects the information-processing perspective.

The emotional perspective

In contrast to the information-processing perspective, the emotional perspective proposes that consumer affections, as with emotional responses, should be included in the explanation of consumer decision making.[64] The consumer looks for new experiences via consumption. In this connection, the primary purpose is not to evaluate relations between attitude, beliefs and the environment, but to fulfil a desire and to obtain pleasure in life. Emotions are caused by consumers' exposure to specific stimuli. Surprise (an emotion), for instance, may be caused by an unexpected gift. The emotional perspective complements the information-processing perspective on consumer behaviour by taking into account consumers' affective responses, like the possible emotional responses to the perception and judgement of products and consumption experiences.

Marketing in action

Pandora

Danish jewellery maker Pandora has taken insights from the emotional bonding experienced in the childhood collecting habit and channelled them towards a target audience of women aged 25 to 49. What really sparked the company's expansion was the creation of the Pandora charm bracelet, which was introduced in Denmark in 2000. Pandora offers numerous charms that women can purchase to reflect their personality, or a special occasion. Typically, consumers do not buy the entire 'package' at a time, but one that they can build on into 'infinity'. The charm bracelet concept became such a success that it was launched in the USA only a few years later (in 2003). In 2004, the concept was introduced in Australia and Germany. While the bracelet itself is not that expensive, the charms can be purchased in many different price categories. Because of the price differentiation, some of the charms are highly suitable for birthday or Christmas presents. Made from solid sterling silver and gold with gemstones, the higher-priced charms may provide the wearer with a more exclusive appearance.

One of the main reasons for consumers' positive engagement with the Pandora bracelet is probably that each charm may represent something that is important in a woman's life. Also, the idea of collecting charms can be seen as a continuation of childhood collecting and subsequently as a reflection of each woman's personal story and individuality. In childhood, many girls (and boys . . .) collect all sorts of things (erasers, figurines, coins, etc.). According to the Pandora website, the company mission is 'to offer women across the world a universe of high-quality, hand-finished, modern and genuine jewellery products at affordable prices, thereby inspiring women to express their individuality'. According to Pandora, 'all women have their individual stories to tell – a personal collection of special moments that makes them who they are. That is why we celebrate these moments.'

Pandora makes other jewellery besides bracelets, such as the Pandora Black Diamond Watch collection, which offers consumers the possibility to exchange various parts (bezels and straps). In 2013, and for the first time since launching the original Moments bracelet, Pandora introduced a brand-new charm bracelet concept, the Pandora Essence Collection, which is based on inner values such as passion, wisdom and love.

At Pandora's website it is possible to 'design' one's own jewellery. For example, a woman can choose a particular bracelet, equip it with the charms she likes, and immediately see the result. As she goes along, she can instantly see what the price will be. Although Pandora is positioned as an 'affordable luxury' product, adding just 10–12 charms may quickly push prices up to €2,000, or even more.

Pandora's products are now sold in more than 70 countries on six continents through over 10,300 points of sale, including around 900 concept stores. In 2013, Pandora managed to reach new record revenue of €1.2 billion. Pandora spent 10 per cent of revenue on marketing, supplemented by further marketing spent by franchisees, multi-branded retailers and third-party distributors. Since 1989, as the company has expanded, the jewellery has been produced in Thailand, where the company now runs four fully-owned manufacturing facilities. In autumn 2010, Pandora was introduced at the NASDAQ OMX Copenhagen Stock Exchange.

The Pandora Essence Collection is based on inner values such as passion, wisdom and love
Source: Kumar Sriskandan/Alamy.

In 2014 Pandora entered into a new strategic alliance with The Walt Disney Company that gave the brand a presence in Walt Disney World Resort and Disneyland Resort, beginning with the sponsorship of the Wishes Nighttime Spectacular at Magic Kingdom Park in Florida. In addition, Pandora, in collaboration with Disney Consumer products, created an original collection of Disney-themed jewellery, which launched at retail locations in 2014. In 2017, Pandora entered one of the largest jewellery markets in the world with the official opening of the first Pandora concept store in India.

Like many other popular global brands, Pandora is faced with the challenge of counterfeiting and unauthorised sellers unlawfully using its brand name. Shoppers buying fakes at a fraction of the price could seriously damage the brand. To prevent this tendency from spreading, Pandora continues to distinguish itself with the high quality of its products and the aspirational nature of its brand.

Questions

1. What risks does Pandora face? Can it continue with its charm bracelet concept?
2. Discuss the importance of a strong consumer brand to Pandora.
3. Will the strategic alliance with The Walt Disney Company strengthen the Pandora brand? Why/why not?

Sources: PANDORA (2017) Pandora enters Indian market with first concept store, press release 21 April; PANDORA (2014) PANDORA and Disney announce new strategic alliance, press release, 12 August; PANDORA (2013) Annual Report; M. Costa (2011) Pandora has glamourised collecting for grown-ups but needs to protect its brand, *Marketing Week*, 16 February; https://uk.pandora.net; Pandora Annual Report 2010; J. C. Hansen (2011) Hype og spekulation er Pandoras værste fjende, Berlingske Tidende, 16 April, 6; P. Tougaard (2011) Lidt kongelig har man da lov at være, JydskeVestkysten, 16 April, 14.

Consumer emotions have been shown to have several significant effects. Positive emotions can make one kinder, more generous, more resistant to temptation and more willing to delay self-rewards.[65] Consumers' emotions may also lead to action. As an example, the experience of a rude employee in a service company may lead to some internal reactions, such as 'displeasure'. These internal reactions may lead to consumer complaints. Emotions are based on the appraisals (i.e. conscious or unconscious judgement and interpretation of stimuli) that consumers make of stimuli in the environment.[66] A consumer who perceives a product to be of 'good quality' may form an affective response to this appraisal. It is not the product itself that may produce an emotional response, but the consumer's perception and judgement of the product. For example, a consumer may feel differently about a favourite food product after learning that this particular product contains higher levels of salt, sugar or fat than expected.

The cultural perspective

Over recent decades, consumer researchers have been increasingly interested in the cultural aspects of consumer behaviour. In the cultural perspective, marketing is seen as a value transmitter that simultaneously shapes culture and is shaped by it. Marketing is then a channel through which cultural meanings are transferred to consumer goods.[67] In this way, culture is the 'prism' through which consumers view products and try to make sense of their own and other people's consumer behaviour.[68] Products should therefore also be regarded as symbols – objects that represent beliefs, norms and values. While symbols may be used in this way for communication among social groups, marketers can also use symbols when positioning their products. Products are not bought just because they may deliver some wanted functional consequences – they are also bought because of their appearance, colour and name. The popularity of designer bags, sunglasses or shoes from, for example, Marc Jacobs, Dolce & Gabbana or Gucci is an example of this notion. However, the symbolic associations that consumers attach to various appearances, colours and names may vary widely across cultures. To exemplify, the Starbucks brand was found to have very different meanings to local coffee shop patrons in Seattle, who felt a sense of pride in the success Starbucks has experienced in recent years, and to young Japanese coffee shop visitors, who tended to view Starbucks as a symbol of an exciting, fashionable, contemporary lifestyle contrasting restrictive local traditions.[69]

A multi-perspective approach

Consumers do not have unlimited mental resources available for receiving, evaluating and using information.[70] Often, therefore, consumers do not undertake comparative evaluations of various brands and associated attributes for the purpose of reaching a reasonable decision, as presupposed in the information-processing perspective. Since consumers' processing capacity is limited, they cannot process large amounts of cognitive information in relation to all choice situations and may therefore seek to direct their use of mental resources at the information most easily available[71] or the information that is believed to offer the greatest value per used resource unit. Also, research shows that consumers might favour beliefs that are in accordance with a preferred conclusion.[72] Moreover, consumers who have strongly held preferences are likely to counter-argue preference-inconsistent information more than preference-consistent information.[73] These findings suggest that there is a resistance to devoting resources to change already established preferences and that consumers therefore may sometimes look for simple associations between product and expected benefit, which reinforce their established preferences or support their preferred conclusion. In this way, the behaviourist perspective complements the information-processing perspective.

Also, the relationship between emotions and cognition remains an issue in psychology and in consumer behaviour. Most consumer researchers[74] believe that we do not become emotional about unimportant things, but about values, goals, intentions, plans and so on. In other words, we cognitively perceive and evaluate what is happening in the environment and this 'knowledge' needs to be associated with personal relevant issues (e.g. personal well-being, well-being of relevant others, etc.) for an emotion to occur. Consumers' underlying evaluations of a situation combine to elicit specific emotions. For example, someone who has wrecked their car because they were talking on their mobile phone and were therefore distracted may experience guilt, whereas someone whose car was wrecked by someone to whom they lent their car may be angry.[75] In other words, cognitions and emotions arise as a result of an interaction between consumers, objects and situations – and this interaction may differ across cultures and subcultures. When studying consumer behaviour it is therefore important that none of the different perspectives is excluded beforehand, but that the analyst keeps an open mind to various explanations for consumers' behaviour.

The buying decision process: the five-stage model

Psychological processes play an important role in understanding how consumers actually make their buying decisions.[76] Table 7.1 lists some key consumer behaviour questions in terms of 'who, what, when, where, how and why'.

Table 7.1 Understanding consumer behaviour

Who buys our product or service?
Who makes the decision to buy the product?
Who influences the decision to buy the product?
How is the purchase decision made? Who assumes what role?
What does the customer buy? What needs must be satisfied?
Why do customers buy a particular brand?
Where do they go or look to buy the product or service?
When do they buy? Any seasonality factors?
How is our product perceived by customers?
What are customers' attitudes towards our product?
What social factors might influence the purchase decision?
How do customers' lifestyles influence their decisions?
How do personal or demographic factors influence the purchase decision?

Source: Based on G. Belch and M. Belch (2012) *Advertising and Promotion*, 9th edn, Homewood, IL: Irwin.

Smart companies try to fully understand the customers' buying decision process – all their experiences in learning, choosing, using and even disposing of a product.[77] Social media can give you a very quick gauge on things. Unilever uses social media, especially Facebook, to investigate consumer buying behaviour. 'Our job as marketers is to ask, "What are the key things that I need to look for?"', says Rachel Bristow, Unilever's marketing and communications buying director.[78]

Marketing scholars have developed a 'stage model' of the buying decision process (see Figure 7.5). The consumer passes through five stages: problem recognition, information search, evaluation of alternatives, purchase decision and post-purchase behaviour. Clearly, the buying process starts long before the actual purchase and has consequences long afterwards.[79]

Consumers don't always pass through all five stages in buying a product. They may skip or reverse some. When you buy your regular brand of toothpaste, you go directly from the need for

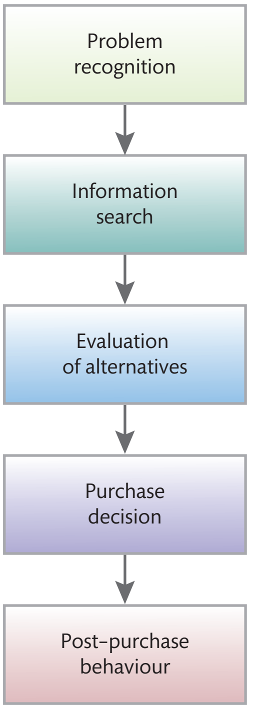


Figure 7.5 Five-stage model of the consumer buying process

toothpaste to the purchase decision, skipping information search and evaluation. The model in Figure 7.5 provides a good frame of reference, however, because it captures the full range of considerations that arises when a consumer faces a highly involving new purchase.[80]

Problem recognition

The buying process starts when the buyer recognises a problem or need triggered by internal or external stimuli. With an internal stimulus, one of the person's normal needs – hunger, thirst, sex – rises to a threshold level and becomes a drive, or a need can be aroused by an external stimulus – a person may admire a neighbour's new car or see a television ad for a Madeiran holiday, which triggers thoughts about the possibility of making a purchase.

Marketers need to identify the circumstances that trigger a particular need by gathering information from a number of consumers. They can then develop marketing strategies that trigger consumer interest. Particularly for discretionary purchases such as luxury goods, holidays and entertainment options, marketers may need to increase consumer motivation so that a potential purchase gets serious consideration.

Information search

Surprisingly, consumers often search for limited amounts of information. Surveys have shown that for durables, half of all consumers look at only one shop, and only 30 per cent look at more than one brand of appliance. We can distinguish between two levels of involvement with search. The milder search state is called *heightened attention*. At this level a person simply becomes more receptive to information about a product. At the next level, the person may enter an *active information search*: looking for reading material, phoning friends, going online and visiting shops to learn about the product.[81]

Information sources

Major information sources to which consumers will turn fall into four groups:

- **Personal:** family, friends, neighbours, acquaintances.
- **Commercial:** advertising, websites, salespeople, dealers, packaging, displays.
- **Public:** mass media, consumer-rating organisations.
- **Experiential:** handling, examining, using the product.

The relative amount and influence of these sources vary with the product category and the buyer's characteristics. Generally speaking, the consumer receives the most information about a product from commercial – that is, marketer-dominated – sources. However, the most effective information often comes from personal sources or public sources that are independent authorities. Each information source performs a different function in influencing the buying decision. Commercial sources normally perform an information function, whereas personal sources perform a legitimising or evaluation function. For example, doctors often learn of new drugs from commercial sources but turn to other doctors for evaluations.

Search dynamics

Through gathering information, the consumer learns about competing brands and their features. The first box in Figure 7.6 shows the *total* set of brands available to the consumer. The individual consumer will come to know only a subset of these brands, the *awareness set*. Some brands, the *consideration set*, will meet initial buying criteria. As the consumer gathers more information, only a few, the *choice set*, will remain strong contenders. The consumer makes a final choice from this set.[82]

Marketers need to identify the hierarchy of attributes that guides consumer decision making in order to understand different competitive forces and how these various sets are formed. This process of identifying the hierarchy is called **market partitioning**. Years ago, most car buyers first decided on the manufacturer and then on one of its car divisions (*brand-dominant hierarchy*). A buyer might favour General Motors' cars and, within this set, a Saab. Today, many buyers decide first on the nation from which they want to buy a car (*nation-dominant hierarchy*). Buyers may first decide they want to buy a German car, then Audi, then the A4 model of Audi.

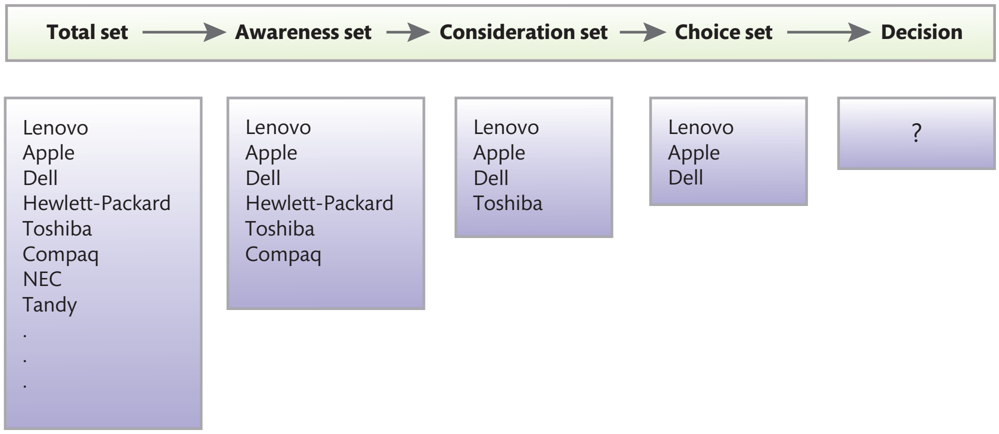


Figure 7.6 Successive sets involved in consumer decision making

The hierarchy of attributes can also reveal customer segments. Buyers who first decide on price are price dominant; those who first decide on the type of car (sports, passenger, estate car) are type dominant; those who first decide on the car brand are brand dominant. Type/price/brand-dominant consumers make up a segment; quality/service/type buyers make up another. Each segment may have distinct demographics, psychographics and mediagraphics, and different awareness, consideration and choice sets.[83]

Figure 7.6 makes it clear that a company must strategise to get its brand into the prospect's awareness, consideration and choice sets. As another example, if a food shop owner arranges yogurt first by brand (such as Danone and Yoplait) and then by flavour within each brand, consumers will tend to select their flavours from the same brand. However, if all the strawberry yogurts are together, then all the vanilla and so forth, consumers will probably choose which flavours they want first, then choose the brand name they want for that particular flavour. Australian supermarkets arrange meats by the way they might be cooked, and shops use more descriptive labels, such as 'a 10-minute herbed beef roast'. The result is that Australians buy a greater variety of meats than UK shoppers, who choose from meats laid out by animal type – beef, chicken, pork and so on.[84]

The company must also identify the other brands in the consumer's choice set so that it can plan the appropriate competitive appeals. In addition, the company should identify the consumer's information sources and evaluate their relative importance. Asking consumers how they first heard about the brand, what information came later and the relative importance of the different sources will help the company prepare effective communications for the target market.

Evaluation of alternatives

How does the consumer process competitive brand information and make a final value judgement? No single process is used by all consumers, or by one consumer in all buying situations. There are several processes, and the most current models see the consumer forming judgements largely on a conscious and rational basis.

Some basic concepts will help us understand consumer evaluation processes. First, the consumer is trying to satisfy a need. Second, the consumer is looking for certain benefits from the product solution. Third, the consumer sees each product as a bundle of attributes with varying abilities for delivering the benefits sought to satisfy this need. The attributes of interest to buyers vary by product – for example:

- **hotels**: location, cleanliness, atmosphere, price;
- **mouthwash**: colour, effectiveness, germ-killing capacity, taste/flavour, price;
- **tyres**: safety, tread life, ride quality, price.

Consumers will pay the most attention to attributes that deliver the sought-after benefits. We can often segment the market for a product according to attributes important to different consumer groups.

Beliefs and attitudes

Through experience and learning, people acquire beliefs and attitudes. These in turn influence buying behaviour. A **belief** is a descriptive thought that a person holds about something. Just as important are **attitudes** – a person's enduring favourable or unfavourable evaluations, emotional feelings and action tendencies towards some object or idea.[85] People have attitudes towards almost everything: religion, politics, clothes, music, food. Attitudes put us into a frame of mind: liking or disliking an object, moving towards or away from it. They lead us to behave in a fairly consistent way towards similar objects. Because attitudes economise on energy and thought, they can be very difficult to change. A company is often well advised to fit its product into existing attitudes rather than to try to change attitudes. For instance, Arla Foods ran an ad campaign with the slogan 'Good Food Deserves Lurpak' (a butter brand). To many, butter may not be interesting in itself but rather because of what it does to the taste experience of a well-prepared meal. Hence, the basic idea was to remind consumers of an existing attitude: namely, that Lurpak tastes better than competing brands and products.[86]

Expectancy-value model

The consumer arrives at attitudes towards various brands through an attribute evaluation procedure.[87] She or he develops a set of beliefs about where each brand stands on each attribute. The **expectancy-value model** of attitude formation posits that consumers evaluate products and services by combining their brand beliefs – the positives and negatives – according to importance.

Suppose Swedish student Helena Olsson has narrowed her choice set to four laptop computers (A, B, C, D). Assume she's interested in four attributes: memory capacity, graphics capability, size and weight, and price. Table 7.2 shows her beliefs about how each brand rates on the four attributes. If one computer dominated the others on all the criteria, we could predict that Helena would choose it. But, as is often the case, her choice set consists of brands that vary in their appeal. If Helena wants the best memory capacity, she should buy A; if she wants the best graphics capability, she should buy B; and so on.

If we knew the weights Helena attached to the four attributes, we could more reliably predict her computer choice. Suppose she assigned 40 per cent of the importance to the computer's memory capacity, 30 per cent to graphics capability, 20 per cent to size and weight, and 10 per cent to price. To find Helena's perceived value for each computer, according to the expectancy-value model, we multiply her weights by her beliefs about each computer's attributes. This computation leads to the perceived values shown in Table 7.2.

$$
\begin{aligned}
\text{Computer A} &= 0.4(10) + 0.3(8) + 0.2(6) + 0.1(4) = 8.0\\
\text{Computer B} &= 0.4(8) + 0.3(9) + 0.2(8) + 0.1(3) = 7.8\\
\text{Computer C} &= 0.4(6) + 0.3(8) + 0.2(10) + 0.1(5) = 7.3\\
\text{Computer D} &= 0.4(4) + 0.3(3) + 0.2(7) + 0.1(8) = 4.7
\end{aligned}
$$

An expectancy-model formulation predicts that Helena will favour computer A, which (at 8.0) has the highest perceived value.[88]

Table 7.2 A consumer's brand beliefs about laptop computers

	Attribute			
Computer	**Memory capacity**	**Graphics capability**	**Size and weight**	**Price**
A	10	8	6	4
B	8	9	8	3
C	6	8	10	5
D	4	3	7	8

Note: Each attribute is rated from 0 to 10, where 10 represents the highest level on that attribute. Price, however, is indexed in a reverse manner, with a 10 representing the lowest price because a consumer prefers a low price to a high price.

Suppose most computer buyers form their preferences the same way. Knowing this, the marketer of computer B, for example, could apply the following strategies to stimulate greater interest in brand B:

- **Redesign the computer.** This technique is called *real repositioning*.
- **Alter beliefs about the brand.** Attempting to alter beliefs about the brand is called *psychological repositioning*.
- **Alter beliefs about competitors' brands.** This strategy, called *competitive depositioning*, makes sense when buyers mistakenly believe a competitor's brand has more quality than it actually has.
- **Alter the importance weights.** The marketer could try to persuade buyers to attach more importance to the attributes in which the brand excels.
- **Call attention to neglected attributes.** The marketer could draw buyers' attention to neglected attributes, such as styling or processing speed.
- **Shift the buyer's ideals.** The marketer could try to persuade buyers to change their ideal levels for one or more attributes:[89] for example, changing buyers' opinions regarding the ideal size for a computer.

Purchase decision

In the evaluation stage, the consumer forms preferences among the brands in the choice set. The consumer may also form an intention to buy the most preferred brand. In executing a purchase intention, the consumer may make up to five sub-decisions: brand (brand A), dealer (dealer 2), quantity (one computer), timing (weekend) and payment method (credit card).

Non-compensatory models of consumer choice

The expectancy-value model is a compensatory model, in that perceived good things for a product can help to overcome perceived bad things. But consumers often take 'mental short cuts' using simplifying choice heuristics. **Heuristics** are rules of thumb or mental short cuts in the decision process.

With **non-compensatory models** of consumer choice, positive and negative attribute considerations do not necessarily net out. Evaluating attributes in isolation simplifies decision making for a consumer, but it also increases the likelihood that he would have made a different choice if he had deliberated in greater detail. We highlight three such choice heuristics here:

1. With the **conjunctive heuristic**, the consumer sets a minimum acceptable cut-off level for each attribute and chooses the first alternative that meets the minimum standard for all attributes. For example, if Helena decided all attributes had to rate at least a 5, she would choose computer C. She would not choose computers A, B or D since computers A and B rate only 4 and 3, respectively, on price, and computer D rates only 4 on memory capacity and 3 on graphics capability.
2. With the **lexicographic heuristic**, the consumer chooses the best brand on the basis of its perceived most important attribute (i.e. memory capacity). With this decision rule, Helena would choose computer A, which has the highest rate on this attribute.
3. With the **elimination-by-aspects heuristic**, the consumer compares brands on an attribute selected probabilistically – where the probability of choosing an attribute is positively related to its importance – and eliminates brands that do not meet minimum acceptable cut-offs.

Our brand or product knowledge, the number and similarity of brand choices and time pressure involved, and the social context (such as the need for justification to a peer or boss) may all affect whether and how we use choice heuristics.[90]

Consumers do not necessarily use only one type of choice rule. Sometimes they adopt a phased decision strategy that combines two or more. For example, they might use a non-compensatory decision rule such as the conjunctive heuristic to reduce the number of brand choices to a more manageable number and then evaluate the remaining brands. One reason for the runaway success of the Intel Inside campaign in the 1990s was that it made the brand the first cut-off for many consumers – they would only buy a personal computer that had an Intel microprocessor. Personal computer makers such as Lenovo, Dell and Gateway had no choice but to support Intel's marketing efforts.

Intervening factors

Even if consumers form brand evaluations, two general factors can intervene between the purchase intention and the purchase decision (Figure 7.7).[91] The first is the *attitudes of others*. The extent to which another person's attitude reduces our preference for an alternative depends on two things: (1) the intensity of the other person's negative attitude towards our preferred alternative; and (2) our motivation to comply with the other person's wishes.[92] The more intense the other person's negativism and the closer the other person is to us, the more we will adjust our purchase intention. The converse is also true.

Related to the attitudes of others is the role played by suppliers of consumer and market information that publish their evaluations. Several consumer reports provide expert reviews of all types of products and services. Examples include J. D. Power, which provides consumer-based ratings of cars, financial services and travel products and services; professional film, book and music reviewers; customer reviews of books and music on Amazon.com; and the increasing number of chatrooms, bulletin boards, blogs and so on where people discuss products, services and companies. Consumers are undoubtedly influenced by these evaluations, as evidenced by the success of a small-budget film such as *Napoleon Dynamite*, which cost only €270,000 to make but grossed over €30 million at the box office thanks to a slew of favourable reviews by cinemagoers on many websites.

The second factor is *unanticipated situational factors*, which may erupt to change the purchase intention. Helena might lose her job, some other purchase might become more urgent, or a store salesperson may turn her off. Preferences and even purchase intentions are not completely reliable predictors of purchase behaviour.

A consumer's decision to modify, postpone or avoid a purchase decision is heavily influenced by *perceived risk*.[93] Consumers may perceive many types of risk in buying and consuming a product:

- **Functional risk:** the product does not perform to expectations.
- **Physical risk:** the product poses a threat to the physical well-being or health of the user or others.
- **Financial risk:** the product is not worth the price paid.
- **Social risk:** the product results in embarrassment in front of others.
- **Psychological risk:** the product does not conform to the consumer's perceived self-image.
- **Time risk:** the failure of the product results in an opportunity cost of finding another satisfactory product.

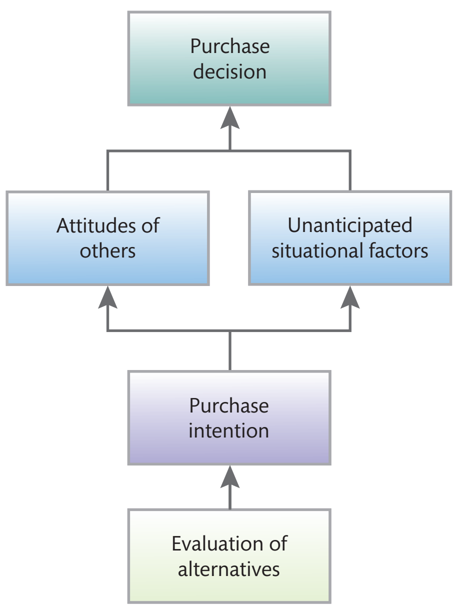


Figure 7.7 Steps between evaluation of alternatives and a purchase decision

The amount of perceived risk varies with the amount of money at stake, the amount of attribute uncertainty and the amount of consumer self-confidence. Consumers develop routines for reducing the uncertainty and negative consequences of risk, such as decision avoidance, information gathering from friends and preferences for national brand names and warranties. Marketers must understand the factors that provoke a feeling of risk in consumers and provide information and support to reduce perceived risk.

Post-purchase behaviour

After the purchase, the consumer might experience dissonance that stems from noticing certain disquieting features or hearing favourable things about other brands and will be alert to information that supports his or her decision. Marketing communications should supply beliefs and evaluations that reinforce the consumer's choice and help them feel good about the brand.

The marketer's job does not end with the purchase therefore. Marketers must monitor post-purchase satisfaction, post-purchase actions and post-purchase product uses.

Post-purchase satisfaction

Satisfaction is a function of the closeness between expectations and the product's perceived performance.[94] If performance falls short of expectations, the consumer is *disappointed*; if it meets expectations, the consumer is *satisfied*; if it exceeds expectations, the consumer is *delighted.* The larger the gap between expectations and performance, the greater the dissatisfaction. Here the consumer's coping style comes into play: some consumers magnify the gap when the product is not perfect and are highly dissatisfied; others minimise it and are less dissatisfied.[95]

Post-purchase actions

If the consumer is satisfied, he or she is more likely to purchase the product again. The satisfied customer will also tend to say good things about the brand to others. Dissatisfied consumers, meanwhile, may abandon or return the product. They may seek information that confirms its high value. They may take public action by complaining to the company, going to a lawyer or complaining to other groups (such as business, private or government agencies). Private actions include deciding to stop buying the product (*exit option*) or warning friends (*voice option*).[96]

Many companies seek to build long-term brand loyalty through 'loyalty programmes'. Post-purchase communications to buyers have been shown to result in fewer product returns and order cancellations. Computer companies, for example, can send a letter to new owners congratulating them on having selected a fine computer. They can place ads showing satisfied brand owners. They can solicit customer suggestions for improvements and list the location of available services. They can write intelligible instruction booklets. They can send owners a magazine containing articles describing new computer applications. In addition, they can provide good channels for speedy redress of customer grievances.

Post-purchase use and disposal

Marketers should also monitor how buyers use and dispose of the product (Figure 7.8). A key driver of sales frequency is product consumption rate – the more quickly buyers consume a product, the sooner they may be back in the market to repurchase it.

One opportunity to increase frequency of product use occurs when consumers' perceptions of usage differ from reality. Consumers may fail to replace products with relatively short life spans soon enough because they overestimate their product life.[97] One strategy to speed up replacement is to tie the act of replacing the product to a certain holiday, event or time of year.

For example, Duracell has run battery promotions tied in with the springtime switch to daylight-saving time. Another strategy is to provide consumers with better information about either when they first used the product or need to replace it, or its current level of performance. Batteries have built-in gauges that show how much power they have left; toothbrushes have colour indicators to indicate when the bristles are worn; and so on. Perhaps the simplest way to increase usage is to learn when actual usage is less than recommended and persuade customers of the merits of more regular usage, overcoming potential hurdles. One way to increase frequency of purchase is to remind consumers when it is time to replace batteries or toothbrushes.

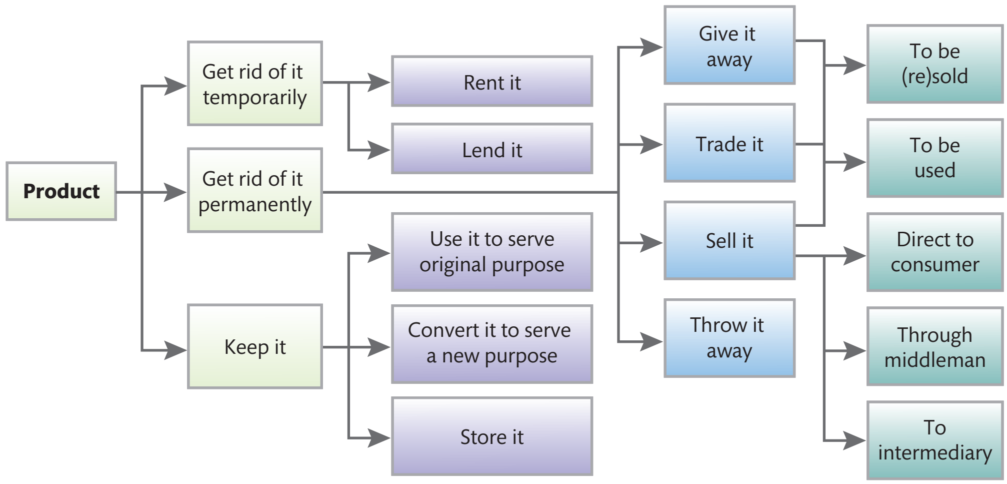


Figure 7.8 How customers use or dispose of products
Source: J. Jacoby, C. K. Berning and T. F. Dietvorst (1977) What about disposition?, *Journal of Marketing*, July, 23. Reprinted with permission of the American Marketing Association.

One way to increase frequency of purchase is to remind consumers when it is time to replace batteries or toothbrushes
Source: Courtesy of Procter & Gamble.

If consumers throw the product away, the marketer needs to know how they dispose of it, especially if – as with batteries, beverage containers, electronic equipment and disposable nappies – it can damage the environment. There is increasing pressure on companies to manage their businesses in an environmentally responsible way. Knowing consumers' disposal behaviour enables companies to be better informed about appropriate ways to achieve this.

Other theories of consumer decision making

The consumer decision process may not always develop in a carefully planned fashion. Here are some other theories and approaches to explain it.

Level of consumer involvement

The expectancy-value model assumes a high level of involvement on the part of the consumer. We can define **consumer involvement** in terms of the level of engagement and active processing the consumer undertakes in responding to a marketing stimulus. A highly involved consumer is more likely to process a large amount of cognitive information. Celsi and Olson conceptualise involvement as follows: 'Like most consumer researchers, we view perceived personal relevance as the essential characteristic of involvement.'[98] Consumers may be involved in buying a product for various reasons, and different consumers may not be involved for the same reason. Consumers may purchase perfume because of its capacity to give pleasure, whereas consumers are more likely to focus on avoiding the negative consequences of a bad choice when buying a vacuum cleaner.[99] In general, factors such as high price, high perceived risk and high product heterogeneity are likely to increase the degree of consumer involvement.

Elaboration likelihood model

Psychologists Richard Petty and John Cacioppo's *elaboration likelihood model*, an influential model of attitude formation and change, describes how consumers make evaluations in both low- and high-involvement circumstances.[100] There are two means of persuasion in their model: the *central route*, where attitude formation or change stimulates much thought and is based on a diligent, rational consideration of the most important product information; and the *peripheral route*, where attitude formation or change provokes far less thought and results from the association of a brand with either positive or negative peripheral cues. *Peripheral cues* for consumers include a celebrity endorsement, a credible source, or any object that generates positive feelings.

Consumers follow the central route only if they possess sufficient motivation, ability and opportunity. In other words, consumers must want to evaluate a brand in detail, have the necessary brand and product or service knowledge in memory, and have sufficient time and the proper setting. If any of these factors is lacking, consumers tend to follow the peripheral route and consider less central, more extrinsic factors in their decisions.

Low-involvement marketing strategies

Many products are bought under conditions of low involvement and the absence of significant brand differences. Consider salt. Consumers have little involvement in this product category. If they keep reaching for the same brand, it is out of habit, not strong brand loyalty. Evidence suggests consumers have low involvement with most low-cost, frequently purchased products.

Marketers use four techniques to try to convert a low-involvement product into one of higher involvement. First, they can link the product to some involving issue, as when Crest linked its toothpaste to avoiding cavities. Second, they can link the product to some involving personal situation – for example, fruit juice makers began to include vitamins such as calcium to fortify their drinks. Third, they might design advertising to trigger strong emotions related to personal values or ego defence, as when cereal makers began to advertise to adults the heart-healthy nature of cereals and the importance of living a long time to enjoy family life. Fourth, they might add an important feature – as for example when Sony PlayStation and Microsoft Xbox launched options for multi-player online gaming. These strategies at best raise consumer involvement from a low to a moderate level; they do not necessarily propel the consumer into highly involved buying behaviour.

If, regardless of what the marketer can do, consumers will have low involvement with a purchase decision, they are likely to follow the peripheral route. Marketers must pay special attention to giving consumers one or more positive cues to justify their brand choice. For instance, frequent ad repetition, visible sponsorships and vigorous PR are all ways to enhance brand familiarity. Other peripheral cues that can tip the balance in favour of the brand include a beloved celebrity endorser, attractive packaging and an appealing promotion.[101]

Variety-seeking buying behaviour

Some buying situations are characterised by low involvement but significant brand differences. Here consumers often do a lot of brand switching. Think about biscuits. The consumer has some beliefs about biscuits, chooses a brand without much evaluation and evaluates the product during consumption. Next time, the consumer may reach for another brand out of a desire for a different taste. Brand switching occurs for the sake of variety rather than dissatisfaction.

The market leader and the minor brands in this product category have different marketing strategies. The market leader will try to encourage habitual buying behaviour by dominating the shelf space with a variety of related but different product versions, avoiding out-of-stock conditions and sponsoring frequent reminder advertising. Challenger firms will encourage variety seeking by offering lower prices, deals, coupons, free samples and advertising that tries to break the consumer's purchase and consumption cycle and presents reasons for trying something new.

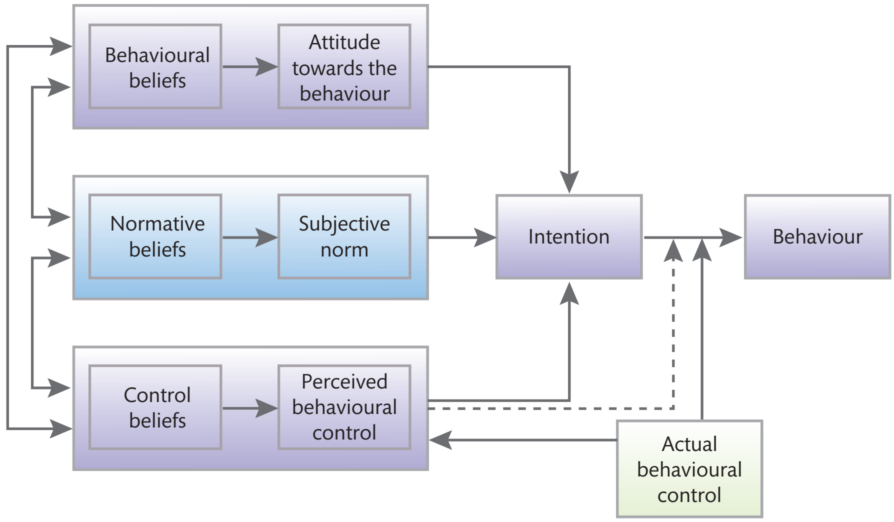


Figure 7.9 The theory of planned behaviour
Source: I. Aizen (2006) TPB diagram. Copyright © 2006 Icek Aizen (retrieved from www.people.umass.edu/aizen/tpb.diag.html). Reproduced with permission.

The theory of planned behaviour

In contrast to the low-involvement, variety-seeking situations, the **theory of planned behaviour** (TPB, see Figure 7.9) is concerned with situations where consumers are involved and motivated to conduct an in-depth evaluation of the expected outcome of various choices before the purchase is made. TPB is an extension of its precursor, the **theory of reasoned action** (TRA). TRA regards a consumer's behaviour as determined by the consumer's behavioural intention, where behavioural intention is a function of 'attitude towards the behaviour' (i.e. the general feeling of favourableness or unfavourableness for that behaviour) and 'subjective norm' (i.e. the perceived opinion of other people in relation to the behaviour in question).[102] The theory predicts intention to perform a behaviour by the consumer's attitude towards that behaviour rather than by the consumer's attitude towards a product or service. In the model, attitude is based on the consumer's behavioural beliefs – a behavioural belief is the subjective probability that a certain behaviour will produce a given outcome. Also, a consumer's intention to perform a certain behaviour may be influenced by the normative social beliefs held by the consumer. As an example, a consumer might have a very favourable attitude towards having a drink before dinner at a restaurant. However, the intention to actually order the drink may be influenced by the consumer's beliefs about the appropriateness (i.e. the perceived social norm) of ordering a drink in the current situation (with friends for a fun meal or on a job interview) and her or his motivation to comply with those normative beliefs.[103]

TRA is concerned with rational, volitional and systematic behaviour: that is, behaviours over which the individual has control.[104] This assumption has been widely criticised. For example, a consumer may be prevented from buying groceries online if the consumer perceives the purchase process as too complex or if the consumer does not possess the resources necessary to perform the considered behaviour. Such considerations are incorporated into TPB.[105] In comparison with TRA, TPB adds 'perceived behavioural control' (PBC) as a determinant of behavioural intention. TPB is therefore an extension of TRA. PBC can be conceptualised as the consumer's subjective belief about how difficult it will be for that consumer to generate the behaviour in question. PBC is determined by the total set of accessible control beliefs – that is, beliefs about the presence of factors that may facilitate or impede performance of the behaviour.[106] For instance, a consumer may be keen to go to a very popular concert yet, knowing that it will be difficult to get tickets, she may give up her intention without even trying to realise it.

Means-end chains

In the **means-end chain** (MEC) model, products are not purchased for themselves or their characteristics but rather for the meanings they engender in the mind of the consumer (e.g. buying this product would make me happy, would be good for my health, or something similar). The

MEC model explores the meanings a consumer attaches to a product through the construction of an associative network, which consists of attributes, functional consequences, psychosocial consequences and values. In this way, the MEC model proposes that consumer knowledge structures are hierarchically organised, referring to different levels of abstraction.[107] While attributes are the distinct characteristics of a product, such as consistency, price, colour, size, ingredients and so on, functional consequences are the tangible outcomes of using the product – for example, a new toothbrush might brush your teeth gently and effectively. Psychosocial consequences, in contrast, describe the psychological and social outcomes of the product – for example, having clean teeth might make you feel more attractive and comfortable. Values are centrally held cognitive elements that trigger motivation for behaviour, referring to more abstract concepts such as self-esteem, health or happiness.

The means–end approach assumes that consumers regard products as means to important ends. That is, the personal consequences produced by a product are more important (more self-relevant) than the characteristics of the product itself. A product is self-relevant to the extent that a consumer sees it as instrumental in achieving important consequences or values.[108] As an example, a large (and growing) proportion of consumers views the internet (and hence internet access) as an indispensable and central component of their lives. To these consumers, internet services have been integrated in daily routines and are seen as helping them to cope with everyday stress and difficulties.[109]

Behavioural decision theory and behavioural economics

As you might guess from low-involvement decision making and variety seeking, consumers do not always process information or make decisions in a deliberate, rational manner. One of the most active academic research areas in marketing over the past three decades has been behavioural decision theory (BDT). Behavioural decision theorists have identified many situations in which consumers make seemingly irrational choices. Table 7.3 summarises some provocative findings from this research.[110]

Table 7.3 Selected behavioural decision theory findings

- Consumers are more likely to choose an alternative (a home bread maker) after a relatively inferior option (a slightly better but significantly more expensive home bread maker) is added to the available choice set.
- Consumers are more likely to choose an alternative that appears to be a compromise in the particular choice set under consideration, even if it is not the best alternative on any one dimension.
- The choices consumers make influence their assessment of their own tastes and preferences.
- Getting people to focus their attention more on one of two considered alternatives tends to enhance the perceived attractiveness and choice probability of that alternative.
- The way consumers compare products that vary in price and perceived quality (by features or brand name) and the way those products are displayed in the store (by brand or by model type) both affect their willingness to pay more for additional features or a better-known brand.
- Consumers who think about the possibility that their purchase decisions will turn out to be wrong are more likely to choose better-known brands.
- Consumers for whom possible feelings of regret about missing an opportunity have been made more relevant are more likely to choose a product currently on sale than to wait for a better sale or buy a higher-priced item.
- Consumers' choices are often influenced by subtle (and theoretically inconsequential) changes in the way alternatives are described.
- Consumers who make purchases for later consumption appear to make systematic errors in predicting their future preferences.
- Consumers' predictions of their future tastes are not accurate – they do not really know how they will feel after consuming the same flavour of yogurt or ice cream several times.

Table 7.3 *continued*

• Consumers often overestimate the duration of their overall emotional reactions to future events (movies, financial windfalls, outcomes of sporting events).
• Consumers often overestimate their future consumption, especially if there is limited availability (which may explain why Black Jack and other gums have higher sales when availability is limited to several months per year than when they are offered year round).
• In anticipating future consumption opportunities, consumers often assume they will want or need more variety than they actually do.
• Consumers are less likely to choose alternatives with product features or promotional premiums that have little or no value, even when these features and premiums are optional (such as the opportunity to purchase a Collector's Plate) and do not reduce the actual value of the product in any way.
• Consumers are less likely to choose products selected by others for reasons they find irrelevant, even when these other reasons do not suggest anything positive or negative about the product's value.
• Consumers' interpretations and evaluations of past experiences are greatly influenced by the ending and trend of events. A positive event at the end of a service experience can colour later reflections and evaluations of the experience as a whole.

Marketing insight

Predictably irrational

Although consumers may think they are making well-reasoned, rational decisions, that is often not the case. As it turns out, a host of mental factors and unconscious cognitive biases conspires to result in seemingly irrational decision making in many different settings. Dan Ariely believes these irrational decisions are not random but are systematic and predictable. As he says, we make the same 'mistake' over and over. Some of the thought-provoking research insights he highlights include:

- When selling a new product, marketers should be sure to compare it with something consumers already know about, even if the new product is literally new-to-the-world with few direct comparisons. Consumers find it difficult to judge products in isolation and feel more comfortable if they base a new decision at least in part on a past decision.
- Consumers find the lure of 'free' almost irresistible. In one experiment, consumers were offered normally high-priced Lindt chocolate truffles for 15 cents and ordinary Hershey Kisses for a penny. Customers had to pick one or the other, not both – 73 per cent of the customers went for the truffles. When the prices were cut to 14 cents for the truffles and free for the Kisses, however, 69 per cent of customers went for the Kisses, even though the truffles were actually a better deal.
- The 'optimism bias' or 'positivity illusion' is a pervasive effect that transcends gender, age, education and nationality. People tend to overestimate their chances of experiencing a good outcome (having a successful marriage, healthy kids or financial security) but underestimate their chances of experiencing a bad outcome (divorce, a heart attack or a parking ticket).
- In concluding his analysis, Ariely notes: 'If I were to distill one main lesson . . . it is that we are all pawns in a game whose forces we largely fail to comprehend.'
- Individuals cheat more when others can benefit from their cheating and when the number of beneficiaries of wrongdoing increases. When people's dishonesty would benefit others, they are more likely to view dishonesty as morally acceptable and thus feel less guilty about benefiting from cheating themselves.

Sources: D. Ariely (2016) The hidden logic that shapes our motivations, in F. Gino and S. Ayal and D. Ariely (2013) Self-serving altruism? The lure of unethical actions that benefit others, *Journal of Economic Behavior & Organization*, 93, 285–292; D. Ariely (2009) The end of rational economics, *Harvard Business Review*, July–August, 78–84; D. Ariely (2008) *Predictably Irrational*, New York: HarperCollins; D. Ariely (2009) The curious paradox of optimism bias, *BusinessWeek*, 24 and 31 August, 48; D. Ariely (2009) A manager's guide to human irrationalities, *MIT Sloan Management Review*, Winter, 53–9; R. Juskalian (2008) Not as rational as we think we are, *USA TODAY*, 17 March; E. Kolbert (2008) What was I thinking?, *The New Yorker*, 25 February; D. Mehegan (2008) Experimenting on humans, *Boston Globe*, 18 March.

What all these and other studies reinforce is that consumer behaviour is very constructive and the context of decisions really matters. Understanding how these effects show up in the marketplace can be crucial for marketers.

The work of these and other academics has also challenged predictions from economic theory and assumptions about rationality, leading to the emergence of the field of *behavioural economics*.[111] Here, we review some of the issues in three broad areas – decision heuristics, framing and other contextual effects.

Decision heuristics

Above we reviewed some common heuristics that occur with non-compensatory decision making. Other heuristics similarly come into play in everyday decision making when consumers forecast the likelihood of future outcomes or events:[112]

- **Availability heuristic**. Consumers base their predictions on the quickness and ease with which a particular example of an outcome comes to mind. If an example comes to mind too easily, consumers might overestimate the likelihood of its happening. For example, a recent product failure may lead a consumer to inflate the likelihood of a future product failure and make him or her more inclined to purchase a product warranty.
- **Representativeness heuristic**. Consumers base their predictions on how representative or similar the outcome is to other examples. One reason why package appearances may be so similar for different brands in the same product category is that marketers want their products to be seen as representative of the category as a whole.
- **Anchoring and adjustment heuristic**. Consumers arrive at an initial judgement and then adjust it based on additional information. For services marketers, a strong first impression is critical to establish a favourable anchor so that subsequent experiences will be interpreted in a more favourable light.

Note that marketing managers also may use heuristics and be subject to biases in their own decision making.

Framing

Decision framing is the manner in which choices are presented to and seen by a decision maker. A €200 mobile phone may not seem that expensive in the context of a set of €400 phones but may seem very expensive if the other phones cost €50. Framing effects are pervasive and can be powerful.

Marketers can influence consumer decision making through *choice architecture* – the environment in which decisions are structured and buying choices are made. That is, in the right environment, consumers can be given a 'nudge' via some small feature in the environment that attracts attention and alters behaviour. For example, Nabisco is employing a smart choice architecture by offering 100-calorie snack packs, which have solid profit margins, while nudging consumers to make healthier choices.[113]

Mental accounting

Researchers have found that consumers use **mental accounting** when they handle their money.[114] Mental accounting refers to the way consumers code, categorise and evaluate financial outcomes of choices. Formally, it is 'the tendency to categorize *funds* or items of value even though there is no logical *basis* for the categorization, e.g., individuals often segregate their savings into separate accounts to meet different goals even though funds from any of the accounts can be applied to any of the goals'.[115]

Consider the following two scenarios:

1. Assume you spend €50 to buy a ticket for a concert.[116] As you arrive at the show, you realise you have lost your ticket. You decide to buy a replacement.
2. Assume you decided to buy a ticket to a concert at the door. As you arrive at the show, you realise somehow you lost €50 along the way. You decide to buy the ticket anyway.

Which one would you be more likely to do? Most people choose scenario 2. Although you lost the same amount in each case – €50 – in the first case, you may have mentally allocated €50 for going to a concert. Buying another ticket would exceed your mental concert budget. In the second case, the money you lost did not belong to any account, so you had not yet exceeded your mental concert budget. According to Richard H. Thaler, Professor of Behavioural Science and Economics at the University of Chicago, mental accounting is based on a set of core principles:

- Consumers tend to *segregate gains*. When a seller has a product with more than one positive dimension, it is desirable to have the consumer evaluate each dimension separately. Listing multiple benefits of a large industrial product, for example, can make the sum of the parts seem greater than the whole.

- Consumers tend to *integrate losses.* Marketers have a distinct advantage in selling something if its cost can be added to another large purchase. House buyers are more inclined to view additional expenditures favourably given the high price of buying a house.
- Consumers tend to *integrate smaller losses with larger gains.* The 'cancellation' principle might explain why withholding taxes from monthly pay packets is less aversive than large, lump-sum tax payments – the smaller withholdings are more likely to be absorbed by the larger pay amount.
- Consumers tend to *segregate small gains from large losses.* The 'silver lining' principle might explain the popularity of rebates on big-ticket purchases such as cars.

The principles of mental accounting are derived in part from **prospect theory**. Prospect theory maintains that consumers frame their decision alternatives in terms of gains and losses according to a value function. Consumers are generally loss-averse. They tend to over-weight very low probabilities and under-weight very high probabilities.

Profiling consumer product buying and usage behaviour

How can marketers learn about the stages in the buying process for their product? They can think about how they themselves would act, in the *introspective method.* They can interview a small number of recent purchasers, asking them to recall the events leading to their purchase, in the *retrospective method.* They can use the *prospective method* to locate consumers who plan to buy the product and ask them to think out loud about going through the buying process, or they can ask consumers to describe the ideal way to buy or use the product, in the *prescriptive method.* Each method yields a picture of the steps in the process.

Trying to understand the customer's purchase and usage behaviour in connection with a product has been called mapping the customer's **consumption system**,[117] *customer activity cycle*[118] or *customer scenario.*[119] Marketers can do this for such activity clusters as doing the laundry, preparing for a wedding, buying a car or playing with LEGO.

LEGO

LEGO of Billund, Denmark, may have been one of the first mass-customised brands. To better coordinate new product activities, LEGO revamped its organisational structure into four functional groups managing eight key areas, with one group being responsible for supporting customer communities and tapping into them for product ideas.

LEGO has also set up a program, which lets users design their own custom LEGO products using LEGO's freely downloadable Digital Designer software. The creations that result can exist – and be shared with other enthusiasts – solely online. Users can request step-by-step building guide instructions, and the software also includes already built models to get users started. Besides free creations, users can also use pre-rendered 3D figures, either for editing them or for taking them as models in their own design.[120]

SUMMARY

1 Consumer behaviour is influenced by three factors: cultural (culture, subculture and social class), social (reference groups, family, and social roles and statuses) and personal (age, stage in the life cycle, occupation, economic circumstances, lifestyle, personality and self-concept). Hence, the study of consumer behaviour can be divided into three interdependent dimensions: (1) the study of culture, (2) the study of social groups and (3) the study of the individual. Research into all these factors can provide marketers with clues to reach and serve consumers more effectively.

2 Virtually all human societies exhibit social stratification, most often in the form of social classes – relatively homogeneous and enduring divisions in a society, hierarchically ordered and with members who share similar values, interests and behaviour.

3 Social factors such as reference groups, family and social roles and statuses affect consumers' buying behaviour.

4 The family is the most important consumer buying organisation in society and family members constitute the most influential primary reference group.

5 While individuals interact with their cultural and social settings, the starting point for understanding consumer behaviour is the consumer themselves. A consumer's decisions are influenced by several personal characteristics, including

the buyer's age and stage in the life cycle, occupation and economic circumstances, personality and self-concept, and lifestyle and values.

6 Four main psychological processes affect consumer behaviour: motivation, perception, learning and memory.

7 To understand how consumers actually make buying decisions, marketers must identify who makes and has input into the buying decision; people can be initiators, influencers, deciders, buyers or users. Different marketing campaigns might be targeted to each type of person.

8 The typical buying process consists of the following sequence of events: problem recognition, information search, evaluation of alternatives, purchase decision and post-purchase behaviour. The marketers' job is to understand the behaviour at each stage. The attitudes of others, unanticipated situational factors and perceived risk may all affect the decision to buy, as will consumers' levels of post-purchase product satisfaction, use and disposal, and actions on the part of the company.

9 Consumers are constructive decision makers and subject to many contextual influences. Consumers often exhibit low involvement in their decisions, using many heuristics as a result.

10 Understanding consumer behaviour may often be complicated, since many different factors influence the behaviour and many different forms of behaviour exist. Perspectives on consumer behaviour include the behaviourist perspective, the information-processing perspective, the emotional perspective and the cultural perspective. When studying consumer behaviour it is therefore important that none of the different perspectives is excluded beforehand, but that the analyst keeps an open mind to various explanations for consumers' behaviour.

11 Researchers have found that consumers use mental accounting when they handle their money. Mental accounting refers to the way consumers code, categorise and evaluate financial outcomes of choices.

12 Consumers don't always process information or make decisions in a deliberate, rational manner. One of the most active academic research areas in marketing over the past three decades has been behavioural decision theory (BDT). Behavioural decision theorists have identified many situations in which consumers make seemingly irrational choices.

APPLICATIONS

Marketing debate

Is target marketing ever bad? As marketers increasingly develop marketing programmes tailored to certain target market segments, some critics have denounced these efforts as exploitative. For example, the preponderance of billboards advertising sugary snacks, alcohol and other vices in low-income urban areas is seen as taking advantage of a vulnerable market segment. Critics can be especially harsh in evaluating marketing programmes that target minority groups, claiming they often employ stereotypes and inappropriate depictions. Others counter that targeting and positioning are critical to marketing and that these marketing programmes are an attempt to be relevant to a certain consumer group.

Take a position: targeting minorities is exploitative *versus* targeting minorities is sound business practice.

Marketing discussion

What are your mental accounts? What accounts do you have in your mind when purchasing products or services? Do you have any rules you employ in spending money? Are they different from what other people do? Do you follow Thaler's four principles in reacting to gains and losses?

Marketing exercises

In your opinion, what are the ten most important topics/issues to be learned from this chapter?

Pick one of the companies mentioned in this chapter. For this company, investigate and discuss: (a) whether any of the ten topics/issues you identified could be related to the problems, or opportunities, that the company – in your opinion – is currently facing or could expect to be facing in the near future?; and (b) why do you think that?

In your opinion, what should the company do to deal with the identified problems or to take advantage of the identified opportunities?

FURTHER READING

M. R. Solomon, G. J. Bamossy, S. T. Askegaard and M. K. Hogg (2016) *Consumer Behaviour: A European Perspective*, 6th edn, Harlow: Pearson/Prentice Hall.

This text provides a sufficient overview of consumer behaviour. The book links consumer behaviour theory with the real-life problems faced by practitioners. The book is well structured and covers both the individual consumer level (e.g. perception, memory and personal values), the social level (e.g. social reference groups and social norms) and the structural level (e.g. the consumer environment, cultural influence and values). It also considers up-to date topics such as sustainable consumption, emerging technologies, social media and online behaviour.

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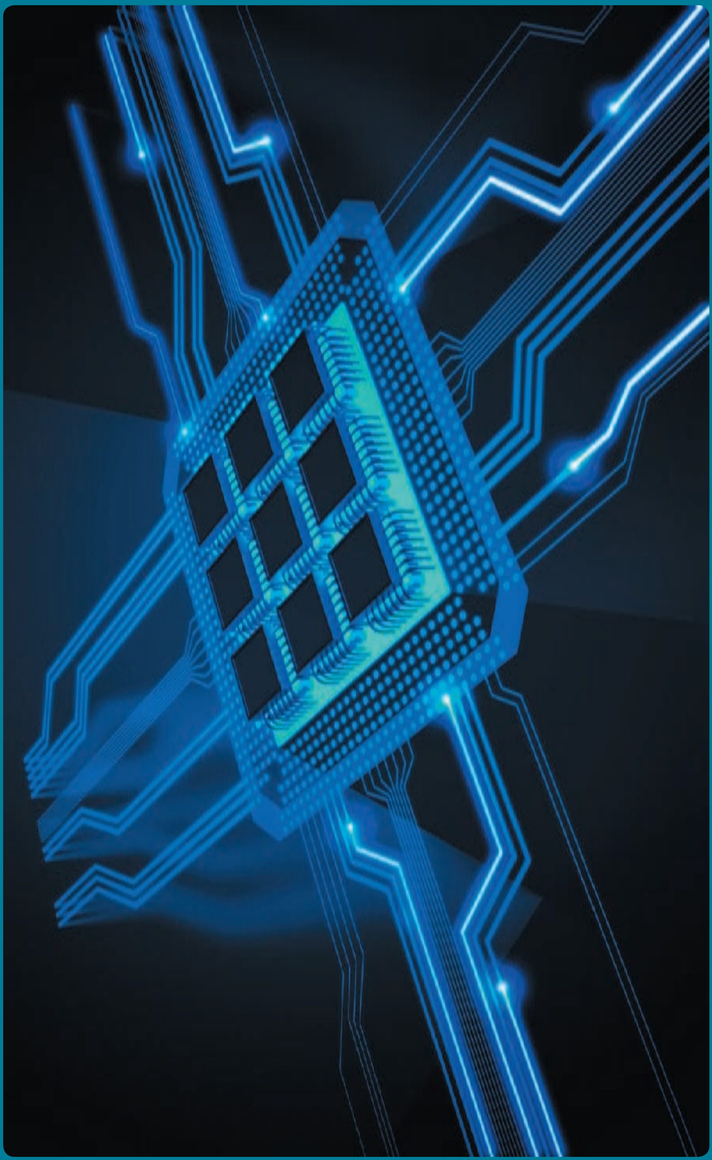
CHAPTER 8

Analysing business markets

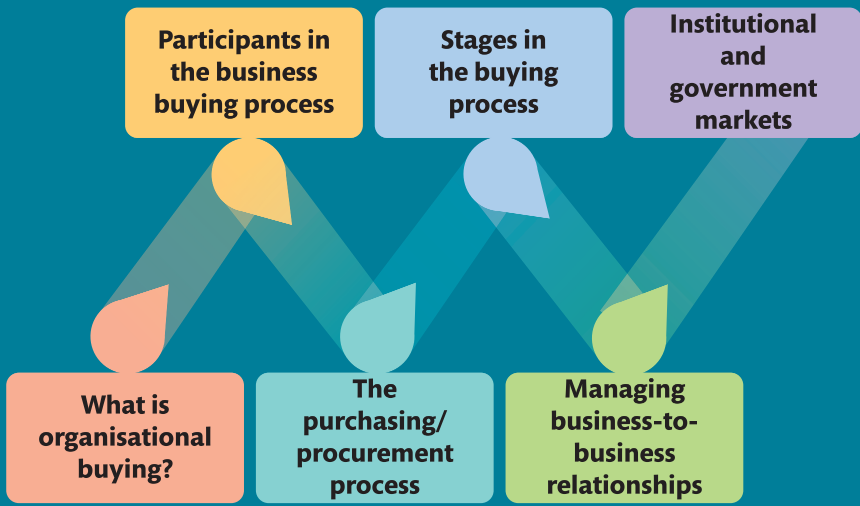
In this chapter, you will learn about the following topics:

1. The business market and how it differs from the consumer market
2. What buying situations organisational buyers face
3. The participants in the business-to-business buying process
4. How business buyers make their decisions
5. How companies can build strong relationships with business customers
6. How institutional buyers and government agencies do their buying



Boosting the performance of microchips is a central concern for IT companies
Source: ktsdesign/Shutterstock.

Chapter Journey



Business organisations not only sell, they also buy vast quantities of raw materials, manufactured components, plant and equipment, supplies and business services. There are more than 19 million businesses in Europe. To create and capture value, sellers in business markets need to understand their organisational customers' needs, resources, policies and buying procedures. In this chapter, you will learn more about the workings of business markets and how companies use this knowledge to market products and build relationships with their business customers.

In 1992 two researchers, André Auberton-Hervé and Jean-Michel Lamure from CEA-Léti (one of Europe's largest microelectronics research institutes), located in Grenoble, France, created Soitec. The name refers to the company's use of silicon-on-insulator (SOI) technology. Soitec exploits and develops an exclusive technological process, Smart Cut, which is protected by a portfolio of around 1,000 patents. Smart Cut is used today mainly in SOI technology, which offers two major advantages: it considerably increases the speed of microprocessors built on it; and it cuts by three or four times the power that these microprocessors consume. Soitec's customers were allowed to capitalise (making faster, less energy-consuming chips) on these two advantages without investing in additional process equipment.

Back in the early 1990s, Auberton-Hervé and Lamure were sure that the technology they had developed to boost the performance of microchips would be a winner – if only they could get it to work on a mass scale. 'We knew silicon-on-insulator technology could bring real value to the industry', said Auberton-Hervé. Even though it took almost a decade to work out the kinks, their patience has paid off. In fact, Soitec now supplies 80 per cent of the SOI wafers used by chipmakers around the world and is the global leader in innovative materials for the electronics and energy industries. Soitec is a truly international company, with R&D and industrial manufacturing activities in France, Germany, Singapore and the United States and with its 950 employees representing 20 nationalities working in more than 10 countries.[1]

Some of the world's most valuable brands belong to business marketers: ABB, Maersk Line, Airbus and Vestas to name a few. Many principles of basic marketing also apply to business marketers. They need to embrace holistic marketing principles, such as building strong relationships with their customers, just like any marketer. But they also face some unique considerations in selling to other businesses. In this chapter, we will highlight some of the crucial similarities and differences for marketing in business markets.[2]

What is organisational buying?

A company wanting to sell its products to other companies needs to understand organisational buying behaviour. In their seminal work on organisational buying behaviour, marketing researchers Webster and Wind define **organisational buying** as the decision-making process by which formal organisations establish the need for purchased products and services and identify, evaluate and choose among alternative brands and suppliers.[3]

The business market versus the consumer market

The **business market** consists of all the organisations that acquire goods and services used in the production of other products or services that are sold, rented or supplied to others. The major industries making up the business market are agriculture, forestry and fisheries, mining, manufacturing, construction, transportation, communication, public utilities, banking, finance and insurance, distribution and services. For decades, international business research has mainly considered established firms and in addition it has been a common belief that companies should first be established in the domestic market before expanding to international markets. This is no longer the case. Over the past decades, companies that operate internationally right from inception – 'born global' firms – have increasingly appeared. One example is PolarTech, as chronicled in the 'Marketing in action' box.

More euros and items change hands in sales to business buyers than to consumers. Consider the process of producing and selling a simple pair of shoes. Hide dealers must sell hides to tanners, who sell leather to shoe manufacturers, who sell shoes to wholesalers, who sell shoes to retailers, who finally sell them to consumers. Each party in the supply chain also buys many other goods and services to support their operations. Given the highly competitive nature of business-to-business markets, the biggest enemy to marketers here is commoditisation. Commoditisation eats away margins and weakens customer loyalty. It can be overcome only if target customers are convinced that meaningful differences exist in the marketplace, and that the unique benefits of the firm's offerings are worth the added expense. Thus, a critical step in business-to-business marketing is to create and communicate relevant differentiation from competitors.

Marketing in action

Polartech

In 2004, Jesper Holmgaard attended a seminar where he listened to a German inventor describing a method that potentially could revolutionise the professional cleaning industry. The method was cleaning with dry ice through a form of blowgun. Jesper Holmgaard was inspired by the idea, which today forms the basis for his business, PolarTech. With his eleven years of experience in the cleaning industry, Jesper Holmgaard decided in 2010 to resign and spend a year developing the German inventor's idea. In 2012, the first cleaning machine with the PolarTech brand was on the market. The PolarTech cleaning method uses dry ice developed from recycled liquid CO_2. Since the process is completely dry, it can be used directly on surfaces that do not tolerate liquid.

Since it was established, approximately 95 per cent of the company's sales have been to foreign markets around the world. In 2013, PolarTech was nominated for the prestigious 'Born Global' prize. With the plastic industry being one of PolarTech's main market segments, the company joined the plastic industry organisation in 2014 and its cleaning method was in 2017 described by Metal-Supply as the 'technology of the future'.

Questions

1 What are the pros and cons of being global right from inception?

2 Is the marketing process different for a born global company compared with a 'traditional' newly started local company?

Sources: Metal-Supply.dk (2017) Tøris blæsning – fremtidens teknologi, 20 March; M. H. Munch (2014) Talenter nomineret for iværksætteri, Jydske-Vestkysten, 1 January; L. F. Farsøe (2014) Polartech vil udvikle nye løsninger til plastbranchen, Plastindustrien, 1 April; www.polartech-as.com/

Business marketers face many of the same challenges as consumer marketers. In particular, understanding their customers (as this chapter relates to business markets, the term 'customer' is used throughout the chapter) and what they value is of paramount importance to both.[4] The well-respected Institute for the Study of Business Markets (ISBM) notes that the three biggest hurdles for B2B marketing are: (1) building stronger interfaces between marketing and sales; (2) building stronger innovation-marketing interfaces; and (3) extracting and leveraging more granular customer and market knowledge.[5]

Business markets, however, have several characteristics that contrast sharply with those of consumer markets:

- **Fewer, larger buyers.** The business marketer normally deals with far fewer, much larger buyers than the consumer marketer does, particularly in such industries as aircraft engines and defence weapons. The fate of the Goodyear Tire & Rubber Company and other automotive parts suppliers depends on getting contracts from just a handful of major automakers. It is also true, however, that as a slowing economy has put a stranglehold on large corporations' purchasing departments, the small and midsize business market is offering new opportunities for suppliers.
- **Close supplier–customer relationship.** Because of the smaller customer base and the importance and power of the larger customers, suppliers are frequently expected to customise their offerings to individual business customer needs. Business buyers often select suppliers who also buy from them. A paper manufacturer might buy from a chemical company that buys a considerable amount of its paper.

B2C versus B2B

Which one area is the single most exciting opportunity for your organisation? Midsize businesses present a huge opportunity, and huge challenges. The market is large and fragmented by industry, size and number of years in operation. Small business owners are notably averse to long-range planning and have an 'I'll buy it when I need it' decision-making style. See the 'Marketing insight' box for some guidelines on how to sell to small businesses.

- **Professional purchasing.** Business goods are often purchased by trained purchasing agents, who must follow their organisation's purchasing policies, constraints and requirements. Many of the buying instruments – for example, requests for quotations, proposals and purchase contracts – are not typically found in consumer buying. Professional buyers spend their careers

Marketing insight

Big sales to small business

- **Don't lump small and midsize businesses together.** There is a big gap between €1 million in revenue and €50 million, or between a start-up with 10 employees and a more mature business with 100. Telecom provider TDC (www.tdc.com) segments business customers into groups according to whether they have 0–5 employees or more.
- **Don't waste their time.** That means no cold calls, entertaining sales shows or sales pitches over long, lavish lunches.
- **Do keep it simple.** Simplicity means one point of contact with a supplier for all service problems, or one bill for all services and products.
- **Do use the internet.** Hewlett-Packard found that time-strapped small-business decision makers prefer to buy, or at least research, products and services online. So it designed a site targeted to small and midsize businesses and pulls visitors through extensive advertising, direct mail, email campaigns, catalogues and events.
- **Don't forget about direct contact.** Even if a small business owner's first point of contact is via the internet, you still need to offer phone or face-to-face time.
- **Do provide support after the sale.** Small businesses want partners, not pitchmen. No matter whether you are selling to a retail giant or to a small independent, you need to make sure that you are offering the promotional activity and support services necessary to maintain and develop the business relationship.
- **Do your homework.** The realities of small or midsize business management are different from those of a large corporation. Microsoft created a small, fictional executive research firm, Southridge, and football-style trading cards of its key decision makers in order to help

Microsoft employees tie sales strategies to small business realities.
- **Make sure you have up-to-date market data.** It all comes down to data: bad data in = bad direction out.

Sources: Based on Canadian Marketing Association (2014) Market segmentation for Canadian B2B companies: One size doesn't fit all, 15 January; S. Hemsley (2010) Independents on frontline as brands take to battlefield, *Marketing Week*, 15 July; www.tdc.com; B. J. Feder (2003) When Goliath comes knocking on David's door, *New York Times*, 6 May; J. Greene (2003) Small biz: Microsoft's next big thing?, *BusinessWeek*, 21 April, 72–3; J. Gilbert (2004) Small but mighty, *Sales and Marketing Management*, January, 30–35; V. Kopytoff (2003) Businesses click on eBay, *San Francisco Chronicle*, 28 July; M. Krantz (2004) Firms jump on the eBay wagon, *USA Today*, 3 May.

learning how to buy better. Some acquire their skills from the European Institute of Purchasing Management (EIPM), which seeks to train and educate professional business buyers, including buyers from, for example, IKEA, Unilever, LEGO and Electrolux. This means that business marketers must provide greater technical data about their product and its advantages over competitors' products.

- **Multiple buying influences.** More people typically influence business buying decisions. Buying committees consisting of technical experts and even senior management are common in the purchase of major goods. Business marketers need to send well-trained sales representatives and sales teams to deal with well-trained buyers.
- **Multiple sales calls.** A study by McGraw-Hill found that it takes an average of 4–4.5 calls to close an industrial sale. In the case of capital equipment sales for large projects, it may take many attempts to fund a project, and the sales cycle – between quoting a job and delivering the product – is often measured in years.[6]
- **Derived demand.** The demand for business goods is ultimately derived from the demand for consumer goods. For this reason, the business marketer must closely monitor the buying patterns of ultimate consumers. Much of the boom in demand for steel-bar products is derived from the sustained growth in sales of minivans and other light trucks, which consume far more steel than cars. Business buyers must also pay close attention to current and expected economic factors, such as the level of production, investment, consumer spending and interest rates. In a recession, they reduce their investment in plant, equipment and inventories. Business marketers can do little to stimulate total demand in this environment; they can only fight harder to increase or maintain their share of the demand.
- **Inelastic demand.** The total demand for many business goods and services is inelastic – that is, not much affected by price changes. Shoe manufacturers are not going to buy much more leather if the price of leather falls, nor will they buy much less leather if the price rises, unless they can find satisfactory substitutes. Demand is especially inelastic in the short run because producers cannot make quick changes in production methods. Demand is also inelastic for business goods that represent a small percentage of the item's total cost, such as shoelaces.
- **Fluctuating demand.** The demand for business goods and services tends to be more volatile than the demand for consumer goods and services. A given percentage increase in consumer demand can lead to a much larger percentage increase in the demand for plant and equipment necessary to produce the additional output. Economists refer to this as the *acceleration effect*. Sometimes a rise of only 10 per cent in consumer demand can cause as much as a 200 per cent rise in business demand for products in the next period; a 10 per cent fall in consumer demand may cause a complete collapse in business demand.
- **Direct purchasing.** Business buyers often buy directly from manufacturers rather than through intermediaries, especially for items that are technically complex or expensive, such as mainframes or aircraft.

Buying situations

The business buyer faces many decisions when making a purchase. The number depends on the buying situation: complexity of the problem being solved, newness of the buying requirement,

SMEs

In the EU, companies qualify as micro, small and medium-sized enterprises (SMEs) if they fulfil the criteria laid down in the table below. In addition to the staff headcount ceiling, an enterprise qualifies as an SME if it meets either the turnover ceiling or the balance sheet ceiling, but not necessarily both. In the EU, 99 per cent of all businesses are SMEs.

Enterprise category	Headcount	Turnover	or	Balance sheet total
Medium-sized	$<$ 250	≤ €50 million		≤ €43 million
Small	$<$ 50	≤ €10 million		≤ €10 million
Micro	$<$ 10	≤ €2 million		≤ €2 million

Source: EU, Small and medium-sized enterprises (SMEs), http://ec.europa.eu/growth/smes/business-friendly-environment/sme-definition_en

number of people involved and time required. Three types of buying situation are the straight rebuy, modified rebuy and new task:[7]

Straight rebuy. In a straight rebuy, the purchasing department reorders supplies such as office supplies and bulk chemicals on a routine basis and chooses from suppliers on an approved list. The suppliers make an effort to maintain product and service quality and often propose automatic reordering systems to save time. 'Out suppliers' attempt to offer something new or to exploit dissatisfaction with a current supplier. Their goal is to get a small order and then enlarge their purchase share over time.

Modified rebuy. The buyer wants to modify product specifications, prices, delivery requirements or other terms. The modified rebuy usually involves additional participants on both sides. The 'in suppliers' become nervous and want to protect the account. The 'out suppliers' see an opportunity to propose a better offer to gain some business.

New task. A purchaser buys a product or service for the first time (an office building, a new security system). The greater the cost or risk, the larger the number of participants and the greater their information gathering – and therefore the longer the time to a decision.[8]

The business buyer makes the fewest decisions in a straight rebuy situation and the most in a new-task situation. Over time, new-task situations become straight rebuys and routine purchase behaviour.

New-task buying is the marketer's greatest opportunity and challenge. The process passes through several stages: awareness, interest, evaluation, trial and adoption.[9] Mass media can be most important during the initial awareness stage; salespeople often have their greatest impact at the interest stage; and technical sources can be most important during the evaluation stage.

In the new-task situation, the buyer must determine product specifications, price limits, delivery terms and times, service terms, payment terms, order quantities, acceptable suppliers and the

Orica ltd

Orica Ltd, formerly ICI Australia, competes in the cut-throat commercial explosives business. Its customers are quarries that use explosives to blast solid rock face into aggregate of a specified size.

Orica is constantly trying to minimise the cost of explosives. The firm realised it could create significant value by improving the efficiency of the blast. To do this, company engineers identified over 20 parameters that influenced the success of the blast, such as the density and shape of the rock and the chemistry of the explosive charge. Orica then began collecting data from customers on these parameters as well as the outcomes of individual blasts. By collating the data, Orica engineers came to understand the conditions that produced different outcomes. It could then offer customers a contract for 'broken rock' that would almost guarantee the desired outcome.

The success of Orica's approach – of managing the entire blast for the quarry rather than simply selling explosives – entrenched the company as the world's leading supplier of commercial explosives.[10]

selected supplier. Different participants influence each decision and the order in which these decisions are made varies.

Because of the complicated selling involved, many companies use a *missionary sales force* consisting of their most effective salespeople. The brand promise and the manufacturer's brand name recognition will be important in establishing trust and the customer's willingness to consider change. The marketer also tries to reach as many key participants as possible and provide helpful information and assistance. Once a customer is acquired, suppliers are continually seeking ways to add value to their market offer to facilitate rebuys.

Customers considering dropping six or seven figures on one transaction for high-cost goods and services want all the information they can get. One way to entice new buyers is to create a customer reference programme in which satisfied existing customers act in concert with the company's sales and marketing department by agreeing to serve as referees. Technology companies such as HP, Alcatel-Lucent and Unisys have all employed such programmes. The 'Marketing in practice' box provides some tips for developing activities and programmes with impact.

Marketing in practice

Maximising customer references

Many firms depend on the opinions and experiences of others in evaluating a new business proposal from a new company. Customers are often the best people to persuade prospects that you are good at what you do. Here is some industry wisdom as to what works and what does not when developing customer information and reference programmes to respond to these demands.

Five common mistakes in developing customer reference stories

1. **Failing to state the customer's need and its implications with specificity.** Clearly state why customers have a need and how the company's products would resolve it. Such detailed information can better allow salespeople to assess whether a prospect has similar needs and could obtain similar payoffs.
2. **Failing to quantify your customer's results.** Although outside companies may seem reluctant to share too much hard data, it may just reflect the fact that they don't have the information readily accessible. Assist them in getting it.
3. **Failing to describe business benefits of any kind (quantified or not).** Don't focus on your expertise in various technologies and industries without saying how it specifically helped customers to enter or grow markets. Make an obvious cause-and-effect link between the solution provided and the claims for your product.
4. **Failing to differentiate your offerings from the competition.** Make it clear why it was the case that not just any company's products or services could have led to the same solution.
5. **Failing to provide a concise, accessible summary of the story.** Make sure you package the customer reference story in a way that a prospect can easily and quickly understand. Here are seven ways to do so.

Seven keys to developing customer reference stories successfully

1. State the customer's needs in compelling terms.
2. Emphasise the barriers in satisfying customer needs.
3. Describe your company's solution in terms of value.
4. List quantified results, especially those that affect ROI.
5. Differentiate your offering from those of competitors.
6. Provide a brief comprehensive summary.
7. Include numerous customer quotes.

Source: Based on J. Milward, Head of Marketing & Partnerships, Northdoor presentation made at 'Customers as Advocates', The Dorchester, 23 January 2014; a white paper by Bill Lee (2004) Success stories: The top 5 mistakes, Customer Reference Forum, bill@customerreferenceforum.com.

Business marketers are also recognising the importance of their brand and how they must execute well in a number of areas to gain marketplace success. Boeing, which makes everything from commercial aeroplanes to satellites, implemented the 'One Company' brand strategy to unify all its different operations with a one-brand culture. The strategy was based in part on a triple helix representation: (1) enterprising spirit (why Boeing does what it does); (2) precision performance (how Boeing gets things done); and (3) defining the future (what Boeing achieves as a company).[11]

Systems buying and selling

Many business buyers prefer to buy a total solution to a problem from one seller. Called systems buying, this practice originated with government purchases of major weapons and communications systems. The government would solicit bids from *prime contractors,* who would enter into a contract with the government – the owner of the project or job – and assume full responsibility for its completion. The contractor who was awarded the contract would be responsible for bidding out and assembling the system's subcomponents from *second-tier contractors*. The prime contractor would thus provide a turnkey solution, so called because the buyer simply had to turn one key to get the job done.

Sellers have increasingly recognised that buyers like to purchase in this way and many have adopted systems selling as a marketing tool. One variant of systems selling is systems contracting, where a single supplier provides the buyer with its entire requirement of MRO (maintenance, repair, operating) supplies. During the contract period, the supplier manages the customer's inventory. For example, Shell Oil manages the oil inventory of many of its business customers and knows when it requires replenishment. The customer benefits from reduced procurement and management costs and from price protection over the term of the contract. The seller benefits from lower operating costs because of a steady demand and reduced paperwork.

Systems selling is a key industrial marketing strategy in bidding to build large-scale industrial projects, such as dams, steel factories, irrigation systems, sanitation systems, pipelines, utilities and even new towns. Project engineering firms must compete on price, quality, reliability and other attributes to win contracts. With systems selling, customers present potential suppliers with a list of project specifications and requirements. Suppliers, however, are not just at the mercy of these customer demands. Ideally, they are involved with customers early in the process to influence the actual development of the specifications. Or they can go beyond the specifications to offer additional value in various ways, as the following example shows.

Japan and Indonesia

The Indonesian government requested bids to build a cement factory near Jakarta. A Western firm made a proposal that included choosing the site, designing the cement factory, hiring the construction crews, assembling the materials and equipment and turning over the finished factory to the Indonesian government. A Japanese firm, in outlining its proposal, included all these services, plus hiring and training the workers to run the factory, exporting the cement through its trading companies and using the cement to build roads and new office buildings in Jakarta.

Although the Japanese proposal involved more money, it won the contract. Clearly, the Japanese viewed the problem not just as one of building a cement factory (the narrow view of systems selling) but as one of contributing to Indonesia's economic development. They took the broadest view of the customer's needs. This is true systems selling.

Participants in the business buying process

Who buys the trillions of euros' worth of goods and services needed by business organisations? Purchasing agents are influential in straight rebuy and modified rebuy situations, whereas other department personnel are more influential in new-buy situations. Engineering personnel usually have a major influence in selecting product components, and purchasing agents dominate in selecting suppliers.[12]

The buying centre

Marketing researchers Webster and Wind call the decision-making unit of a buying organisation the *buying centre*. It consists of 'all those individuals and groups who participate in the purchasing decision-making process, who share some common goals and the risks arising from the decisions'.[13] The buying centre includes all members of the organisation who play any of seven roles in the purchase decision process:

1. **Initiators:** users or others in the organisation who request that something be purchased.
2. **Users:** those who will use the product or service; in many cases, the users initiate the buying proposal and help define the product requirements.

3 **Influencers:** people who influence the buying decision, often by helping define specifications and providing information for evaluating alternatives; technical personnel are particularly important influencers.
4 **Deciders:** people who decide on product requirements or on suppliers.
5 **Approvers:** people who authorise the proposed actions of deciders or buyers.
6 **Buyers:** people who have formal authority to select the supplier and arrange the purchase terms. Buyers may help shape product specifications, but they play their major role in selecting vendors and negotiating. In more complex purchases, buyers might include high-level managers.
7 **Gatekeepers:** people who have the power to prevent sellers or information from reaching members of the buying centre – for example, purchasing agents, receptionists and telephone operators may prevent salespeople from contacting users or deciders.

Several people can occupy a given role, such as user or influencer, and one person may occupy multiple roles.[14] A purchasing manager, for example, often occupies the roles of buyer, influencer and gatekeeper simultaneously: he or she can determine which sales reps can call on other people in the organisation, what budget and other constraints to place on the purchase and which firm will actually get the business, even though others (deciders) might select two or more potential vendors that can meet the company's requirements.

The typical buying centre has a minimum of five or six members and often has dozens. Some may be outside the organisation, such as government officials, consultants, technical advisers and other members of the marketing channel.[15]

Buying centre influences

Buying centres usually include several participants with differing interests, authority, status and persuasiveness, and sometimes very different decision criteria. For example, engineering personnel may want to maximise the performance of the product; production personnel may want ease of use and reliability of supply; financial personnel focus on the economics of the purchase; purchasing may be concerned with operating and replacement costs; and union officials may emphasise safety issues.

Webster and Keller caution that ultimately individuals, not organisations, make purchasing decisions.[16] Individuals are motivated by their own needs and perceptions in attempting to maximise the rewards (pay, advancement, recognition and feelings of achievement) offered by the organisation. Personal needs motivate the behaviour of individuals, but organisational needs legitimate the buying decision process and its outcomes. People are not buying 'products', they are buying solutions to two problems: the organisation's economic and strategic problem, and their personal need for individual achievement and reward. In this sense, industrial buying decisions are both 'rational' and 'emotional', as they serve both the organisation's and the individual's needs.[17]

For example, research conducted by one industrial component manufacturer found that although top executives at small and medium-sized companies stated that they were comfortable in general with buying from other companies, they appeared to harbour subconscious insecurities about buying the manufacturer's product. Constant changes in technology had left them concerned about the internal effects within the company. Recognising this unease, the manufacturer retooled its selling approach to emphasise more emotional appeals and how its product line actually enabled the customer's employees to improve their performance, relieving management of the complications and stress of component use.[18]

Recognising these extrinsic, interpersonal influences, more industrial firms have put greater emphasis on strengthening their corporate brand. At one time Emerson Electric, global provider of power tools, compressors, electrical equipment and engineering solutions, was a conglomerate of 60 autonomous – and sometimes anonymous – companies. A new chief marketing officer aligned the previously independent brands under a new global brand architecture and identity, allowing Emerson to achieve a broader presence so that it could sell locally while leveraging its global brand name. Record sales and stock price highs soon followed.[19]

Targeting firms and buying centres

Successful business-to-business marketing requires that business marketers know which types of company to focus on in their selling efforts, as well as who to concentrate on within the buying centres in those organisations. Business marketers may divide the marketplace in many different ways to decide on the types of firm to which they will sell. Finding those business sectors with the greatest growth prospects, most profitable customers and most promising opportunities for the firm is crucial. For instance, as a slowing economy has put a stranglehold on large corporations' purchasing departments, the small and midsize business markets are offering new opportunities for suppliers.

In developing selling efforts, business marketers can also consider their customers' customers, or end users, if these are appropriate. Many business-to-business transactions are to firms using the products they purchase as components or ingredients in products they sell to the ultimate end users. Once it has identified the type of businesses on which to focus marketing efforts, the firm must then decide how best to sell to them. To target their efforts properly, business marketers need to figure out answers to the following questions. Who are the major decision participants? What decisions do they influence? What is their level of influence? What evaluation criteria do they use?

Consider the following example:

> **A company sells non-woven disposable surgical gowns to hospitals. The hospital personnel who participate in this buying decision include the vice-president of purchasing, the operating room administrator and the surgeons. The vice-president of purchasing analyses whether the hospital should buy disposable or reusable gowns. If the findings favour disposable gowns, then the operating room administrator compares various competitors' products and prices and makes a choice. This administrator considers absorbency, antiseptic quality, design and cost, and normally buys the brand that meets the functional requirements at the lowest cost. Surgeons influence the decision retroactively by reporting their satisfaction with the particular brand.**

The business marketer is not likely to know exactly what kind of group dynamics takes place during the decision process, although whatever information he or she can obtain about personalities and interpersonal factors is useful.

Small sellers concentrate on reaching the *key buying influencers*. Larger sellers go for *multi-level in-depth* selling to reach as many participants as possible. Their salespeople virtually 'live' with high-volume customers. Companies must rely more heavily on their communications programmes to reach hidden buying influences and keep current customers informed.[20]

Business marketers must periodically review their assumptions about buying centre participants. For years, Kodak sold X-ray film to hospital lab technicians, but research indicated that professional administrators were increasingly making purchasing decisions. As a result, Kodak revised its marketing strategy and developed new advertising to reach out to those decision makers.

The purchasing/procurement process

In principle, business buyers seek to obtain the highest benefit package (economic, technical, service and social) in relation to a market offering's costs. To make comparisons, they will try to translate all costs and benefits into monetary terms. A business buyer's incentive to purchase will be a function of the difference between perceived benefits and perceived costs.[21] The marketer's task is to construct a profitable offering that delivers superior customer value to the target buyers.

Business marketers must therefore ensure that customers fully appreciate how the firm's offerings are different and better. **Framing** occurs when customers are given a perspective or point of view that allows the firm to 'put its best foot forward'. Framing can be as simple as making sure that customers realise all the benefits or cost savings afforded by the firm's offerings, or becoming more involved and influential in the thought process behind how customers view the economics of purchasing, owning, using and disposing of product offerings. Framing requires understanding how business customers currently think of and choose among products and services, and then determining how they should ideally think and choose.

Supplier diversity is a benefit that may not have a price tag but that business buyers overlook at their risk. As the CEOs of many large companies see it, a diverse supplier base is a business imperative. Minority suppliers are the fastest-growing segment of today's business landscape.

In the past, purchasing departments occupied a low position in the management hierarchy, in spite of often managing more than half the company's costs. Recent competitive pressures have led many companies to upgrade their purchasing departments and elevate administrators to vice-presidential rank. These new, more strategically orientated purchasing departments have a mission to seek the best value from fewer and better suppliers. Some multinationals have even elevated them to 'strategic supply departments', with responsibility for global sourcing and partnering. For example, at Caterpillar (a manufacturer of construction and mining equipment), purchasing, inventory control, production scheduling and traffic have been combined into one department. The upgrading of purchasing means that business marketers must upgrade their sales personnel to match the higher calibre of the business buyers.

Most purchasing professionals describe their jobs as more strategic, technical and team orientated, and involving more responsibility than ever before. 'Purchasing is doing more cross-functional work than it did in the past', says David Duprey, a buyer for Anaren Microwave, Inc., which supplies the world's leading original equipment manufacturers with wireless infrastructures, wireless consumer products, satellites and defence electronics, among other things. Of buyers surveyed, 61 per cent said the buying group was more involved in new product design and development over the last years; and more than half the buyers participated in crossfunctional teams, with suppliers well represented.[22]

Some companies have started to centralise purchasing. The headquarters identifies materials purchased by several divisions and buys them centrally, gaining more purchasing clout. For the business marketer, this development means dealing with fewer and higher-level buyers and using a national account sales group to deal with large corporate buyers. At the same time, companies are decentralising some purchasing operations by empowering employees to purchase small-ticket items (such as special binders, coffee makers or Christmas trees) through corporate purchasing cards issued by credit card organisations.

We are now ready to describe the general stages in the business buying decision process.

Stages in the buying process

Robinson and his associates identified eight stages in the business buying decision process and called them *buyphases*.[23] The model in Table 8.1 is the *buygrid* framework.

In modified rebuy or straight rebuy situations, some stages are compressed or bypassed. For example, the buyer normally has a favourite supplier or a ranked list of suppliers and can skip the search and proposal solicitation stages.

Here are some important considerations in each of the eight stages.

Problem recognition

The buying process begins when someone in the company recognises a problem or need that can be met by acquiring a good or service. The recognition can be triggered by internal or external stimuli. Internal stimuli might be that the company decides to develop a new product and needs new equipment and materials, or a machine breaks down and requires new parts. Perhaps

Table 8.1 Buygrid framework: major stages (buyphases) of the industrial buying process in relation to major buying situations (buyclasses)

		Buyclasses		
		New task	**Modified rebuy**	**Straight rebuy**
	1 Problem recognition	Yes	Maybe	No
	2 General need description	Yes	Maybe	No
	3 Product specification	Yes	Maybe	Yes
Buyphases	4 Supplier search	Yes	Yes	No
	5 Proposal solicitation	Yes	Maybe	No
	6 Supplier selection	Yes	Maybe	No
	7 Order-routine specification	Yes	Maybe	No
	8 Performance review	Yes	Maybe	Yes

purchased material turns out to be unsatisfactory and the company searches for another supplier, or lower prices or better quality. Externally, the buyer may get new ideas at a trade show, see an ad or receive a call from a sales representative who offers a better product or a lower price. Business marketers can stimulate problem recognition by direct mail, telemarketing and calling on prospects.

General need description and product specification

Next, the buyer determines the needed item's general characteristics and required quantity. For standard items this is simple. For complex items the buyer will work with others – engineers, users – to define characteristics such as reliability, durability or price. Business marketers can help by describing how their products meet or even exceed the buyer's needs.

The buying organisation now develops the item's technical specifications. Often, the company will assign a *product value analysis* (PVA) engineering team to the project. PVA is an approach to cost reduction that studies components to determine whether they can be redesigned, standardised or made by cheaper methods of production. The PVA team will identify overdesigned components, for instance, that last longer than the product itself. Tightly written specifications will allow the buyer to refuse components that are too expensive or that fail to meet specified standards.

Supplier search

The buyer next tries to identify the most appropriate suppliers through trade directories, contacts with other companies, trade advertisements, trade shows and the internet.[24] The move to internet purchasing has far-reaching implications for suppliers and will change the shape of purchasing for years to come.[25] Companies that purchase over the internet are utilising electronic marketplaces in several forms:

- **Catalogue sites.** Companies can order thousands of items through electronic catalogues distributed by eprocurement software, such as Grainger's.
- **Vertical markets.** Companies buying industrial products such as plastics, steel and chemicals or services such as logistics or media can go to specialised websites (called ehubs). For example, Plastics.com allows plastics buyers to search for the best prices among thousands of plastics sellers.
- **'Pure play' auction sites.** Ritchie Bros Auctioneers is a world-leading industrial auctioneer, with more than 40 auction sites worldwide. It sold €4.4 billion of used and unused equipment at more than 356 unreserved auctions in 2016, including a wide range of heavy equipment, trucks and other assets for the construction, transportation, agricultural, material handling, oil and gas, mining, forestry and marine industry sectors. While some people prefer to bid in person at Ritchie Bros auctions, they can also do so online in real time at rbauction.com, the company's multilingual website. In 2016, online bidders purchased €1.6 billion of equipment.[26]
- **Spot (or exchange) markets.** A spot market is a market where commodities and cash are bought and sold immediately, with no time between trades. On spot electronic markets, prices change by the minute. FizTrade.com is an instant trading site for physical metals offering both bid and ask, whereas IntercontinentalExchange.com (ICE) is the leading electronic energy marketplace and soft commodity exchange with billions in sales. Recognising the cost-management advantages that this market can offer, manufacturers have been committing an increasing portion of their procurement budget to the spot market.[27]
- **Private exchanges.** Hewlett-Packard and IBM operate private exchanges to link with specially invited groups of suppliers and partners over the web.
- **Barter markets.** Participants offer to trade goods or services.
- **Buying alliances.** Several companies buying the same goods, such as Transora and Covisint, join together to form purchasing consortia to gain deeper discounts on volume purchases.

Online business buying offers several advantages. It shaves transaction costs for both buyers and suppliers, reduces time between order and delivery, consolidates purchasing systems and forges more intimate relationships between partners and buyers. On the downside, it may help to erode supplier–buyer loyalty and create potential security problems. See the 'Marketing insight' box for an example of an online business marketplace.

Marketing insight

Alibaba.com in Europe

In October 2007 Alibaba.com opened its first European office in Geneva. Alibaba.com is the world's number-one marketplace dedicated to small and medium-sized enterprises – companies employing fewer than 250 people. From Geneva, Alibaba.com assists European SMEs to become more competitive by making their import and export business easier in a growing global market. Alibaba.com provides a platform where SME buyers and suppliers across the globe can connect and exchange raw materials, goods, manufactured products and even services. In just over 11 years, Alibaba.com has built a global community of more than 56 million members from over 250 countries and regions.

In April 2010, AliExpress was officially launched on the international marketplace. AliExpress especially assists smaller buyers seeking fast shipment of small quantities of goods. In September 2014, Alibaba was listed on the New York Stock Exchange (NYSE), with founder and chairman Jack Ma ringing the opening bell. On the opening day, the NYSE was festooned with the orange-and-white logo of Alibaba to herald its arrival on public markets. In 2016, Alibaba had a total revenue of €13.1 billion, generating more revenue than Amazon and eBay combined. In Europe, SMEs make up more than 99 per cent of the total number of companies and are the principal source of employment and wealth in the European Union. They provide two out of three of the private sector jobs and contribute to more than half of the total value added created by businesses in the EU. 'The large concentration of SMEs is one of the reasons why, in just a few years, Europe has become one of the most important markets for Alibaba.com in terms of active members', said Kenneth Liu, Alibaba.com's vice-president of global operations.

The success of Alibaba.com's marketplace is largely down to its efficiency and ease of use, enabling SMEs to save time by making global sourcing available 24/7 and removing barriers of geographies and time zones. Buyers use the site for free and have access to an active global supplier community and easy-to-use sourcing and communication tools. Sellers can also use the site for free, posting products to sell and searching for buyers. Premium fee-based packages are available for sellers who want to increase their exposure to potential buyers. Buyers and sellers meet online at Alibaba.com but transactions are completed offline.

Sources: Based on rt.com (2016) Alibaba generates more revenue than Amazon and eBay combined, 2 November; www.alibaba.com; http://ec.europa.eu; Alibaba has $82 million password, *Private Equity Week*, 23 February; http://online.wsj.com; Bibi Christensen (2014) Alibabas tro væbner, Berlingske Tidende, *Business*, 18 May, 3.

e-Procurement

Websites are organised around two types of e-hub: *vertical hubs* centred on industries (plastics, steel, chemicals, paper) and *functional hubs* (logistics, media buying, advertising, energy management). In addition to these websites, companies can use eprocurement in other ways:

Set up direct extranet links to major suppliers. An extranet is a private computer network using internet technology to which access is provided to select groups of vendors, suppliers or customers who need to access selected databases and processes. For example, a company can set up a direct eprocurement account at Dell or Office Depot and its employees can make their purchases this way.

Form buying alliances. A number of major retailers and manufacturers such as Ace Hardware, Coca-Cola, Colgate Palmolive, Johnson & Johnson, Kraft, Kroger, Lowe's, Nestlé, Office Depot, PepsiCo, Procter & Gamble, Sara Lee, Staples, Wal-Mart and Wegmans Food Markets are part of a data-sharing alliance called 1SYNC. Several car companies (GM, Ford, Daimler and Chrysler) formed Covisint for the same reason. Covisint is the leading provider of services that can integrate crucial business information and processes between partners, customers and suppliers. The company has now also targeted healthcare to provide similar services.

Set up company buying sites. General Electric formed the trading process network (TPN), where it posts *requests for proposals,* negotiates terms and places orders.

Moving into e-procurement means more than acquiring software; it requires changing purchasing strategy and structure. However, the benefits are many: aggregating purchasing across multiple departments yields larger, centrally negotiated volume discounts, a smaller purchasing staff and less buying of substandard goods from outside the approved list of suppliers.

Lead generation

The supplier's task is to ensure it is considered when customers are – or could be – in the market and searching for a supplier. Identifying good leads and converting them to sales requires the whole of the marketing and sales organisations to work in a coordinated, multichannel approach in the role of trusted advisor to prospective customers. Marketing must work together with sales to define what makes a 'sales-ready' prospect and cooperate to send the right messages via sales calls, tradeshows, online activities, PR, events, direct mail and referrals.[28]

Marketing must find the right balance between the quantity and quality of leads. Too many leads, even of high quality, and the sales force may be overwhelmed and allow promising opportunities to fall through the cracks; too few or low-quality leads and the sales force may become frustrated or demoralised.[29] To generate leads proactively, suppliers need to know about their customers. They can obtain background information from vendors such as EUbusiness.com, Business .com, Hoover.com and Dun & Bradstreet, or information-sharing websites such as CSR Europe, Jigsaw and LinkedIn.[30]

Suppliers that lack the required production capacity or suffer from a poor reputation will be rejected. Those that qualify may be visited by the buyer's agents, who will examine the suppliers' manufacturing facilities and meet their personnel. After evaluating each company, the buyer will end up with a shortlist of qualified suppliers. Many professional buyers have forced suppliers to change their marketing to increase their likelihood of making the cut.

Proposal solicitation

The buyer next invites qualified suppliers to submit proposals. If the item is complex or expensive, the buyer will require a detailed written proposal from each qualified supplier. After evaluating the proposals, the buyer will invite a few suppliers to make formal presentations.

Business marketers must be skilled in researching, writing and presenting proposals. Written proposals should be marketing documents that describe value and benefits in customer terms. Oral presentations must inspire confidence and position the company's capabilities and resources so that they stand out from the competition. Proposals and selling are often organised in teams, which may focus on a particular geographic region, industry or market concentration. Salespeople can leverage the knowledge and expertise of co-workers instead of working in isolation.[31]

Supplier selection

Before selecting a supplier, the buying centre will specify desired supplier attributes and indicate their relative importance. To rate and identify the most attractive suppliers, buying centres often use a supplier-evaluation model, such as the one shown in Table 8.2.

To develop compelling value propositions, business marketers need to better understand how business buyers arrive at their valuations.[32] Researchers studying how business marketers assess customer value found eight different *customer value assessment* (CVA) methods. Companies tended to use the simpler methods, although the more sophisticated ones promise to produce a more accurate picture of customer-perceived value (see 'Marketing in practice').

The choice and importance of different attributes varies with the type of buying situation. Delivery reliability, price and supplier reputation are important for routine-order products. As regards procedural-problem products, the customer may be uncertain of her or his ability to learn to use the product. Therefore, the three most important attributes are technical service, supplier flexibility

Table 8.2 An example of vendor analysis

Attributes	Rating scale				
	Importance weights	Poor (1)	Fair (2)	Good (3)	Excellent (4)
Price	0.30				X
Supplier reputation	0.20			X	
Product reliability	0.30				X
Service reliability	0.10		X		
Supplier flexibility	0.10			X	
Total score: $0.30(4) + 0.20(3) + 0.30(4) + 0.10(2) + 0.10(3) = 3.5$					

and product reliability. For political-problem products that stir rivalries in the organisation (such as the choice of a computer system), the most important attributes are price, supplier reputation, product reliability, service reliability and supplier flexibility.

Marketing in practice

Developing compelling customer value propositions

An adequate understanding of markets, competitors and customer preferences is essential when seeking to define what value a company brings to business markets. Hence, to command price premiums in competitive B2B markets, firms must create compelling customer value propositions. The first step is to research the customer. Here are a number of productive research methods:

- **Internal engineering assessment.** Have company engineers use laboratory tests to estimate the product's performance characteristics. Weakness: ignores the fact that in different applications the product will have different economic value.
- **Field value-in-use assessment.** Interview customers about how costs of using a new product compare with those of using an incumbent. The task is to assess how much each cost element is worth to the buyer.
- **Focus-group value assessment.** Ask customers in a focus group what value they would put on potential market offerings.
- **Direct survey questions.** Ask customers to place a direct monetary value on one or more changes in the market offering.
- **Conjoint analysis.** Ask customers to rank their preferences for alternative market offerings or concepts. Use statistical analysis to estimate the implicit value placed on each attribute.
- **Benchmarks.** Show customers a 'benchmark' offering and then a new market offering. Ask how much more they would pay for the new offering or how much less they would pay if certain features were removed from the benchmark offering.
- **Compositional approach.** Ask customers to attach a monetary value to each of three alternative levels of a given attribute. Repeat for other attributes, then add the values together for any offer configuration.
- **Importance ratings.** Ask customers to rate the importance of different attributes and their suppliers' performance on each.

Having done this research you can specify the customer value proposition, following a number of important principles. First, clearly substantiate value claims by concretely specifying the differences between your offerings and those of competitors on the dimensions that matter most to the customer. For example, Rockwell Automation determined the cost savings customers would realise from purchasing its pump solution instead of a competitor's by using industry-standard metrics of functionality and performance: kilowatt-hours spent, number of operating hours per year and dollars per kilowatt-hour. Also, make the financial implications obvious.

Second, document the value delivered by creating written accounts of costs savings or added value that existing customers have actually captured by using your offerings. Chemical producer Akzo Nobel conducted a two-week pilot study on a production reactor at a prospective customer's facility to document points of parity and points of difference of its high-purity metal organics product.

Finally, make sure the customer value proposition is well implemented within the company, and train and reward employees for developing a compelling one. Quaker Chemical conducts training programmes for its managers that include a competition to develop the best proposals.

Sources: R. O. Bagley (2013) How to develop a compelling value proposition, *Forbes*, 9 April; J. C. Anderson, J. A. Narus and W. van Rossum (2006) Customer value propositions in business markets, *Harvard Business Review*, March, 2–10; J. C. Anderson and J. A. Narus (1998) Business marketing: Understand what customers value, *Harvard Business Review*, November, 53–65; J. C. Anderson and J. A. Narus (1995) Capturing the value of supplementary services, *Harvard Business Review*, January, 75–83; J. C. Anderson, D. C. Jain and P. K. Chintagunta (1993) A customer value assessment in business markets: A state-of-practice study, *Journal of Business-to-Business Marketing*, 1(1), 3–29.

Overcoming price pressures and improving productivity

The buying centre may attempt to negotiate with preferred suppliers for better prices and terms before making the final selection. Despite moves towards strategic sourcing, partnering and participation in cross-functional teams, buyers still spend a large chunk of their time haggling with suppliers on price. The number of price-orientated buyers can vary by country depending on customer preferences for different service configurations and characteristics of the customer's organisation.[33]

Marketers can counter requests for a lower price in a number of ways. They may be able to show evidence that the 'total cost of ownership' – that is, the '**life-cycle cost**' of using their product – is lower than for competitors' products. They can cite the value of the services the buyer now receives, especially if they are superior to those offered by competitors. Research shows that service support and personal interactions, as well as a supplier's know-how and ability to improve customers' time to market, can be useful differentiators in achieving key-supplier status.[34]

While marketers may also improve their productivity to be able to deal with requests for better prices, such improvements may lead to other advantages as well. The Scandinavian metal packaging producer for food products, Glud & Marstrand, has invested in a warehouse management system (WMS) delivered by Consafe Logistics.[35] The motive behind introduction of the new WMS was fourfold:

1 The system should enable the warehouse to improve its day-to-day operations while improving productivity and thereby reducing costs.
2 The system should provide the management and organisation with a valid system of data analysis for management of operations and capacity of the warehouse and optimisation of picking work.
3 The system should provide the management board with an effective analysis tool for continuous evaluation of warehouse performance.
4 The system should provide online and real-time information on stock status.

Now, productivity has risen so much that the warehouse can operate to the same level with 22 employees as it did previously with 34. There are also other advantages, such as the fact that, today, internal salespeople know exactly what the company holds in stock – important knowledge that they had difficulty obtaining previously.

Some firms are using technology to devise novel customer solutions. With web technology and tools, VistaPrint printers can offer professional printing to small businesses that previously could not afford it.[36] Some companies handle price-orientated buyers by setting a lower price but establishing restrictive conditions: (1) limited quantities, (2) no refunds, (3) no adjustments and (4) no services.[37]

Solution selling can also alleviate price pressure and comes in different forms. Here are three examples:[38]

1 **Solutions to enhance customer revenues.** Through a sophisticated data-management system, Hendrix Voeders helped farmers to monitor animals' feed consumption and weight gain. Farmers were now able to make micro-adjustments in nutrients and medicine, resulting in productivity gains such as animal weight gain of 5–10 per cent or increases of 4–5 per cent in live births.
2 **Solutions to decrease customer risks.** ICI Explosives formulated a safer way to ship explosives for quarries.
3 **Solutions to reduce customer costs.** W. W. Grainger employees work at large customer facilities to reduce materials-management costs.

Many companies are seeking solutions that increase benefits and reduce costs enough to overcome any low-price concerns.

Risk and gain sharing can offset requested price reductions from customers. For example, a hospital supplier signs an agreement with a hospital promising €350,000 in savings over the first 18 months in exchange for a tenfold increase in the hospital's share of supplies. If the hospital supplier achieves less than this promised saving, it will make up the difference. If the hospital supplier achieves substantially more than promised, it participates in the extra savings. To make such arrangements work, the supplier must be willing to help the customer build a historical database, reach an agreement for measuring benefits and costs, and devise a dispute-resolution mechanism with directions on how any disagreements between the parties should be resolved.

Number of suppliers

As part of the buyer selection process, buying centres must decide how many suppliers to use. Companies are increasingly reducing the number of suppliers. There is even a trend towards single sourcing, though companies that use multiple sources often cite the threat of a labour strike, natural disaster, or any other unforeseen event as the biggest deterrent to single sourcing. Companies may also fear single suppliers will become too comfortable in the relationship and lose their competitive edge.

Order-routine specification

After selecting suppliers, the buyer negotiates the final order, listing the technical specifications, the quantity needed, the expected time of delivery, return policies, warranties and so on. Many industrial buyers lease heavy equipment such as machinery and trucks. The lessee gains a number of advantages: conserving capital, getting the latest products, receiving better service and gaining some tax advantages. The lessor often ends up with a larger net income and the chance to sell to customers who could not afford outright purchase.

In the case of maintenance, repair and operating items, buyers are moving towards blanket contracts rather than periodic purchase orders. A blanket contract establishes a long-term relationship in which the supplier promises to resupply the buyer as needed, at agreed prices, over a specified period of time. Because the seller holds the stock, blanket contracts are sometimes called *stockless purchase plans*. The buyer's computer automatically sends an order to the seller when stock is needed. This system locks suppliers in tighter with the buyer and makes it difficult for out suppliers to break in unless the buyer becomes dissatisfied with the in supplier's prices, quality or service.

Companies that fear a shortage of key materials are willing to buy and hold large inventories. They will sign long-term contracts with suppliers to ensure a steady flow of materials. Ford and several other major companies regard long-term supply planning as a major responsibility of their purchasing managers. For example, General Motors wants to buy from fewer suppliers, which must be willing to locate close to its plants and produce high-quality components. Business marketers are also setting up extranets with important customers to facilitate and lower the cost of transactions. The customers enter orders directly on the computer and these are automatically transmitted to the supplier. Some companies go further and shift the ordering responsibility to their suppliers in systems called *vendor-managed inventory*. These suppliers are privy to the customer's inventory levels and take responsibility for replenishing them automatically through *continuous replenishment programmes*.

Performance review

The buyer periodically reviews the performance of the chosen supplier(s) using one of three methods. The buyer may contact the end users and ask for their evaluations; the buyer may rate the supplier on several criteria using a weighted-score method; or the buyer might aggregate the cost of poor performance to come up with adjusted costs of purchase, including price. The performance review may lead the buyer to continue, modify or end a supplier relationship.

Many companies have set up incentive systems to reward purchasing managers for good buying performance, in much the same way that sales personnel receive bonuses for good selling performance. These systems lead purchasing managers to increase pressure on sellers for the best terms.

Managing business-to-business relationships

To improve effectiveness and efficiency, business suppliers and customers are exploring different ways to manage their relationships.[39] Closer relationships are driven in part by supply chain management, early supplier involvement and purchasing alliances.[40] Cultivating the right relationships with business is paramount for any holistic marketing programme. Business-to-business marketers are avoiding 'spray and pray' approaches to attracting and retaining customers in favour of honing in on their targets and developing one-to-one marketing approaches. Also, they are increasingly using online social media in the form of company blogs, online press releases and forums or discussion groups to communicate with existing as well as prospective customers. Social media is increasingly used as a platform for 'building' strong seller–customer relationships in business markets (see 'Marketing insight' box).

Marketing insight

Social media in business markets

Successful business often builds on developing strong relationships with your business partners. Although a large number of conceptualisations of 'relationship marketing' have been proposed, marketing researchers seem to agree that: (a) both parties in a relationship must benefit for the relationship to continue; (b) the relationship is often longitudinal in nature; and (c) the focus of relationship marketing is to retain customers.

In recent years, social media has become an increasingly important platform for developing and maintaining relationships between business partners. Using social media, companies can more easily discuss matters with business partners around the globe, and other relevant parties (e.g. experts, lawyers, politicians and the like) can be invited to take part in the conversations. As stated by social media blogger Niall Harbison, 'Social media is cheap and allows you to meet people in a fraction of the amount of time that it would take in "the real world"'.

The personalisation that occurs when using social media may boost the level of trust between parties, which in turn may positively influence customer loyalty. Furthermore, social media may be used in detecting new business partners. For instance, consider a group of engineers discussing the pros and cons of a new material for constructing bridges. Engineers from other companies find the open discussion highly interesting and attend the discussion, offering additional viewpoints and ideas. As discussions between parties develop, new possibilities for business collaborations may be detected, and ultimately new business relationships may evolve.

Certainly, social media is top of the agenda for many business executives today. Some even believe that we have only yet seen the tip of the iceberg. 'Social media provides targeting capability, as well as reach and scale, at a lower cost than almost all other marketing channels', said Abdul Muhammad, partner and VP of digital strategy at rbb Communications. In accordance with this view, social media marketing is no longer viewed as just a trend or passing fad. Having a flexible and well-managed presence in each of the 'big three' (Facebook, Twitter and Google+) has become a must for any company seeking to maintain its business market competitiveness.

Sources: S. Driver (2018) Social media for business: A marketer's guide, *Business News Daily*, 10 April; J. Bosari (2012) The developing role of social media in the modern business world, *Forbes*, August 8; N. Harbison (2010) How to market your business using social media when you have zero budget, *Zesty*, 15 March, www.simplyzesty.com/social-media/market-business-social-media-budget/; B. Gutek, A. D. Bhappu, M. A. Liao-Troth and B. Cherry (1999) Distinguishing between service relationships and encounters, *Journal of Applied Psychology*, 84(2), 218–233.

The role of uncertainty in business relationships

Uncertainty refers to situations where the information available for decision making is too vague, or too imprecise, to calculate the probabilities of different outcomes of the decision.[41] Uncertainty can come in many forms and may relate to both institutional aspects (e.g. lack of formal institutional standards, such as professionalisation, industry boundaries and product standards) and transactional aspects (e.g. lack of confidentiality of information and insufficient information).[42] Therefore, uncertainty has also to do with lack of trust among business partners or in an industry.[43]

Uncertainty can be highly damaging for the efficiency of business relations and should therefore be reduced. It leads to unpredictable outcomes, since it makes it difficult for business negotiators to anticipate the full impact – positive or negative – of a transaction or an agreement.[44] Hence, uncertainty may lead to irrational decisions. Uncertainty may even lead to a collective irrational outcome of a transaction between business partners, although each partner individually performs rational behaviour.

The famous example put forward by Akerlof[45] concerning the market for 'lemons' (i.e. used cars of poor quality) illustrates this point. A used car is mainly a 'credence good',[46] since the 'real' quality of a used car cannot usually be determined by the potential buyer until after he or she has purchased it and driven it for a time. Because of a lack of information, the buyer is motivated to pay only a low price for a used car, thereby minimising the potential risk of paying too much for poor quality. If the seller cannot justify a high price, which is difficult because there are no simple means of conveying the quality in a believable way, he will be motivated to sell only lemons. The consequence is that only low-quality cars will be sold and bought in the marketplace, a situation that hurts both sellers (lack of profit) and buyers (lack of quality). This example – although constructed – points to the need for reducing uncertainty in business relationships.

As discussed in the next section, uncertainty is also one of the main concepts considered in the transaction cost economics approach.

Transaction cost economics

Within mainstream economic thinking, all market agents can obtain perfect knowledge about products and prices at no cost. Business agents are fully informed about all products and business terms, and no information asymmetric exists between suppliers and customers. Thus, rationality is assumed for all market agents. In transaction cost economics (TCE), market agents have limits on their ability to make truly rational decisions; they have limited mental resources and thus cannot deal with unlimited amounts of information. *Bounded rationality* can be seen either as the attempt to do as well as possible given the demands of the world – the notion of optimisation under constraints – or as the suboptimal outcome of the limited cognitive system.[47] The introduction of bounded rationality means that possible information asymmetry may exist between seller and buyer. Thus, a risk arises that market failure will occur due to opportunistic behaviour of the better-informed party. Researchers have noted that establishing a customer–supplier relationship creates tension between safeguarding and adaptation. Vertical coordination can facilitate stronger customer–seller ties but at the same time may increase the risk to the customer's and the supplier's specific investments.

Specific investments are those expenditures tailored to a particular company and value chain partner (investments in company-specific training, equipment and operating procedures or systems).[48] They help firms grow profits and achieve their positioning.[49] Specific investments, however, also entail considerable risk to both customer and supplier. TCE maintains that because these investments are partially sunk, they lock firms into a particular relationship. Sensitive cost and process information may need to be exchanged. A buyer may be vulnerable to holdup because of switching costs; a supplier may be more vulnerable because it has dedicated assets and/or technology/knowledge at stake. In terms of the latter risk, consider the following example:[50]

An automobile component manufacturer wins a contract to supply an under-hood component to an original equipment manufacturer (OEM). A one-year, sole-source contract safeguards the supplier's OEM-specific investments in a dedicated production line. However, the supplier may also be obliged to work (non-contractually) as a partner with the OEM's internal engineering staff, using linked computing facilities to exchange detailed engineering information and coordinate frequent design and manufacturing changes over the term of the contract. These interactions could reduce costs and/or increase quality by improving the firm's responsiveness to marketplace changes. But they could also magnify the threat to the supplier's intellectual property.

When buyers cannot easily monitor supplier performance, the supplier might shirk or cheat and not deliver the expected value. *Opportunism* is 'some form of cheating or undersupply relative to an implicit or explicit contract'.[51] It may entail blatant self-interest and deliberate misrepresentation that violate contractual agreements. In creating the Ford Taurus, Ford Corporation chose to outsource the whole process to one supplier, Lear Corporation. Lear committed to a contract that, for various reasons, it knew it was unable to fulfil. According to Ford, Lear missed deadlines, failed to meet weight and price objectives, and furnished parts that did not work.[52] A more passive form of opportunism might be a refusal or unwillingness to adapt to changing circumstances.

Opportunism is a concern because firms must devote resources to control and monitoring that they could otherwise allocate to more productive purposes. Contracts may become inadequate to govern supplier transactions when supplier opportunism becomes difficult to detect, when firms make specific investments in assets that they cannot use elsewhere, and when contingencies are harder to anticipate. Customers and suppliers are more likely to form a joint venture (instead of signing a simple contract) when the supplier's degree of asset specificity (whether the assets involved in business transactions are valuable in the context of one or more transactions) is high, monitoring the supplier's behaviour is difficult and the supplier has a poor reputation.[53] When a supplier has a good reputation, it is more likely to avoid opportunism to protect this valuable intangible asset.

The presence of a significant future time horizon and/or strong solidarity norms typically causes customers and suppliers to strive for joint benefits. As a result, there is a shift in specific investments from expropriation (increased opportunism on the receiver's part) to bonding (reduced opportunism).[54]

According to TCE, companies may act in a self-interested way when possible: that is, they may exploit unforeseen circumstances even though the related actions taken may damage the other party. However, people will act opportunistically only some of the time and not all people are opportunists. The problem is to tell who is an opportunist at what time, which of course is not an easy task. The combination of bounded rationality (which may lead to information asymmetries) with the possibility of people acting opportunistically therefore introduces uncertainty in business relationships. Along with two other variables (the frequency of the business transaction and asset specificity), the level of uncertainty explains whether firms will deal with market agents or whether they will seek to integrate their activities vertically (for example, by taking over a supplier). Other things being equal, the higher the frequency, the uncertainty and the asset specificity, the more likely it is that **vertical integration** will take place, since this solution will result in the lowest transaction costs. **Transaction costs** occur when goods or services are transferred from one organisation to another and may include search costs, contracting costs, monitoring costs and enforcement costs.[55]

A certain amount of uncertainty can always be associated with a transaction, since because of bounded rationality it is difficult and costly to determine all the possible effects a transaction might have.[56] In TCE theory, uncertainty therefore arises because of impenetrable complexity, and since 'objective' uncertainty can be difficult or even impossible to estimate, focus is put on companies' perceived uncertainty. Companies are assumed to take action based on perceived uncertainty. Based on TCE, a number of possible such perceived uncertainties can be detected within business relationships. Uncertainties may be related to differences between buyer and seller (e.g. language, culture, technology), trading procedures and contracting procedures, and to the possibility that companies may act in an opportunist way when beneficial for just one of the parties. While TCE is useful in detecting the kinds of uncertainty that may be involved in transactions among business relationships, it has been criticised for focusing too much on agent opportunism and thereby neglecting the possibility of inter-firm trust and the evolution of inter-firm relationships.[57] Network theory, however, introduces a view on business relationships that in many aspects deals with this criticism.

Network theory

Whereas TCE is based on analysis of the market behaviour of companies and views the results of that behaviour in terms of 'win–lose' outcomes, network theory emphasises the possibility that both sides can win simultaneously: that is, a win–win outcome. Basically, this possibility arises because of the introduction of 'trust' in network theory. While TCE can be considered an 'anti-trust' approach (people in companies are opportunists), network theory can be considered a 'trust' approach. Networking appears to be among the leading paradigms in the understanding and analysis of partnership between companies. A distinction can be made between strategic (governed) and industrial (non-governed) networks. The governed networks are those strategic networks where members strongly identify with the 'core firm'/network and where there are clear rules for participating in the network's knowledge-sharing activities.

Many companies engage in partnership with other companies
Source: fizkes/Shutterstock

Dyer and Nobeoka[58] have shown that Toyota's ability to create and manage network-level knowledge-sharing processes effectively at least partially explains the relative productivity advantages enjoyed by Toyota and its suppliers. Toyota's network (1) motivates members to participate and openly share valuable knowledge (while preventing undesirable spillovers to competitors), (2) prevents free riders and (3) reduces the costs associated with finding and accessing different types of valuable knowledge. Toyota has managed to do this by creating a strong network identity with rules for participation and entry into the network. By the end of the last decade Toyota was the leading automaker in global sales, with 6,450,000 units. However, at the same time, the Volkswagen group began working on a ten-year strategic plan that aimed to narrow the productivity and profit gap with Toyota. 'In the last five, six years, Toyota has pulled ahead of us, and what we plan to do is to reduce the lead they've got', said CEO Martin Winterkorn. 'If we are approaching Toyota, we are approaching it in terms of productivity goals', the VW spokesman added. 'The financial side is related. If you are highly productive, you are highly profitable.' The strategic plan has now proven its worth. Volkswagen's emissions scandal may have impacted its overall worldwide sales, but the company still ranked second in the world in 2016 with 6,111,197 units sold, compared with a rank of fourth in 2006, with 5,720,000 units sold. That compared with the 7,247,524 units sold by Toyota in 2016.[59]

The strategic networks are managed by the hub, which sends signals to network members as to what actions, activities and structures are considered appropriate. In contrast, industrial networks are sets of interrelated agents performing interconnected activities by employing interdependent resources.[60] In industrial networks the relationships therefore need to be 'coped with' rather than controlled,[61] and in order to be able to manage these relationships a certain level of mutual trust and information sharing is needed. Thus, while emphasis in strategic networks is on coordination and control, emphasis in industrial networks is on trust and on exchange of 'sensitive/confidential' information. Shortcomings in coordination and/or information sharing could therefore be a significant driver of uncertainty and transaction costs among the parties involved in the network.[62]

In general – covering both types of network – networks can be understood as long-term arrangements among organisations, which allow those organisations to attain long-term sustainable advantages.[63] Network theory, developed first in the 1960s and 1970s, is based on the empirical observation that in many industrial markets stability of relations, exchange of information, interlacing of technologies and various forms of cooperation and contractual agreement are the rule rather than the exception.[64] In many producer markets, the selling firm has a limited number of highly important customers and the relationships with these customers are often complex, involving several people and functions on both sides. Because of the complexity and uncertainty associated with dealing with new partners, both the selling and the buying company may find it useful to reduce the perceived distance between the companies. As transactions evolve successfully, both parties may believe that the benefits of staying in the relationship outweigh the disadvantages of not operating 'freely' in the marketplace. This reduces opportunism and increases trust, since both parties share an interest in nursing and maintaining the relationship.

However, building relationships also exposes companies to new uncertainties. In a network relationship, the parties involved are 'selling' their independence for the purpose of attaining lower transaction costs. Yet the closer the relationship, the higher the uncertainty of being dependent upon a single partner.[65] Thus, firms are in need of effective information tools, which fulfil not only intra-network demands for mutual information but also firms' needs for information about alternatives. The higher the collaboration, the higher the dependency, and thus the more difficult it is to change partners. Bringing 'external' market information into the collaboration may motivate each party to maximise short-term transactions in order to maintain long-term network advantages. Hence, because of an increased, collective insight into other market opportunities, the costs and uncertainties associated with not being able to operate 'freely' may decrease.

Much research has advocated greater vertical coordination between members of the distribution chain, or, in other words, stronger and more organised cooperation between, say, a company and its buyers and/or suppliers.

Vertical coordination

Through vertical coordination, both buyers and sellers can transcend merely transacting and instead engage in activities that create more value for both parties.[66] Building trust is one prerequisite to healthy and well-coordinated long-term relationships. The 'Marketing insight' box identifies some key dimensions to such trust. Knowledge that is specific and relevant to a relationship partner is also an important factor in the strength of inter-firm ties between partners.[67]

Marketing insight

Establishing corporate trust and credibility

Corporate credibility is the extent to which customers believe a firm can design and deliver products and services that satisfy their needs and wants. It reflects the supplier's reputation in the marketplace and is the foundation for a strong relationship.

Corporate credibility depends on three factors:

1. **Corporate expertise:** the extent to which a company is seen as able to make and sell products or conduct services.
2. **Corporate trustworthiness:** the extent to which a company is seen as motivated to be honest, dependable and sensitive to customer needs.
3. **Corporate likeability:** the extent to which a company is seen as likeable, attractive, prestigious, dynamic and so on.

In other words, a credible firm is good at what it does, it keeps its customers' best interests in mind and is enjoyable to work with.

Trust is the willingness of a firm to rely on a business partner. It depends on a number of interpersonal and inter-organisational factors, such as the firm's perceived competence, integrity, honesty and benevolence. Personal interactions with employees of the firm, opinions about the company as a whole and perceptions of trust will evolve with experience. Figure 8.1 gives a summary of some core dimensions of trust.

Building trust can be especially tricky in online settings, and firms often impose more stringent requirements on their online business partners than on others. Business buyers worry that they will not get products of the right quality delivered to the right place at the right time. Sellers worry about getting paid on time – or at all – and how much credit they should extend.

Some firms, such as the global transportation and supply chain management company Ryder System, use automated credit-checking applications and online trust services to determine the creditworthiness of trading partners. At the same

Low	High
Transparency Distorted, hidden information	Full, honest information
Product/service quality Low product service quality fails to meet promises	Best product and service to fulfil expectations
Incentive Incentives aligned for company, *not customer gains*	Incentives aligned so employees trust and meet customer needs
Partnering with customers Leave customers to work out their own problems	Help customers learn and help themselves
Cooperating design Customers are sold company solutions	Customers help design products individually and through communities
Product comparison and advice No or biased comparison and no advice	Compare to competitive products honestly and comprehensively
Supply chain Customer trust conflict in channel	All supply chain partners aligned to build trust
Pervasive advocacy Marketing pushes services and products	All functions work to build trust

Figure 8.1 Trust dimensions
Source: G. Urban (2005) Where are you positioned on the trust dimensions? in Don't Just Relate – Advocate: A Blueprint for Profit in the Era of Customer Power, Indianapolis, Indiana: Wharton school Publishers, 99. Copyright © 2005. Reprinted by permission of Pearson Education, Inc., Upper Saddle River, NJ.

time, Ryder System recognises that trust is a mutual thing. On the European part of its website (www.ryder.com), the company provides several reasons why it can be trusted as a business partner, including that its network of service locations guarantees flexibility, fast response, speed of access and mobile support.

Sources: J. Kim (2018) Research on trust in strategic alliances, *Journal of Marketing Thought*, 4(4), 40–45; T. Hansen (2012) Understanding trust in financial services: The influence of financial healthiness, knowledge, and satisfaction, *Journal of Service Research*, 15(3), 280–295; B. Violino (2002) Building B2B trust, *Computerworld*, 17 June, 32; R. E. Plank, D. A. Reid and E. Bolman Pullins (1999) Perceived trust in business-to-business sales: A new measure, *Journal of Personal Selling and Sales Management*, 19(3), 61–72; K. L. Keller and D. A. Aaker (1998) Corporate-level marketing: The impact of credibility on a company's brand extensions, *Corporate Reputation Review*, 1 (August), 356–78; R. M. Morgan and S. D. Hunt (1994) The commitment-trust theory of relationship marketing, *Journal of Marketing*, 58(3), 20–38; C. Moorman, R. Deshpande and G. Zaltman (1993) Factors affecting trust in market research relationships, *Journal of Marketing*, 57 (January), 81–101; www.ryder.com.

One historical study of four very different business-to-business relationships found that several factors, by affecting partner interdependence and/or environmental uncertainty, influenced the development of a relationship between business partners.[68] The relationship between advertising agencies and clients illustrates these findings:

- In the relationship-formation stage, one partner experienced substantial market growth. Manufacturers capitalising on mass-production techniques developed national brands, which increased the importance and amount of mass media advertising.
- Information asymmetry between partners was such that a partnership would generate more profits than if the partner attempted to invade the other firm's area. Advertising agencies had specialised knowledge that their clients would have had difficulty obtaining.
- At least one partner had high barriers to entry that would prevent the other partner from entering the business. Advertising agencies could not easily become national manufacturers, and for years manufacturers were not eligible to receive media commissions.
- Dependence asymmetry existed such that one partner was more able to control or influence the other's conduct. Advertising agencies had control over media access.
- One partner benefited from economies of scale related to the relationship. Ad agencies gained by providing the same market information to multiple clients.

Research has found that buyer–supplier relationships differ according to four factors: availability of alternatives, importance of supply, complexity of supply and supply market dynamism. Based on these four factors, buyer–supplier relationships have been classified into eight categories:[69]

1 **Basic buying and selling.** These are simple, routine exchanges with moderate levels of cooperation and information exchange.
2 **Bare bones.** These relationships require more adaptation by the seller and less cooperation and information exchange.
3 **Contractual transaction.** These exchanges are defined by formal contract and generally have low levels of trust, cooperation and interaction.
4 **Customer supply.** In this traditional customer supply situation, competition rather than cooperation is the dominant form of governance.
5 **Co-operative systems.** The partners in co-operative systems are united in operational ways, but neither demonstrates structural commitment through legal means or adaptation.
6 **Collaborative.** In collaborative exchanges, much trust and commitment leads to true partnership.
7 **Mutually adaptive.** Buyers and sellers make many relationship-specific adaptations, but without necessarily achieving strong trust or cooperation.
8 **Customer is king.** In this close, cooperative relationship, the seller adapts to meet the customer's needs without expecting much adaptation or change in exchange.

Over time, however, the roles and nature of a relationship may shift and be activated depending on different circumstances.[70] Some needs can be satisfied with fairly basic supplier performance. Buyers then neither want nor require a close relationship with a supplier. Likewise, some suppliers may not find it worth their while to invest in customers with limited growth potential.

One study found that the closest relationships between customers and suppliers arose when the supply was important to the customer and there were procurement obstacles, such as complex purchase requirements and few alternative suppliers.[71] Another study suggested that greater vertical coordination between buyer and seller through information exchange and planning is usually necessary only when high environmental uncertainty exists and specific investments are modest.[72]

Our discussion has concentrated largely on the buying behaviour of profit-seeking companies, but much of what we have said also applies to the buying practices of institutional and government organisations. However, in the following section we want to highlight certain special features of these markets.

Institutional and government markets

The **institutional market** consists of schools, hospitals, nursing homes, prisons and other institutions that must provide goods and services to people in their care. Many of these organisations are characterised by low budgets and captive clienteles. For example, hospitals must decide what quality of food to buy for patients. The buying objective here is not profit, because the food is provided as part of the total service package; nor is cost minimisation the sole objective, because poor food will cause patients to complain and harm the hospital's reputation. The hospital purchasing agent must search for institutional-food vendors whose quality meets or exceeds a certain minimum standard and whose prices are low. In fact, many food vendors set up a separate division to sell to institutional buyers because of these buyers' special needs and characteristics. Heinz produces, packages and prices its ketchup differently to meet the requirements of hospitals, colleges and prisons.

In most countries, government organisations are a major buyer of goods and services. They typically require suppliers to submit bids and often award the contract to the lowest bidder. In some cases the government unit will make allowance for superior quality or a reputation for completing contracts on time. Governments will also buy on a negotiated contract basis, primarily in the case of complex projects involving major R&D costs and risks, and in cases where there is little competition. One company that is selling to governments is DERMALOG.

DERMALOG

Headquartered in Hamburg, Germany, DERMALOG is a leading company in the field of biometric identification systems. DERMALOG delivers security products for law enforcement, civil governmental agencies such as national registration, voter and driver registrations, health agencies, security agencies and for access and data security, authorisation and authentication services, as well as mobile security.

'FingerLogin', 'FingerPayment' and 'FingerBanking' are also solutions developed by DERMALOG, as well as systems for automatic Face and Iris recognition. Apart from Germany and Europe, the main markets of DERMALOG are in Asia, Africa,

Fingerprint on white background
Source: Arkadiusz Fajer/Shutterstock

Latin America and the Middle East. Today, more than 150 government agencies and over 40 banks in more than 80 countries are using DERMALOG's technology and turnkey solutions for biometric identification.

Governmental organisations as well as public and private businesses all over the world have trusted DERMALOG's expertise. Today DERMALOG is the biggest German biometric company and among the world's leading biometric manufacturers.

Source: www.dermalog.com

Because their spending decisions are subject to public review, government organisations require considerable paperwork from suppliers, which often complain about bureaucracy, regulations, decision-making delays and frequent shifts in procurement staff. But the fact remains that public procurement is the process used by public authorities or bodies governed by public law to purchase products and services with tax money. Public procurement is a key sector of the EU economy. Every year, over 250 000 public authorities in the EU spend around 14 per cent of GDP on the purchase of services, works and supplies.[73]

A major complaint of multinationals operating in Europe is that each country shows favouritism towards its nationals, despite superior offers from foreign firms. Although such practices are fairly entrenched, the European Union is attempting to remove this bias. For example, EU member states' contracting authorities need to wait for at least ten days after deciding who has won the public contract before the contract can actually be signed. The so-called 'standstill period' is designed to give bidders time to examine the decision and to assess whether it is appropriate to initiate a review procedure. If this standstill period has not been respected, the directive requires national courts under certain conditions to set aside a signed contract by annulling it.[74]

Government decision makers often think technology vendors have not done their homework. In addition, vendors do not pay enough attention to cost justification, which is a major activity for government procurement professionals. Companies hoping to be government contractors need to help government agencies see the bottom-line impact of products. Demonstrating useful experience and successful past performance through case studies, especially with other government organisations, can be influential.[75] The expansion of the EU to 28 countries further increased the opportunities for businesses to win such contracts across the EU and should also bring substantial savings for public bodies through increased competition among contractors.

Just as companies provide government agencies with guidelines about how best to purchase and use their products, governments provide would-be suppliers with detailed guidelines describing how to sell to the government. Failure to follow the guidelines or to fill out forms and contracts correctly can create a legal nightmare.[76] Fortunately for businesses of all sizes, the EU has been trying to simplify the contracting procedure and make both bidding and procurement more attractive and effective.

European legislation has encouraged competition between firms by means of transparent selection procedures. It also makes provision for redress procedures against awarding authorities that do not fulfil their obligations. European directives are continuously being reviewed with a view to simplifying the existing legal framework and encouraging the use of electronic procedures.[77] EU governments are surely a bundle of customers that is highly attractive to European companies? The 'Marketing in practice' box gives some tips for attacking that multi-billion-euro market.

Marketing in practice

Selling to EU governments

Public contracts make up a significant share of the EU market, accounting for about 14 per cent of its gross domestic product (2017). Here are three tips for tapping into that market:

1 **Getting started.** Determining what contracting opportunities are available to you in the European Union – as well as tendering for and securing those contracts – can usually be accomplished for the price of hiring a local employee.

2 **Don't miss opportunities.** Many small businesses are missing the opportunity to sell their product or service to governments. This is unfortunate, since non-economic criteria often play a great role in government buying. Government buyers are often asked to favour depressed business firms and areas, small business firms and business firms that avoid race, sex or age discrimination.

3 **Business plan.** To attack this profitable market, winning government contracts should be part of your business plan. Here are some points to consider:

- Keep in mind that governments usually do not pay in advance but expect the deliverables first. So, you need to understand the cash flow issues and plan for them.
- Several EU offices, agencies and institutions have created official accounts on social networks (Facebook, Twitter, and the like) and other sites dedicated to sharing content.
- The European Services Directive obliges EU countries to simplify all procedures involved in starting and carrying out a service activity. Since December 2009, companies and individuals must be able to complete online all necessary formalities, such as authorisations, notifications and environmental licences, through 'points of single contact' (PSCs). On PSCs companies can find out about the rules, regulations and formalities that apply to service activities and complete the administrative procedures online (by submitting the necessary application forms and supporting documents electronically).

Sources: J. Grimly (2011) Tag Archives: Government contracts in the EU, December: International Trade Updates.com; European Union (2012) http://www.europedia.moussis.eu/books/Book_2/3/6/03/?all=1 (accessed October 2018); O. Thomas (2003) How to sell tech to the feds, *Business 2.0*, March, 111–112.

Some companies have pursued government business by establishing separate government marketing departments. Companies such as Gateway, Rockwell, Kodak and Goodyear anticipate government needs and projects, participate in the product specification phase, gather competitive intelligence, prepare bids carefully and produce strong communications to describe and enhance their companies' reputations.

SUMMARY

1 Organisational buying is the decision-making process by which formal organisations establish the need for purchased products and services, then identify, evaluate and choose among alternative brands and suppliers. The business market consists of all the organisations that acquire goods and services used in the production of other products or services that are sold, rented or supplied to others.

2 Compared with consumer markets, business markets generally have fewer and larger buyers, a closer customer–supplier relationship and more geographically concentrated buyers. Demand in the business market is derived from demand in the consumer market and fluctuates with the business cycle. Nonetheless, the total demand for many business goods and services is quite price inelastic. Business marketers need to be aware of the role of professional purchasers and their influencers, the need for multiple sales calls and the importance of direct purchasing, reciprocity and leasing.

3 The buying centre is the decision-making unit of a buying organisation. It consists of initiators, users, influencers, deciders, approvers, buyers and gatekeepers. To influence these parties, marketers must be aware of environmental, organisational, interpersonal and individual factors.

4 The buying process consists of eight stages, called buy phases: (1) problem recognition, (2) general need description, (3) product specification, (4) supplier search, (5) proposal solicitation, (6) supplier selection, (7) order-routine specification and (8) performance review.

5 Business marketers must form strong bonds and relationships with their customers and provide them with added value. Some customers, however, may prefer more of a transactional relationship.

6 The institutional market consists of schools, hospitals, nursing homes, prisons and other institutions that provide goods and services to people in their care. Buyers for government organisations tend to require a great deal of paperwork from their vendors and to favour open bidding and domestic companies. Suppliers must be prepared to adapt their offers to the special needs and procedures found in institutional and government markets.

APPLICATIONS

Marketing debate

How different is business-to-business marketing? Many business-to-business marketing executives lament the challenges of business-to-business marketing, maintaining that many traditional marketing concepts and principles do not apply. For a number of reasons, they assert that selling products and services to a company is fundamentally different from selling to individuals. Others disagree, claiming that marketing theory is still valid and merely involves some adaptation in the marketing tactics.

Take a position: business-to-business marketing requires a special, unique set of marketing concepts and principles *versus* business-to-business marketing is really not that different and the basic marketing concepts and principles apply.

Marketing discussion

Consider some of the consumer behaviour topics in Chapter 7. How might you apply them to business-to-business settings? For example, how might non-compensatory models of choice work? Or mental accounting?

Marketing exercises

- In your opinion, what are the ten most important topics/issues to be learned from this chapter?
- Pick one of the companies mentioned in this chapter. For this company, investigate and discuss: (a) whether any of the ten topics/issues you identified could be related to the problems, or opportunities, that the company – in your opinion – is currently facing or could expect to be facing in the near future?; and (b) why?
- In your opinion, what should the company do to deal with the identified problems or to take advantage of the identified opportunities?

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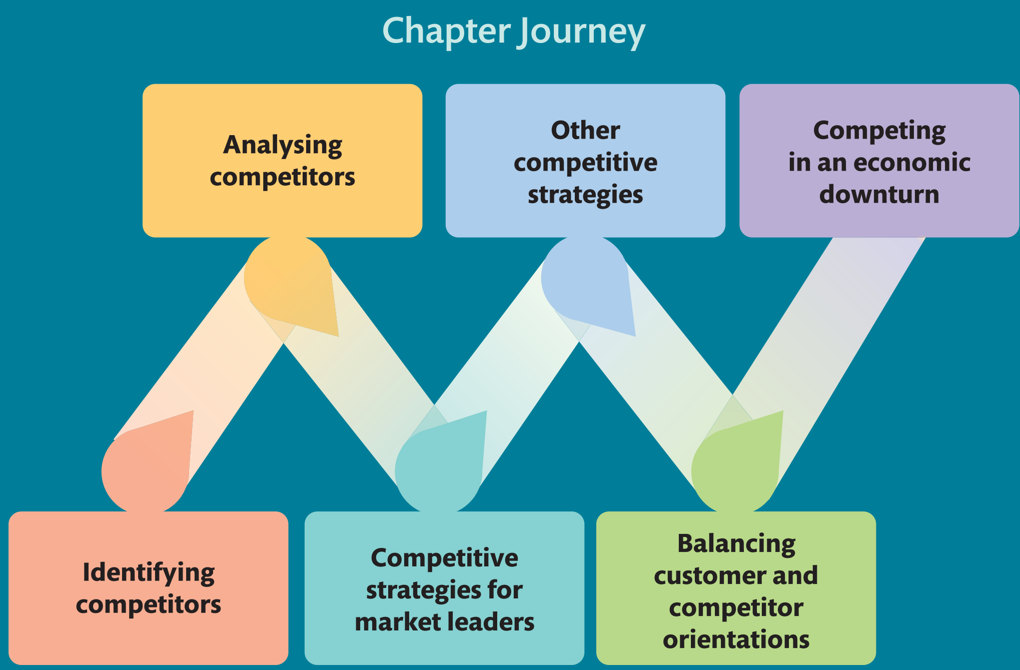
CHAPTER 9
Dealing with competition

In this chapter, you will learn about the following topics:

1. How marketers identify primary competitors
2. How to analyse competitors' strategies, objectives, strengths and weaknesses
3. How market leaders can expand the total market and defend their market share
4. How market challengers should attack market leaders
5. How market followers or nichers can compete effectively

Global car competition is changing rapidly
Source: Mitchell Funk/Photographer's Choice/Getty Images.



To be a long-term market leader is the goal of any marketer. Today's competitive market, however, often dictates that companies reformulate their marketing strategies and offerings several times over. Economic conditions change, competitors launch new assaults and buyer interest and requirements evolve. Different market positions can suggest different market strategies.

Global car competition, for example, is changing rapidly. Company takeovers and various forms of company collaborations are seen still more often. Today, even honoured brands such as Ferrari, Bentley and Maserati that used to be autonomous/independent are now part of gigantic conglomerates. Controlling 12 different brands, including Audi, Bugatti, and Bentley, VW constitutes another example. However, due to intense price competition, profit is scarce in the car business. The demand for cars in Europe has now almost recovered from the financial crisis. New car registrations increased to 14.6 million in 2016, which is nearly the same level as in the years 2001–2007. At their low point in 2011, new cars sales totalled only 13.1 million.

In 2018, Daimler (maker of Mercedes cars) has enhanced its manufacturing footprint in South-East Asia, addressing growing demand for electric mobility in the region. Together with local partner Thonburi Automotive Assembly Plant (TAAP), the German carmaker will invest a total of over €100 million in the production operations in Bangkok until 2020. In 2017, BMW Group, Intel Corporation, Mobileye, an Intel company, and Fiat Chrysler Automobiles (FCA) signed a memorandum of understanding for FCA to join them in developing a world-leading, state-of-the-art autonomous driving platform. The cooperation allows the companies to leverage each other's individual strengths, capabilities and resources. Experts expect that this is just the beginning. Intensified competition will increasingly force car makers to share knowledge and to jointly improve technologies. Car makers are facing a high European demand for small cars. However, developing new technical solutions is often just as expensive for small cars as for larger cars. As a result, selling a Nissan Micra simply does not provide the same kind of profit as selling a Mercedes or a BMW.

As you can tell from the developments in the car market, companies must pay keen attention to their competitors in order to effectively devise and implement the best possible brand-positioning strategies. Markets have become too competitive to focus on the consumer alone. This chapter examines the role that competition plays and how marketers can best compete in the modern business world.[1]

Identifying competitors

It would seem a simple task for a company to identify its competitors. Vestas and Siemens are major wind power systems competitors, Volkswagen knows that PSA Peugeot Citroën is one of its key competitors, and British Airways knows that one of the major competitors in the air travel industry is Lufthansa. However, the range of a company's actual and potential competitors can be much broader than the obvious. And a company is more likely to be hurt by emerging competitors or new technologies than by current competitors, since companies tend to be more alert to known competitors and their market activities.

We can examine competition from both an industry and a market point of view.[2] An **industry** is a group of firms that offers a product or class of products that are close substitutes for one another. Marketers classify industries according to: number of sellers; degree of product differentiation; the number of new competitors entering the industry; mobility and exit barriers; cost structure; degree of vertical integration between a company and its suppliers and/or buyers; and degree of globalisation.

Using the market approach, we define *competitors* as companies that satisfy the same customer need. For example, a customer who buys a word-processing package really wants 'writing ability' – a need that can also be satisfied by pencils, pens or typewriters. Marketers must overcome 'marketing myopia', the risk of a company (or even an entire industry) taking a too narrow-minded, product-orientated view of itself and its role in the market. Marketers must define competition on the basis of market needs and opportunities rather than on traditional category and industry terms.[3] An example of such myopia is Coca-Cola, which focused on its soft-drink business while failing to see the market for coffee bars and fresh fruit juice bars that eventually impinged on its core business.

The market concept of competition reveals a broader set of actual and potential competitors than competition defined in just product category terms. Rayport and Jaworski, who are influential thinkers in marketing and e-commerce, suggest profiling a company's direct and indirect competitors by mapping the buyer's steps in obtaining and using the product. This type of analysis highlights both the opportunities and the challenges a company faces.[4] The 'Marketing insight' box describes how firms can tap into new markets that minimise competition from others.

Marketing insight

High growth through value innovation

INSEAD professors W. Chan Kim and Renée Mauborgne believe that too many firms engage in 'red-ocean thinking' – seeking bloody, head-to-head battles with competitors based largely on incremental improvements in cost or quality, or both. They advocate engaging instead in 'blue-ocean thinking' by creating products and services for which there are no direct competitors. Their belief is that instead of searching within the conventional boundaries of industry competition, managers should look beyond those boundaries to find unoccupied market positions that represent real value innovation.

The authors cite as one example the Bert-Claeys families, who were the first to introduce a megaplex cinema in Europe, in the city of Brussels. Despite an industry slump, the 25-screen, 7,600-seat Kinepolis has thrived on a unique combination of features, such as ample, safe and free parking, large screens and state-of-the-art sound and projection equipment, and roomy, comfortable, oversized seats with unobstructed views. Through smart planning and economies of scale, Bert-Claeys creates Kinepolis's unique cinema experience at a lower cost. Despite its success, the concept was not copied in Brussels, since the size of the city did not support a second megaplex cinema. The Kinepolis cinema megaplex is now found in many other Belgium cities, including Antwerp. In September 2017, Kinepolis announced its acquisition of the Canadian cinema chain Landmark Cinemas for €76.4 million. Landmark, founded in 1965, operates 44 cinemas and a total of 303 screens in Western Canada, Ontario and the Yukon.

The Kinepolis cinema megaplex in Antwerp, Belgium exemplifies blue-ocean thinking – a competitive strategy that focuses on finding unoccupied market positions instead of battling head to head with established competitors
Source: Bjorn Beheydt/ www.photographersdirect.com.

Formulation principles

a) **Reconstruct market boundaries:**
- Look across alternative industries
- Look across strategic groups within industries
- Look across chains of buyers
- Look across complementary product and service offerings
- Look across functional or emotional appeal to buyers
- Look across time.

b) **Focus on the big picture, not the numbers.**

c) **Reach beyond existing demand.**

d) **Get the strategic sequence right:**
- Is there buyer utility (customer value)?
- Is the price acceptable?
- Can we attain target cost?
- What are the adoption challenges?

Execution principles

a) **Overcome key organisational hurdles:**
- Cognitive hurdle (convincing employees of the need for a strategic shift)
- Resource hurdle (it is assumed that resources are needed to execute a strategic shift)
- Motivational hurdle (motivating key players)
- Political hurdle (organisational politics may stand in the way of change).

b) **Build execution into strategy.**

Figure 9.1 Key principles of blue-ocean strategy

Source: Reprinted by permission of Harvard Business School Press. From W. Chang Kim and R. Maulborgne (2005) *Blue-Ocean Strategy: How to Create Uncontested Market Space and Make the Competition Irrelevant*, Cambridge, MA.

This is classic blue-ocean thinking – designing creative business ventures to positively affect both a company's cost structure and its value proposition to consumers. Cost savings result from eliminating and reducing the factors affecting traditional industry competition; value to consumers comes from introducing factors the industry has never offered before. Over time, costs drop even more as superior value leads to higher sales volume, and that generates economies of scale.

We can offer other examples of marketers that exhibit unconventional, blue-ocean thinking:

- Novo Nordisk created the world's first insulin pen device and is a world leader in production and distribution of these insulin-delivery systems. Novo Nordisk created a blue ocean by shifting the industry's long-standing focus from doctors to the patients themselves.
- 3M developed Post-It with its unique repositionable adhesive. To take advantage of the brand, 3M now manufactures other products related to the Post-it concept, such as Removable Label Pads, Easel Pads and Shopping Genius.
- Nintendo developed the Wii gaming console that appealed to consumers who were looking for a different console experience. Instead of making a copycat console competing with the likes of Sony PlayStation or Microsoft Xbox, Nintendo created a new style of gaming, employing a wireless controller that worked with motion. In this way, players use the Wii almost as an extension of their own body, and this immersion seems to appeal to a diverse group of players, male and female, young and old.
- Philips solved the problem of limescale accumulating in kettles as the water was boiled and later finding its way into consumers' freshly brewed tea. The company designed a kettle with a spout filter that effectively captured the limescale as the water was poured. Philips created a blue ocean by inducing people to replace their old kettles with the new filter kettles.

Kim and Mauborgne propose four crucial questions for marketers to ask themselves in guiding blue-ocean thinking and creating value innovation:

1. Which of the factors that our industry takes for granted should we eliminate?
2. Which factors should we reduce well below the industry's standard?
3. Which factors should we raise well above the industry's standard?
4. Which factors should we create that the industry has never offered?

They maintain that the most successful blue-ocean thinkers took advantage of all three platforms on which value innovation can take place: *physical product*; *service*, including maintenance, customer service, warranties and training for distributors and retailers; and *delivery*, meaning channels and logistics. Figure 9.1 summarises key principles driving the successful formulation and execution of blue-ocean strategy.

Although many blue-ocean success stories relate to consumer markets, research conducted by Cirjevskis, Homenko and Lacinova confirms that blue-ocean thinking can also be viably applied in business markets.

Sources: BNN (2017) Landmark Cinemas chain sold to Belgian firm for $123M, 18 September; W. Chan Kim and R. Mauborgne (2014) Blue ocean leadership, *Harvard Business Review*, 92(5), 60–72; A. Cirjevskis, G. Homenko and V. Lacinova (2010) New approaches in measuring and assessing viability of blue ocean strategy in B2B sector, *Journal of Business Management*, 3, 162–179; W. Chan Kim and R. Mauborgne (2005) *Blue-Ocean Strategy: How to Create Uncontested Market Space and Make the Competition Irrelevant*, Cambridge, MA: Harvard Business School Press; W. Chan Kim and R. Mauborgne (1999) Creating new market space, *Harvard Business Review*, January–February, 83–93; W. Chan Kim and R. Mauborgne (1997) Value innovation: The strategic logic of high growth, *Harvard Business Review*, January–February, 103–112; https://www.blueoceanstrategy.com/bos-moves/novo-nordisk/; https://www.blueoceanstrategy.com/bos-moves/philips/ (accessed October 2018).

Analysing competitors

Once a company identifies its primary competitors, it must ascertain their strategies, objectives, strengths and weaknesses.[5]

Strategies

A group of firms following the same strategy in a given target market is a **strategic group**.[6] Suppose a company wants to enter the major appliance industry. What is its strategic group?

The company develops the chart shown in Figure 9.2 and discovers four strategic groups based on product quality and level of vertical integration (degree of organisational integration between a company and its suppliers and/or distributors and buyers). Group A has three competitors (Miele, SMEG, LG), group B has four (BSH, Electrolux, Indesit and Whirlpool), group C has three and group D has three. Important insights emerge from this exercise. First, the height of the entry barriers differs for each group. Second, if the company successfully enters a group, the members of that group become its key competitors.

Objectives

Once a company has identified its main competitors and their strategies, it must ask: what is each competitor seeking in the marketplace? What drives each competitor's behaviour? Many factors shape a competitor's objectives, including size, history, current management and financial situation. If the competitor is a division of a larger company, it is important to know whether the parent company is running it for growth or profits, or milking it.

It is useful to assume that competitors strive to maximise profits. However, companies differ in the relative emphasis they put on short-term and long-term profits. Many Western firms have been criticised for operating on a short-run model, largely because current performance is judged by stockholders that might lose confidence, sell their stock and cause the company's cost of capital to rise. Japanese firms operate largely on a market-share-maximisation model. They receive much of their funds from banks at a lower interest rate and in the past have readily accepted lower profits. So another reliable assumption is that each competitor pursues some mix of objectives: current profitability, market-share growth, cash flow, technological leadership and service leadership.[7]

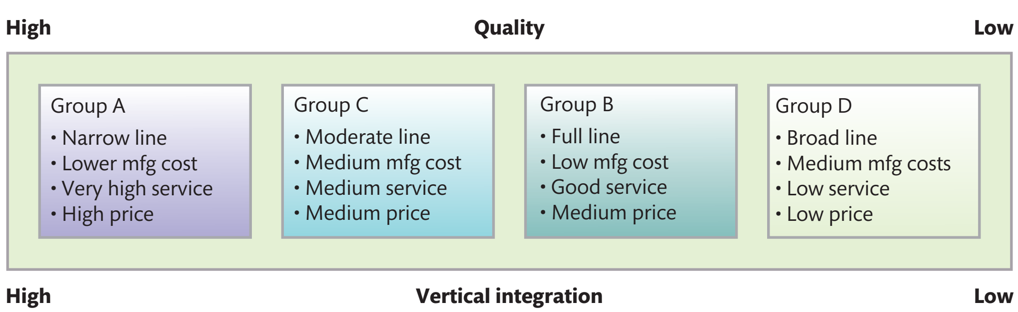


Figure 9.2 Strategic groups in the major applicance industry

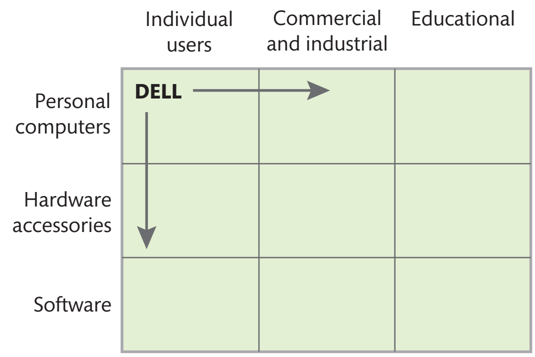


Figure 9.3 A competitor's expansion plans

Finally, a company must monitor competitors' expansion plans. Figure 9.3 shows a product market battlefield map for the personal computer industry. Dell, which started out as a strong force in the sale of personal computers to individual users, is now a major force in the commercial and industrial market. Other incumbents may try to set up mobility barriers to Dell's further expansion.

Strengths and weaknesses

A company needs to gather information about each competitor's strengths and weaknesses. Table 9.1 shows the results of a company survey that asked customers to rate its three competitors, A, B and C, on five attributes. Competitor A turns out to be well known and respected for producing high-quality products sold by a good sales force but is poor at providing product availability and technical assistance. Competitor B is good across the board and excellent in product availability and sales force. Competitor C rates poor to fair on most attributes. This result suggests that the company could attack Competitor A on product availability and technical assistance and Competitor C on almost anything, but should not attack B, which has no glaring weaknesses.

In general, a company should monitor three variables when analysing competitors:

1. **Share of market:** the competitor's share of the target market.
2. **Share of mind:** the percentage of customers who named the competitor in responding to the statement, 'Name the first company that comes to mind in this industry'.
3. **Share of heart:** the percentage of customers who named the competitor in responding to the statement, 'Name the company from which you would prefer to buy the product'.

There is an interesting relationship among these three measures. Table 9.2 shows them as recorded for the three competitors listed in Table 9.1. Competitor A enjoys the highest market share but

Table 9.1 Customers' ratings of competitors on key success factors

	Customer awareness	Product quality	Product availability	Technical assistance	Selling staff
Competitor A	E	E	P	P	G
Competitor B	G	G	E	G	E
Competitor C	F	P	G	F	F

Note: E = excellent, G = good, F = fair, P = poor.

Table 9.2 Market share, mind share and heart share

	Market share (%)			Mind share (%)			Heart share (%)		
	2016	2017	2018	2016	2017	2018	2016	2017	2018
Competitor A	50	47	44	60	58	54	45	42	39
Competitor B	30	34	37	30	31	35	44	47	53
Competitor C	20	19	19	10	11	11	11	11	8

is slipping. Its mind share and heart share are also slipping, probably because it is not providing good product availability and technical assistance. Competitor B is steadily gaining market share, probably due to strategies that are increasing its mind share and heart share. Competitor C seems to be stuck at a low level of market share, mind share and heart share, probably because of its poor product and marketing attributes. We could generalise as follows: *companies that make steady gains in mind share and heart share will inevitably make gains in market share and profitability*. Firms such as Nokia, IKEA, L'Oréal, Philips and Mercedes (Daimler AG) are all reaping the financial benefits of providing emotional, experiential, social and financial value to satisfy customers and all their constituents.[8]

To improve market share, many companies benchmark their most successful competitors as well as other world-class performers.[9] The technique and its benefits are described in the 'Marketing in practice' box.

Marketing in practice

Benchmarking to improve competitive performance

Benchmarking is the art of learning from companies that perform certain tasks better than other companies. There can be as much as a tenfold difference between the quality, speed and cost performance of a world-class company and that of an average company. The aim of benchmarking is to copy or improve on 'best practices', either within an industry or across industries. Benchmarking can be an effective tool in influencing the quality of products and services. Benchmarking has seven steps:

1. Determine which functions or processes to benchmark.
2. Identify the key performance variables (key factors contributing to corporate success) to measure.
3. Identify the best-in-class companies.
4. Measure the performance of best-in-class companies.
5. Measure own company's performance.
6. Specify programmes and actions to close the gap.
7. Implement and monitor results.

How can companies identify best-practice companies? A good starting point is consulting customers, suppliers, distributors, financial analysts, trade associations and magazines to see who they rate as doing the best job. Even the best companies can benchmark to improve their performance. To pursue its corporate vision to be 'a company that society wants to exist', Honda has even benchmarked its brand and its advertising against rivals from beyond the motor industry, such as Apple. Carlsberg is gradually redirecting its marketing budget to social media content and away from traditional channels such as TV. The shift follows Carlsberg's implementation of a platform allowing it to create and share content to social networks including Facebook, Google+ and Twitter for all 500 of its brands. As part of the change, the brewer has been benchmarking its social media work against those of its rivals. Notably, benchmarking is equally useful for small and medium-sized companies; its results can be an effective means of developing strategies in a key performance area.

Sources: www.benchmarking.org; Carlsberg (2017) Carlsberg launches the Danish Way, Carlsberggroup.com 20 April; S. Joseph (2014) Carlsberg shifts spend from TV to social content, *Marketing Week*, 5 February; D. Shah and B. H. Kleiner (2011) Benchmarking for quality, *Industrial Management*, March/April, 22–25; R. Baker (2010) ASDA own brand is chosen by you, *Marketing Week*, 21 September; P. O'Connell (2005) Bringing innovation to the home of six sigma, *BusinessWeek*, 1 August; J. E. Prescott, S. H. Miller and the Society of Competitive Intelligence Professionals (2001) *Proven Strategies in Competitive Intelligence: Lessons from the Trenches*, New York: John Wiley & Sons; R. Hiebeler, T. B. Kelly and C. Ketteman (1998) *Best Practices: Building Your Business with Customer-Focused Solutions*, New York: Arthur Andersen/Simon & Schuster; M. Hope (1997) Contrast and compare, *Marketing*, 28 August, 11–13; R. Lester (2006) The possible dream, *Marketing Week*, 26 October, 29(43), 24–25.

Selecting competitors

After the company has conducted **customer value analysis** and examined its competitors carefully, it can focus its attack on one of the following classes of competitors: strong versus weak, close versus distant and 'good' versus 'bad'.

- **Strong versus weak.** Most companies aim their shots at weak competitors because this requires fewer resources per share point gained. Yet the firm should also compete with strong competitors to keep up with the best. Even strong competitors have some weaknesses.
- **Close versus distant.** Most companies compete with the competitors that resemble them the most. Toyota competes with Ford, not with Ferrari. Yet companies should also identify distant competitors. Coca-Cola recognises that its number-one competitor is tap water, not Pepsi; Royal Dutch Shell

Table 9.3 Customer selection grid

	Vulnerable	Not vulnerable
Valuable	These customers are profitable but not completely happy with the company. Find out and address their sources of vulnerability to retain them.	These customers are loyal and profitable. Don't take them for granted but maintain margins and reap the benefits of their satisfaction.
Not valuable	These customers are likely to defect. Let them go or even encourage their departure.	These unprofitable customers are happy. Try to make them valuable or vulnerable.

Source: Reprinted by permission of *Harvard Business Review*. From J. H. Roberts (2005) Defensive marketing: How a strong incumbent can protect its position, November, 156.

increasingly worries about the development of more energy-efficient fuels and technologies as well as competitors Exxon and BP; museums now worry about theme parks and malls.[10]

- **'Good' versus 'bad'.** Every industry contains 'good' and 'bad' competitors.[11] Good competitors play by the industry's rules, they set prices in reasonable relationship to costs and they favour a healthy industry. Bad competitors try to buy share rather than earn it, they take large risks, they invest in overcapacity and they upset industrial equilibrium. A company may find it necessary to attack its bad competitors to reduce or end their dysfunctional practices.

Selecting customers

As part of the competitive analysis, a firm must evaluate its customer base and think about which customers it is willing to lose and which it wants to retain. One way to divide up the customer base is in terms of whether a customer is valuable or vulnerable, creating a grid of four segments as a result – see Table 9.3. Each segment suggests different competitive activities.[12]

Faced with formidable competition from its rival Optus (a joint subsidiary of UK-based Cable & Wireless and US company BellSouth), Australian telephone company Telstra conducted this type of segment analysis. Based on this analysis, Telstra developed a series of 'Flex-Plan' products designed to retain the valuable/vulnerables but without losing the margin it realised on the valuable/not vulnerables. The Flex-Plans had a subscription fee but offered significant net savings. Because valuable/vulnerables were highly involved with the category, they were able to see how they could benefit from such plans, but valuable/not vulnerables regarded the plans as unnecessary. As a result, the plans achieved the desired goals.

Terminating customers

The framework displayed in Table 9.3 suggests that companies should 'optimise' their customer portfolios based on customer profitability. When considering terminating relationships with unprofitable customers, four factors need to be taken into account:[13]

1. Are these customers still likely to be unprofitable in the long run? If unprofitable customers are terminated based on current profitability, companies might lose opportunities to retain potentially profitable customers.
2. Even though some customers are unprofitable by themselves, they can serve as reference clients for the acquisition of other, more profitable customers.
3. Network effects may be present. Network effects apply when the utility that a user derives from the consumption of a good or service increases with the number of other people also using it. For instance, Twitter, Facebook and LinkedIn are more useful the more users join. In the presence of network effects, shrinking the customer base by terminating unprofitable customers can be risky and undesirable.
4. In incidents where terminating customers is deemed unethical by public opinion, termination may backfire and hurt company reputation. When a large bank sought to terminate unprofitable relationships with disabled customers, it was after a short time forced to continue serving these customers due to public debate and pressure.

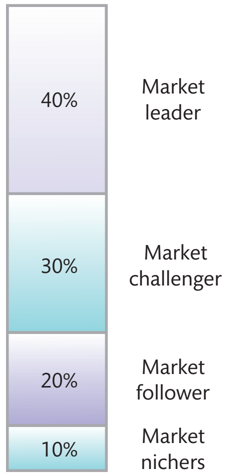


Figure 9.4 Hypothetical market structure

Competitive strategies for market leaders

Having identified and analysed its competitors, a company will decide on a competitive strategy. We can gain further insight into competitive behaviour by classifying firms by the roles they play in the target market: leader, challenger, follower or nicher. Suppose a market is occupied by the firms shown in Figure 9.4. Of the total market, 40 per cent is in the hands of a *market leader*; another 30 per cent is in the hands of a *market challenger*; another 20 per cent is in the hands of a *market follower* – a firm that is willing to maintain its market share and not rock the boat. The remaining 10 per cent is in the hands of *market nichers* – firms that serve small market segments not being served by the larger firms.

Many industries contain one or two firms that are acknowledged market leaders. These firms have the largest market share in the relevant product market and usually lead the other firms in price changes, new product introductions, distribution coverage and promotional intensity. Some historical market leaders are Microsoft (computer software), Nestlé (food and beverages), Disney (entertainment), Reuters (news and data services), McDonald's (fast food), Sony (home electronics), Visa (credit cards) and Accenture (management consulting).

Although marketers assume that well-known brands are distinctive in consumers' minds, unless a dominant firm enjoys a legal monopoly it must maintain constant vigilance. A product innovation may come along and hurt the leader; a competitor might unexpectedly find a fresh new marketing angle or commit to a major marketing investment; or the leader might find its cost structure spiralling upwards.

In many industries, a discount competitor may enter and undercut the leader's prices. The 'Marketing insight' box describes how leaders can respond to an aggressive competitive price discounter.

Marketing insight

When your competitor delivers more for less

Companies offering the powerful combination of low prices and high quality are capturing the hearts and wallets of consumers all over the world. In the United Kingdom, premium retailers such as Boots and Sainsbury's are scrambling to meet intensifying price – and quality – competition from ASDA and Tesco. These and similar-value players, such as Aldi, Dell and Ryanair, are transforming the way consumers of nearly every age and income purchase groceries, apparel, airline tickets, financial services and computers. As value-driven companies in a growing number of industries change the way they compete, traditional players are right to feel threatened. The formula that these 'game-changer' firms often rely on includes focusing on one or a few consumer segments, providing better delivery of the basic product or one additional benefit and matching low prices with highly efficient operations to keep costs down.

To compete with value-based rivals, mainstream companies must reconsider the perennial routes to business success: keeping costs in line, finding sources of differentiation and managing prices effectively. To succeed in value-based markets, companies need to infuse these timeless strategies with greater intensity and focus, and then execute them flawlessly. Differentiation, for example, becomes less about the abstract goal of rising above competitive clutter and more about identifying opportunities left open by the value players' business models. Effective pricing means waging a transaction-by-transaction perception battle to win over those consumers who are predisposed to believe that value-orientated competitors are always cheaper.

Competitive outcomes will be determined, as always, on the ground – in product aisles, merchandising displays, reconfigured processes and pricing stickers. When it comes to value-based competition, traditional players cannot afford to drop a stitch. Value-driven competitors have changed consumer expectations about the trade-off between quality and price. This shift is gathering momentum, placing a new premium on – and adding new twists to – the old imperatives of differentiation and execution.

Differentiation

To counter value-based players, marketers will need to focus on areas where their business models give other companies room to manoeuvre. Successful differentiation calls for marshalling multiple tactics to provide superior delivery of a highly desired consumer benefit. Instead of trying to compete with discounters and other value retailers on price, for example, Danish supermarket chain Irma emphasises high quality across all elements of its business. Embarking on its concept of high-quality products and premium prices, it has been highly successful at targeting customers who appreciate new and special grocery selections, luxury and ecological products, as well as expensive wines. The new management team overhauled Irma's product selections and in-store design to signal a cutting-edge, agenda-setting spirit, aiming both to meet and to inspire consumer demand for high-quality and sustainable everyday lifestyle products. Today, more than one-quarter of all products in Irma stores are ecological, and the chain has expanded rapidly in Denmark. Irma aims that half of its sales should be ecological by 2025.[14]

Execution

Value-based markets also place a premium on execution, particularly in prices and costs. Wal-Mart's disastrous experience in trying to compete head-on with the Metro Group and well-established discounters such as Aldi and Lidl in Germany highlights the difficulty of challenging value leaders on their own turf. Matching or even beating a value player's prices – as Wal-Mart did – won't necessarily win the battle of consumer perceptions against companies with already established reputations for the lowest prices.

To compete effectively against value-based players, firms may need to downplay or even abandon some target market segments. To compete with Ryanair and easyJet, British Airways has put more emphasis on its long-haul routes, where value-based players are not evident, and less on the highly competitive short-haul routes where low-cost carriers thrive.

Major airlines have also tried another competitive response, introducing their own low-cost airlines. But KLM Royal Dutch Airline's Buzz and SAS's Snowflake have both been unsuccessful. One school of thought is that companies should set up low-cost operations only if two conditions apply: (1) the firm's existing businesses will be made more competitive as a result; and (2) the new business will derive some advantages it would not have gained by being independent. The success of low-cost operations set up by HSBC, ING, Royal Bank of Scotland and IHG (InterContinental Hotels Group) – First Direct, ING Direct, Direct Line Insurance and Holiday Inn Express, respectively – is due in part to synergies between the old and new lines of business. Thus, success dictates that the low-cost operation must be designed and launched to be a moneymaker in its own right, not just as a defensive ploy.

Sources: Based on N. Kumar (2006) Strategies to fight low-cost rivals, *Harvard Business Review*, December, 104–12; and R. J. Frank, J. P. George and L. Narasimhan (2004) When your competitor delivers more for less, *McKinsey Quarterly*, Winter, 48–59; see also N. Kumar and P. Puranam (2011) Have you restructured for global success?, *Harvard Business Review*, 9(October), 123–28; R. K. Akmavivi, E. Mohamed, K. Pellmann, and Y. Xu (2015) Key determinants of passenger loyalty in the low-cost airline business, *Tourism Management*, 46, 528–545; P. FitzRoy, J. M. Hulbert and T. O'Shannassy (2016) *Strategic Management – The Challenge of Creating Value*, 3rd edn, London: Routledge.

Staying the number-one firm calls for action on three fronts. First, the firm must find ways to expand total market demand. Second, the firm must protect its current market share through good defensive and offensive actions. Third, the firm can try to increase its market share, even if market size remains constant. Let's look at each strategy.

Expanding the total market

When the total market expands, the dominant firm usually gains the most. If consumers increase their consumption of tomato sauce or other sauces, Heinz stands to gain a large portion of the increase because Heinz products enjoy no. 1 or no. 2 market share in more than 50 countries.[15] If it can convince more people to use tomato sauce, or to use it with more meals, or to use more sauce on each occasion, Heinz will benefit considerably. In general, the market leader should look for new customers or more usage from existing customers.

New customers

Every product class has the potential to attract buyers who are unaware of the product or who are resisting it because of price or lack of certain features. A company can search for new users among three groups: those who might use it but do not (*market-penetration strategy*), those who have never used it (*new-market segment strategy*), or those who live elsewhere (*geographical-expansion strategy*).

Starbucks Coffee is one of the best-known brands in the world. Starbucks is able to sell a cup of coffee for €2 while the coffee shop next door can only get less than €1. (And if you want the popular café latte, it is €3.) Starbucks has a total of more than 3 billion customer visits per year to its more than 24,000 stores in 70 countries, and its annual revenue for 2017 topped €18.2 billion.[16]

In targeting new customers, the firm should not lose sight of existing ones. To promote its latest products, campaigns and events to new and existing customers Starbucks uses Tweets, often with a combination of text and photos. For instance, a Tweet posted by Starbucks was used to promote its product Pumpkin Spice Latte. In another Tweet, Starbucks revealed 'Did you know you can mix it up? Green tea@ frappuccino+java chips + peppermint syrup = minty goodness'.[17]

Daimler, maker of Mercedes-Benz, has developed a balanced approach to capitalise on both the established demand from mature markets in the European Union, United States and Japan and the enormous potential offered by fast-growing emerging markets. As the company's chairman, Dieter Zetsche, proclaimed: 'You cannot do either/or. You have to maintain your strength in traditional markets and even expand it.'[18]

More usage

Marketers can try to increase the amount, level or frequency of consumption. The *amount* of consumption can sometimes be increased through packaging or product redesign. Larger package sizes have been shown to increase the amount of product that consumers use at one time.[19] The usage of impulse consumption products such as soft drinks and snacks increases when the product is made more available.

Increasing *frequency* of consumption, on the other hand, requires either: (1) identifying additional opportunities to use the brand in the same basic way; or (2) identifying completely new and different ways to use the brand. Consumers may see the product as useful only in certain places and at certain times, especially if it has strong brand associations to particular usage situations or user types. Naturally, product category usage frequency is often influenced by factors that are not controllable by managers. For instance, mobile usage frequency is affected positively by consumers' attitudes towards the acceptance of mobile phone use in public places.[20]

In the first case – where the marketer focuses on *additional opportunities to use the brand in the same* basic way – a marketing programme may communicate the appropriateness and advantages of using the brand more frequently in new or existing situations, or remind consumers actually to use the brand in those situations. Kellogg's, for example, takes this approach when the company offers its customers inspiration for new ways to eat its cereal for breakfast and brunch. Another opportunity arises when consumers' perceptions of product usage differs from reality. Consumers may fail to replace a short-lived product when they should, because they overestimate how long it stays fresh.[21]

One strategy to speed up product replacement is to tie the act of replacing the product to a holiday, event or time of year. Another might be to provide consumers with better information about either: (1) when they first used the product or need to replace it; or (2) the current level of product performance. Gillette razor cartridges feature coloured stripes that slowly fade with repeated use, signalling the user to move on to the next cartridge.

The second approach to increasing frequency of consumption is to *identify completely new and different applications*. For example, food product companies have long advertised recipes that use their branded products in entirely different ways. Toblerone and Daim (also known as Dime in the UK) are examples of chocolates that have become main components in delicious ice creams and cakes – Carte d'Or Toblerone and (home-made) Daim Ice Cream Cakes, respectively. On a similar note, sherry brand Tio Pepe has aimed at stretching consumers' associations and uses of the drink by promoting it as a special style of white wine. The brand encourages consumers to drink it just as they would a dry white wine – chilled and in a wine glass – and hence may increase the number of occasions in which Tio Pepe comes into consideration as an appropriate drink.[22]

Product development can also spur new uses. Chewing gum manufacturers such as Cadbury, maker of Trident, are producing 'nutraceutical' products to strengthen or whiten teeth. Aquafresh has already successfully launched dental chewing gums with health and cosmetic benefits.[23]

Protecting market share

While trying to expand total market size, the dominant firm must continuously and actively defend its current business – for example, Airbus against Boeing or Google against Yahoo! and Microsoft.[24] The success of online social network sites MySpace and Facebook brought challenges from upstarts such as LinkedIn's personal business network, Dogster for dog owners, Vox for sharing photos and videos, and blog posts for baby boomers and older consumers.[25]

What can the market leader do to defend its terrain? The most constructive response is *continuous innovation*. The leader should lead the industry in developing new products and customer services, distribution effectiveness and cost cutting. It keeps increasing its competitive strength and value to customers by providing comprehensive solutions.

In satisfying customer needs, we can draw a distinction between responsive marketing, anticipative marketing and creative marketing. A *responsive* marketer finds a stated need and fills it. An *anticipative* marketer looks ahead into what needs customers may have in the near future. A *creative* marketer discovers and produces solutions that customers did not ask for, but to which they enthusiastically respond. Creative marketers are *market-driving firms,* not just market driven. Many companies assume their job is just to adapt to customer needs. They are reactive mostly because they are overly faithful to the customer-orientation paradigm and fall victim to the 'tyranny of the **served market**'. Successful companies instead proactively shape the market to their own interests. Instead of trying to be the best player, they change the rules of the game.[26]

A company needs two proactive skills:

1 *responsive anticipation* to see the writing on the wall, as when IBM changed from a hardware producer to a service business;
2 *creative anticipation* to devise innovative solutions, as when PepsiCo introduced H_2OH (a soft drink–bottled water hybrid).

Note that *responsive anticipation* is performed before a given change, while reactive response happens after the change takes place.

Proactive companies create new offers to serve unmet – and maybe even unknown – consumer needs. In the late 1970s Akio Morita, the Sony founder, was working on a pet project that would revolutionise the way people listened to music: a portable cassette player he called the Walkman. Engineers at the company insisted there was little demand for such a product, but Morita refused to part with his vision. By the 20th anniversary of the Walkman, Sony had sold over 250 million players in nearly 100 different models.[27]

Proactive companies may redesign relationships within an industry, such as Toyota and its relationship to its suppliers. Or they may educate customers, as The Body Shop did in stimulating the choice of environmentally friendly products.

Companies need to practise *uncertainty management*. Proactive firms:

- are ready to take risks and make mistakes;
- have a vision of the future and of investing in it;
- have the capabilities to innovate;
- are flexible and non-bureaucratic;
- have many managers who think proactively.

Companies that are *too* risk-averse will not be winners.

Even when it does not launch offensives, the market leader must not leave any major flanks, or vulnerable areas, exposed. It must consider carefully which terrains are important to defend, even at a loss, and which can be surrendered. The aim of defensive strategy is to reduce the probability of attack, divert attacks to less threatening areas, and lessen their intensity. The defender's speed of response can make an important difference in the profit consequences. A dominant firm can use the six defence strategies summarised in Figure 9.5.[28]

Position defence

Position defence means occupying (and defending) a positive and superior standing in consumers' minds, including high brand equity, customer satisfaction, customer loyalty or a high repeat-purchase rate. Holding this desirable market position can make the brand seem almost impregnable, as Procter & Gamble has shown with its Ariel detergent, Crest toothpaste (marketed as Blend-a-Med in some European countries) for cavity prevention and Pampers nappies for dryness.

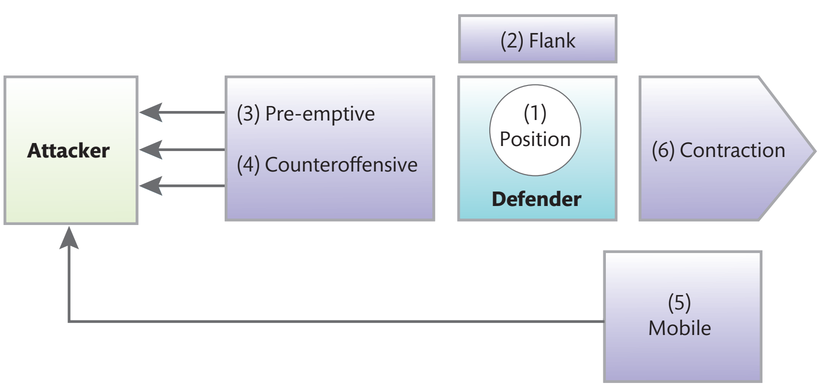


Figure 9.5 Six types of defence strategy

Flank defence

Although position defence is important, the market leader should also erect outposts to protect a weak front or possibly serve as an invasion base for counterattack. Flanking moves tend to occur in the periphery (or on the flanks) of a company's main activities. In marketing terms, this could include introducing new products or brands, repositioning existing products or launching promotional activities. When Europe's number-two car maker, PSA Peugeot Citroën, was attacked by competitors Volkswagen and Renault in its core market of subcompacts, Peugeot's strategic response was a rollout plan of 29 new models, including five entirely new concepts. The company decided to reposition some of its cars in more upscale markets, while steering clear of the race to engineer super-cheap cars for emerging markets. Instead, Peugeot competes in these markets with lower-cost versions of existing models. This strategy protected Peugeot's flanks, although the competition remains fierce in the mature European car market.[29]

Pre-emptive defence

A more aggressive manoeuvre is to attack *before* the enemy starts its offence. A company can launch a pre-emptive defence in several ways. It can wage guerrilla action across the market – hitting one competitor here, another there – and keep everyone off balance; or it can try to achieve a grand market envelopment. Electronic Arts has been experimenting with a radical new business model involving free online access to some of its popular games (*FIFA Soccer and Battlefield Heroes*), while charging customers for so-called micro-transactions and carrying in-game ads. In this way, Electronic Arts establishes its position as a market leader and sends out market signals to dissuade competitors from attacking.[30]

Marketers can introduce a stream of new products, making sure to precede them with *preannouncements* – deliberate communications regarding future actions.[31] Preannouncements can signal to competitors that they will need to fight to gain market share.[32] If Microsoft announces plans for a new product development, smaller firms may choose to concentrate their development efforts in other directions to avoid head-to-head competition. Some high-tech firms have even been accused of engaging in selling 'vapourware' – preannouncing products that 'miss' delivery dates or are never introduced.[33]

Counteroffensive defence

When attacked, most market leaders will respond with a counterattack. In a *counteroffensive*, the leader can meet the attacker frontally or hit its flank or launch a pincer movement. An effective counterattack is to invade the attacker's main territory so that it will pull back to defend it. Swedish vodka brand Absolut faced an immense challenge as a crop of new 'super premium' brands such as Grey Goose, Chopin and Citadelle came along, questioning Absolut's position as 'coolness in a bottle'. To fight back, Absolut invested heavily in a new high-profile ad campaign, associating the brand with other classics that were 'absolutes' in popular culture, such as the Apollo moon landing and Marilyn Monroe.[34]

Another common form of counteroffensive is the exercise of economic or political clout. The leader may try to crush a competitor by subsidising lower prices for the vulnerable product with revenue from its more profitable products, or the leader may prematurely announce that a product upgrade will be available, to prevent customers from buying the competitor's product. Or the leader may lobby legislators to take political action to inhibit the competition. For instance, a leading pharmaceutical company might attempt to influence legislation regarding testing and marketing of a specific medical product category in order to make it more difficult for potential competitors to enter the market.

Mobile defence

In mobile defence, the leader stretches its domain over new territories that can serve as future centres for defence and offence through market broadening and market diversification. *Market broadening* shifts focus from the current product to the underlying generic need. The company gets involved in R&D across the whole range of technology associated with that need. Thus 'petroleum' companies such as BP sought to recast themselves as 'energy' companies.[35] Implicitly, this change demanded that they dip their research fingers into the oil, coal, nuclear, hydroelectric and chemical industries.

Market diversification shifts into unrelated industries. When Hochtief, the biggest construction firm in Germany, witnessed huge losses in the industry due to increasing costs of raw materials, it was not content with position defence or even with looking for substitute contracts. Instead it moved into the real-estate market, where steadier earnings and higher profit margins are expected.[36]

Contraction defence

Large companies must sometimes recognise that they can no longer defend all their territory. The best course of action then appears to be *planned contraction* (also called *strategic withdrawal*): giving up weaker territories and reassigning resources to stronger territories. For instance, Sara Lee phased out products that accounted for almost 40 per cent of the company's revenues, including its strong Hanes hosiery brand, so it could concentrate on its well-known food brands.[37]

Expanding market share

In many markets, one share point is worth tens of millions of euros. No wonder competition has turned fierce in so many markets. Gaining **served market share**, however, does not automatically produce higher profits – especially for labour-intensive service companies that may not experience many economies of scale. Much depends on the company's strategy.[38]

Because the cost of buying higher market share may far exceed its revenue value, a company should consider four factors before pursuing increased share:

1. **The possibility of provoking action from competition authorities.** Jealous competitors are likely to cry 'monopoly' if a dominant firm makes further inroads. This rise in risk would diminish the attractiveness of pushing market share gains too far. Microsoft and Intel are examples of companies that have faced great scrutiny for their market leadership and practices.
2. **Economic cost.** Figure 9.6 shows that profitability might *fall* with market share gains after some level. In the illustration, the firm's *optimal market share* is 50 per cent. The cost of gaining further market share might exceed the value if holdout customers dislike the company, are loyal to competitors, have unique needs, or prefer dealing with smaller firms. And the costs of legal work, public relations and lobbying rise with market share. Pushing for higher share is less justified when there are few scale or experience economies, unattractive market segments exist, buyers want multiple sources of supply, and exit barriers are high. Some market leaders have even increased profitability by selectively *decreasing* market share in weaker areas.[39]
3. **Pursuing the wrong marketing activities.** Companies successfully gaining share typically outperform competitors in three areas: new product activity, relative product quality and marketing expenditures.[40] On the other hand, companies that attempt to increase market share by cutting prices more deeply than competitors typically don't achieve significant gains, because enough rivals meet the price cuts and others offer other values so that buyers don't switch. Competitive rivalry and price cutting have been shown to be most intense in industries with high fixed costs, high inventory costs and stagnant primary demand, such as steel, cars, paper and chemicals.[41]
4. **The effect of increased market share on actual and perceived quality**.[42] Too many customers can put a strain on the firm's resources, hurting product value and service delivery. A slow conversion and significant service problems may lead to customer dissatisfaction, regulator's anger, and eventually bankruptcy.[43] Consumers may also infer that 'bigger is not better' and assume that growth will lead to deterioration of quality.

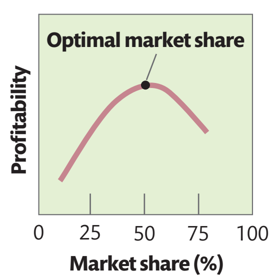


Figure 9.6 The concept of optimal market share

Other competitive strategies

The previous section dealt especially with market leaders. However, most firms are not market leaders. Firms that occupy second, third and lower ranks in an industry are often called runner-up or trailing firms. Some, such as PepsiCo, Ford and Avis, are large in their own right. These firms can adopt one of two postures. They can attack the leader and other competitors in an aggressive bid for further market share as *market challengers*, or they can decide not to 'rock the boat' and be *market followers*.

Market-challenger strategies

Many market challengers have gained ground or even overtaken the leader. Toyota today sells more cars than General Motors, and AMD has been chipping away at Intel's market share.[44] Challengers set high aspirations, leveraging their resources while the market leader often runs the business as usual. Now let's examine the competitive attack strategies available to market challengers.[45]

Defining the strategic objective and opponent(s)

A market challenger must first define its strategic objective. Most aim to increase market share. The challenger must decide whom to attack:

- **It can attack the market leader.** This is a high-risk but potentially high-pay-off strategy and makes good sense if the leader is not serving the market well. It often has the added benefit of distancing the firm from other challengers. When the free newspaper *20 Minutes* attacked *Metro International* in the French and Spanish markets, it focused on qualities such as vivid visuals and local content, and left traditional newspapers out of public debate on the subject.[46] *20 Minutes* is distributed to those travelling on public transport in major cities in, among others, Switzerland, France and Spain, and has rapidly become the most read daily newspaper in France and Spain.[47] An alternative strategy is to out-innovate the leader across the whole segment. Xerox wrested the copier market from 3M by developing a better copying process. Later, Canon grabbed a large chunk of Xerox's market by introducing desk copiers.
- **It can attack firms of its own size that are not doing the job and are underfinanced.** These firms have ageing products, are charging excessive prices or are not satisfying customers in other ways.
- **It can attack small local and regional firms.** Several major banks grew to their present size by gobbling up smaller regional banks, or 'guppies'.

Attack strategies

Given clear opponents and objectives, what attack options are available? We can distinguish among five attack strategies: frontal, flank, encirclement, bypass and guerrilla attacks.

Frontal attack

In a pure *frontal attack*, the attacker matches its opponent's product, advertising, price and distribution. The principle of force says that the side with the greater resources will win. A modified frontal attack, such as cutting price, can work if the market leader does not retaliate, and if the competitor convinces the market that its product is equal to the leader's. Max Factor is a master at convincing the market that its products – such as Eye 2000 Calorie Mascara and Lipfinity lipstick – are equal in quality but better value than higher-priced brands.

Flank attack

A *flanking* strategy is another name for identifying shifts that are causing gaps to develop, then rushing to fill the gaps. Flanking is in the best tradition of modern marketing, which holds that the purpose of marketing is to discover needs and satisfy them. It is particularly attractive to a challenger with fewer resources and can be more likely to succeed than frontal attacks. In a geographic attack, the challenger spots areas where the opponent is underperforming. The other flanking strategy is to serve uncovered market needs. Ariat International used this type of strategy to attain its position as a leading footwear and apparel brand for equestrian athletes around the world. Ariat discovered an opportunity to design riding boots that were every bit as luxurious and elegant as traditional English riding boots, but ergonomically designed to feel as comfortable as a running shoe – a totally new benefit in the category. Later, Ariat applied the same idea to casual footwear, cowboy boots, work boots and apparel.[48]

Encirclement attack

The *encirclement* manoeuvre is an attempt to capture a wide slice of the enemy's territory through a blitz. It means launching a grand offensive on several fronts. Encirclement makes sense when the challenger commands superior resources and believes a swift encirclement will break the opponent's will. In making a stand against arch rival Microsoft, Sun Microsystems licensed its Java software to hundreds of companies and millions of software developers for all sorts of consumer devices. As consumer electronics products began to go digital, Java started appearing in a wide range of gadgets.

Bypass attack

The most indirect assault strategy is *bypassing* the enemy altogether and attacking easier markets to broaden the firm's resource base. This strategy offers three lines of approach: diversifying into unrelated products, diversifying into new geographical markets and leapfrogging into new technologies to supplant existing products.

Technological leapfrogging is a bypass strategy practised in high-tech industries. The challenger patiently researches and develops the next technology and launches an attack, shifting the battleground to its own territory where it has an advantage. Nintendo's successful attack in the game market was precisely about wresting market share by introducing a superior technology and redefining the 'competitive space'. Google used technological leapfrogging to overtake Yahoo! and become the market leader in search engines.

Guerrilla warfare

Guerrilla warfare consists of waging small, intermittent attacks to harass and demoralise the opponent and eventually secure permanent footholds. The guerrilla challenger uses both conventional and unconventional means of attack. These include selective price cuts, occasional legal action and intense promotional blitzes. For instance, phone operator 3 has used guerrilla advertising around Dublin's Croke Park before a Six Nations rugby union clash between England and Ireland – it used high-pressure hoses to clean three logos into the dirt on the pavements around the stadium.[49]

Choosing a specific attack strategy

The challenger must go beyond the five broad strategies and develop more specific strategies. Any aspect of the marketing programme can serve as the basis for attack, such as lower-priced or discounted products, new or improved products and services, a wider variety of offerings, and innovative distribution strategies. A challenger's success depends on combining several strategies to improve its position over time. The 'Marketing in practice' box provides some additional tips for challenger brands.

Marketing in practice

Making smaller better

Adam Morgan offers eight suggestions on how small brands can better compete:

1 **Break with your immediate past.** Don't be afraid to ask 'dumb' questions to challenge convention and view your brand differently.

2 **Build a 'lighthouse identity'.** Establish values and communicate who and why you are. Apple excels at projecting a strong sense of self that makes it relevant and salient to consumers. By wholeheartedly signifying its confidence and fortitude, it becomes a lighthouse brand that consumers can navigate their life by, publicly or privately.[50]

3 **Assume thought leadership of the category.** Break convention in terms of what you say about yourself, where you say it, and what you do beyond talk.

4 **Create symbols of re-evaluation.** A rocket uses half its fuel in the first mile to break loose from Earth's gravitational pull – you may need to polarise people to get them to rethink your brand.

5 **Sacrifice.** Focus your target, message, reach and frequency, distribution and line extensions, and recognise that less can be more.

6 **Overcommit.** Although you may do fewer things, do 'big' things when you do them.

7 **Use publicity and advertising to enter popular culture.** Unconventional communications can get people talking.

8 **Be idea centred, not consumer centred.** Sustain challenger momentum by not losing sight of what the brand is about and can be, and redefine marketing support as the centre of the company to reflect this vision.

Sources: A. Morgan (2009) *Eating the Big Fish: How Challenger Brands Can Compete Against Brand Leaders*, 2nd edn, New York: John Wiley & Sons; see also A. Morgan and M. Barden (2015) *A Beautiful Constraint*, New York: John Wiley & Sons and A. Morgan (2004) *The Pirate Inside: Building a Challenger Brand Culture Within Yourself and Your Organisation*, Chichester: John Wiley & Sons.

Market-follower strategies

Some years ago, legendary marketing scholar Theodore Levitt wrote an article entitled 'Innovative imitation', in which he argued that a strategy of *product imitation* might be as profitable as a strategy of *product innovation*.[51] The innovator bears the expense of developing the new product, getting it into distribution, and informing and educating the market. The reward for all this work and risk is normally market leadership. However, another firm can come along and copy or improve the new product. Although it will probably not overtake the leader, the follower can achieve high profits because it did not bear any of the innovation expense.

Many companies prefer to follow rather than challenge the market leader, a strategy that allows a company to learn more about market needs and reactions or a technology before committing resources to market and product development. Patterns of 'conscious parallelism' are common in capital-intensive, homogeneous-product industries, such as steel, fertilisers and chemicals. The opportunities for product differentiation and image differentiation are low, service quality is often comparable and price sensitivity runs high. The mood in these industries is against short-run grabs for market share because that strategy only provokes retaliation. Most firms decide against stealing each other's customers. Instead, they present similar offers to buyers, usually by copying the leader. Market shares show high stability.

That is not to say that market followers lack strategies. A market follower must know how to hold current customers and win a fair share of new ones. Each follower tries to bring distinctive advantages to its target market – location, services, financing. Because the follower is often a major target of attack by challengers, it must keep its manufacturing costs low and its product quality and services high. It must also enter new markets as they open up. The follower must define a growth path, but one that does not invite competitive retaliation. We distinguish four broad strategies:

- **Counterfeiter.** The counterfeiter duplicates the leader's product and packages and sells them on the black market or through disreputable dealers. Firms such as Apple and Rolex have been plagued by the counterfeiter problem, especially in Asia.
- **Cloner.** The cloner emulates the leader's products, name and packaging, with slight variations. For example, Danish Harboes Bryggeri A/S sells imitations of Coca-Cola Zero in look-alike bottles. Its Cola Minus sells for less than half the price of a Coca-Cola Zero.
- **Imitator.** The imitator copies some things from the leader but maintains differentiation in terms of packaging, advertising, pricing or location. The leader does not mind the imitator as long as the imitator does not attack the leader aggressively. Fernández Pujals grew up in Fort Lauderdale, Florida, and took Domino's home delivery idea to Spain, where he borrowed €56,000 to open his first store in Madrid. His TelePizza chain now operates 1,400 stores in Europe and Latin America.
- **Adapter.** The adapter takes the leader's products and adapts or improves them. The adapter may choose to sell to different markets, but often it grows into the future challenger, as many Japanese firms have done after improving products developed elsewhere.

What does a follower earn? Normally, less than the leader. For example, a study of food-processing companies showed the largest firm averaging a 16 per cent return on investment, the number-two firm 6 per cent, the number-three firm-1 per cent and the number-four firm-6 per cent. In this case, only the top two firms have profits. No wonder Jack Welch, former CEO of GE, told his business units that each must reach the number one or two position in its market, or else! Followership is often not a rewarding path.

Market-nicher strategies

An alternative to being a follower in a large market is to be a leader in a small market, or **niche**. Smaller firms normally avoid competing with larger firms by targeting small markets of little or no interest to the larger firms. But even large, profitable firms may choose to use niching strategies for some of their business units or companies. Firms with low share of the total market can become highly profitable through smart niching. Such companies tend to offer high value, charge a premium price, achieve lower manufacturing costs and shape a strong corporate culture and vision, as the 'Marketing in action' box shows.

Marketing in action

AIAIAI

AIAIAI was created in 2005 in an old industrial building in Copenhagen. Right from the beginning, the building was the setting for a creative environment, comprising more than 200 young people. Besides being a breeding ground for the development of musicians, designers and musicians, the building formed the inspirational background for the development of AIAIAI's collective vision, which still has not changed: the company aims to create headphones and other consumer electronic products that have a clear connection to the creative world, and thus make a heartfelt, different and genuine statement.

Teaming up with the best-possible sound engineers and musicians, the company emphasises an open development process. The design of the company's first headphones, being a tribute to the ones that came with the original 1980s Sony Walkman, makes it easy to hear what is going on in the outside world, which at the same time helps you to avoid getting hit by a car when walking the city streets. A single piece of bent metal holds the ear cups, which slide up or down for size adjustability. It is even possible to pop the ear cups off altogether for on-the-go storage. Among other products, AIAIAI also offers the Swirl Earphone, which is designed with an emphasis on sturdiness and lasting durability. It has a robust, industrial in-ear housing made to withstand heavy everyday use. In 2011, electronics giant Apple became attracted to a range of AIAIAI headphones and accepted them for sale in Apple stores. By having its products presented in Apple stores, the company succeeded in increasing consumers' brand attention, which subsequently increased sales. 'The market potential is amazing', said Jacob Moesgaard, one of the four AIAIAI partners celebrating the success.

AIAIAI often collaborates with external partners when designing its headphones, including Grammy winner Young Guru (TMA-1 Studio Young Guru Edition – 2013) and Stones Throw Records (AIAIAI TMA-1 DJ Stones Throw Edition – 2014). In 2017, AIAIAI became a certified Google partner.

Questions

1. Being one of Europe's many SMEs, AIAIAI dreams about expansion. In your opinion, what are the possibilities, what are the pitfalls?
2. Is collaborating with Apple a good idea? Why/why not?

Sources: S. Jørgensen (2017) Den danske head-set producent AIAIAI optaget i inderkredsen hos Google, Magasinet Mobil Online, 23 October; Euroman (2014) AIAIAI teamer op med legendarisk pladeselskab, www.euroman.dk; Euroman (2013) AiAiAi samarbejder med Grammy-vinder, www.euroman.dk; D. Jensen (2011) Lille dansk firma lander storaftale med Apple, *Computerworld*, 18 March; K. T. Rasmussen (2011) Dansk virksomhed i storaftale med Apple, *Børsen*, 18 March, 20; www.aiaiai.dk; K. T. Rasmussen (2011) Svært at tjene penge hos Apple, *Børsen*, 18 March, 21.

By delivering pre-packed boxes of the season's best ecological vegetables and groceries to customers' doorsteps, the Danish internet company Aarstiderne.com (*Aarstiderne* means 'Seasons') offers consumers the chance to spend their time and energy at the cooker and not at the shopping cart. Customers may choose between 13 different vegetable and fruit boxes and a wide selection of special boxes, containing, for example fish, meat, cheese, bread or processed foods. The boxes include recipes for delicious and easy-to-make everyday meals that are tailor-made to suit each week's box. This solution helps consumers avoid the 'what are we going to eat tonight?' stress of a typical weekday. At the beginning of 2018, 45,000 Danish and 10,000 Swedish families were receiving boxes from Aarstiderne every week.[52]

In a study of hundreds of business units, the Strategic Planning Institute found that the return on investment averaged 27 per cent in smaller markets, but only 11 per cent in larger markets.[53] Why is niching so profitable? The main reason is that the market nicher ends up knowing the target customers so well that it meets their needs better than other firms selling to this niche casually. As a result, the nicher can charge a substantial price over costs. The nicher achieves *high margin*, whereas the mass marketer achieves *high volume*.

Nichers have three tasks: creating niches, expanding niches and protecting niches. Niching carries a major risk in that the market niche might dry up or be attacked. The company is then stuck with highly specialised resources that may not have high-value alternative uses.

Because niches can weaken, the firm must continually create new ones. The 'Marketing in practice' box outlines some options. The firm should 'stick to its niching', but not necessarily to its niche. That is why *multiple niching* is preferable to *single niching*. By developing strength in two or more niches, the company increases its chances of survival.

Marketing in practice

Niche specialist roles

The key idea in successful nichemanship is specialisation. Here are some possible niche roles:

- **End-user specialist.** The firm specialises in serving one type of end-use customer. For example, a *value-added reseller* (VAR) customises the computer hardware and software for specific customer segments and earns a price premium in the process.
- **Vertical-level specialist.** The firm specialises at some vertical level of the production–distribution value chain. A copper firm may concentrate on producing raw copper, copper components or finished copper products.
- **Customer-size specialist.** The firm concentrates on selling to small, medium-sized or large customers. Many nichers specialise in serving small customers neglected by the majors.
- **Specific-customer specialist.** The firm limits its selling to one or a few customers. Many firms sell their entire output to a single company, such as Siemens or Peugeot.
- **Geographic specialist.** The firm sells only in a certain locality, region or area of the world.
- **Product or product-line specialist.** The firm carries or produces only one product line or product. A manufacturer may produce only lenses for microscopes; a retailer may carry only ties.
- **Product-feature specialist.** The firm specialises in producing a certain type of product or product feature. Zipcar's car-sharing services target people who live or work in several European cities – people who need a car from time to time, but wish to save the time and hassle associated with owning a car (parking, insurance and maintenance).
- **Job-shop specialist.** The firm customises its products for individual customers.
- **Quality-price specialist.** The firm operates at the low- or high-quality end of the market. Hewlett-Packard specialises in the high-quality, high-price end of the handheld calculator market.
- **Service specialist.** The firm offers one or more services not available from other firms. A bank might take loan requests over the phone and hand deliver the money to the customer.
- **Channel specialist.** The firm specialises in serving only one channel of distribution. For example, a soft drinks company decides to make a very large-sized serving available only at petrol stations.

Firms entering a market should initially aim at a niche rather than the whole market. The mobile phone industry has experienced phenomenal growth but is now facing fierce competition as the number of new potential users dwindles. An Irish upstart company, Digicel Group, has successfully tapped into one of the few remaining high-growth segments: people on low incomes currently without mobiles.

Balancing customer and competitor orientations

We have stressed the importance of a company's positioning itself competitively as a market leader, challenger, follower or nicher. Yet a company must not spend all its time focusing on competitors.

Competitor-centred companies

A *competitor-centred company* sets its course as follows.

Observed situation

- Competitor W is going all out to crush us in Portugal.
- Competitor X is improving its distribution coverage in Germany and hurting our sales.

- Competitor Y has cut its price in Italy, and we lost three share points.
- Competitor Z has introduced a new service feature in Greece, and we are losing sales.

Reactions

- We will withdraw from the Portuguese market because we cannot afford to fight this battle.
- We will increase our advertising expenditure in Germany.
- We will meet competitor Y's price cut in Italy.
- We will increase our sales promotion budget in Greece.

This kind of planning has some pluses and minuses. On the positive side, the company develops a fighter orientation. It trains its marketers to be on constant alert, to watch for weaknesses in its competitors' and its own position. On the negative side, the company is too reactive. Rather than formulating and executing a consistent, *customer-orientated* strategy, it determines its moves based on its competitors' moves. It does not move towards its own goals. It does not know where it will end up, because so much depends on what its competitors do.

Customer-centred companies

A *customer-centred company* focuses more on customer developments in formulating its strategies.

Observed situation

- The total market is growing at 4 per cent annually.
- The quality-sensitive segment is growing at 8 per cent annually.
- The deal-prone customer segment is also growing fast, but these customers do not stay with any supplier very long.
- A growing number of customers have expressed an interest in a 24-hour hot line, which no one in the industry offers.

Reactions

- We will focus more effort on reaching and satisfying the quality segment of the market. We will buy better components, improve quality control and shift our advertising theme to quality.
- We will avoid cutting prices and making deals because we do not want the kind of customer that buys this way.
- We will install a 24-hour hot line if it looks promising.

Clearly, the customer-centred company is in a better position to identify new opportunities and set a course that promises to deliver long-term profits. By monitoring customer needs it can decide which customer groups and emerging needs are the most important to serve, given its resources and objectives. Jeff Bezos, founder of Amazon.com, strongly favours a customer-centred orientation:

> **Amazon.com's mantra has been that we were going to obsess over our customers and not our competitors. We watch our competitors, learn from them, see the things that they [are doing for customers] and copy those things as much as we can. But we were never going to obsess over them.**[54]

Competing in an economic downturn

Given economic cycles, there will always be tough times, as were the years from 2008 onwards in many parts of the world. Despite reduced funding for marketing programmes and intense pressure to justify them as cost effective, some marketers survived – or even thrived – in the **recession**. Here are five guidelines to improving the odds for success during an economic downturn.

Explore the upside of increasing investment

Does it pay to invest during a recession? Although the severity of the recent downturn took firms into uncharted territory, 40 years of evidence suggests that those willing to invest during a recession have, on average, improved their fortunes when compared with those that cut back.[55] The amount of investment is not all that matters. Firms that received the most benefit from increasing marketing investments during a recession were often those best able to exploit a marketplace advantage, such as an appealing new product, a weakened rival, or development of a neglected target market. With such strong evidence, marketers should consider the potential upside and positive payback of an increased investment that seizes market opportunities. UK supermarket giant Sainsbury's launched an advertising and in-store point-of-sale campaign called 'Feed Your Family For a Fiver' that played off its corporate slogan, 'Try Something New Today', to encourage shoppers to try new recipes that would feed families for only €6.

Get closer to customers

In tough times, consumers may change what they want and can afford, where and how they shop, even what they want to see and hear from a firm. A downturn is an opportunity for marketers to learn even more about what consumers are thinking, feeling and doing, especially the loyal customer base that yields so much of a brand's profitability.[56] Firms should characterise any changes in marketing factors such as satisfaction and trust, among others, as temporary adjustments, not permanent shifts (see also the 'Marketing insight' box). The potential value and profitability of some target consumers may change. Marketers should evaluate this factor to fine-tune their marketing programme and capitalise on new insights.

Marketing insight

Consumer trust in financial service providers

Trust is believed to be among the most critical variables for developing and maintaining well-functioning financial customer–seller relationships and for gaining competitive advantage in the financial marketplace. Trust not only relates to consumer trust in individual companies (i.e. narrow-scope trust, NST) but also relates to the broader business context in which consumers may plan and carry out their financial behaviour (broad-scope trust, BST). NST is 'the expectation held by the customer that the service provider is dependable and can be relied on to deliver on its promises',[57] whereas BST is 'the expectation held by the consumer that companies within a certain business type (e.g. banks) are generally dependable and can be relied on to deliver on their promises' (see Figure 9.7).

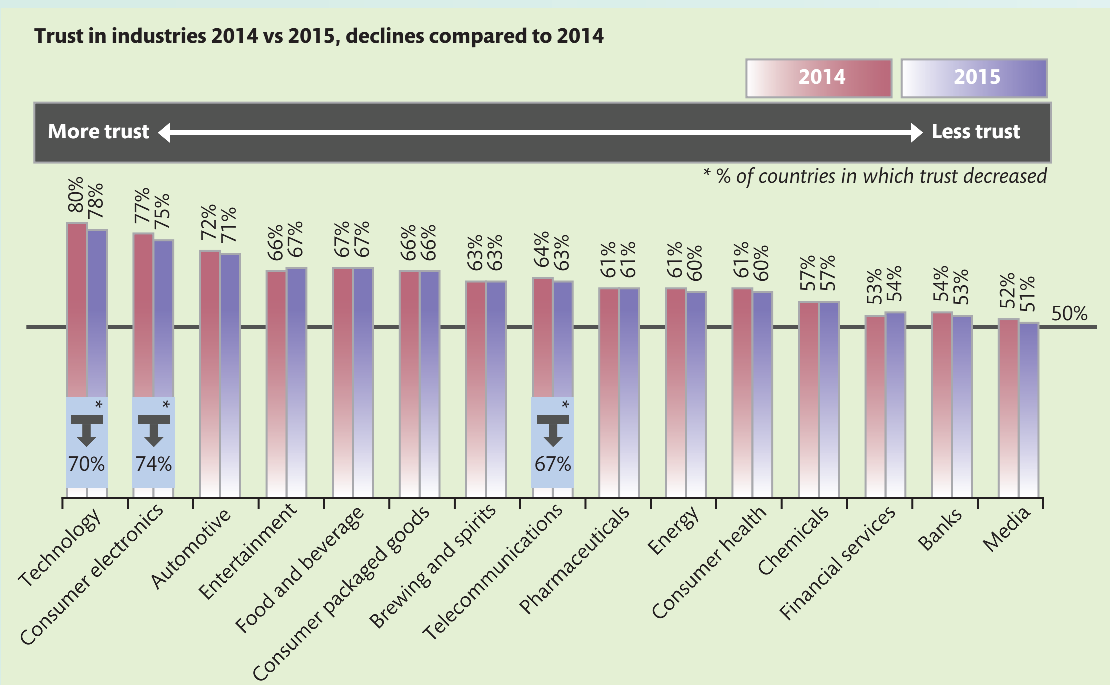


Figure 9.7 Financial services continues to be among the least-trusted industries globally
Source: https://www.edelman.com/research/2015-edelman-trust-barometer.

Research suggests that if BST is common within a business type, it encourages the development of trust in customer–seller relationships, meaning that a positive relationship between BST and NST can be detected. This also means that if BST decreases – as was the case during the financial crisis – consumers' NST in their individual financial service providers will also decrease. Because BST is associated with financial service providers as a whole, the relationship between BST and NST holds true even for service providers who may not actively participate in improving BST. Because of market competition and scarce resources, some managers may feel tempted only to focus on developing NST in order to attract more customers and to stand better in the competition, leaving it to other service providers to seek to improve BST. This is often referred to as 'free-riding' behaviour. Since it is in the interest of societies that their citizens have trust in financial institutions, this underlines the importance of developing well-functioning financial regulations, which ensures that the development of BST is not left to the financial industry and market competition alone. On top of this, the financial services industry may consider improving self-regulatory mechanisms to facilitate the development of a trustful company culture.

Research results also suggest that when broad-scope trust is low, consumers rely more on the evaluation of relationship satisfaction and their knowledge in assessing NST. Hence, when BST is low, even higher burdens are put on cognitive skills, which may reduce especially the ability of vulnerable consumers (e.g. consumers with only limited financial knowledge) to confidently determine the trustworthiness of their individual service provider. Financial education programmes have now been established in many European countries and also the Organization for Economic Co-operation and Development (OECD) prioritises this issue. When BST is low financial, service managers should in particular consider collaborating with public authorities in increasing consumer knowledge and/or developing their own educational programmes.

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Review budget allocations

Budget allocations can be sticky and not change enough to reflect a fluid marketing environment. We have seen repeatedly that the vast penetration of the internet, improved functionality of the mobile phone and increased importance of events, experiences and emotions as marketing opportunities have dramatically changed the marketing communications and channels environment in just five years.

A recession provides an opportunity for marketers to review closely how much and in what ways they are spending their money. Budget reallocations can open up promising new options and eliminate sacred-cow approaches that no longer provide sufficient revenue benefits. Underperforming distributors can be weeded out and incentives provided to motivate the more effective product sellers.

Marketing communications allow for considerable experimentation. In London, T-Mobile created spontaneous, large-scale, interactive 'happenings' to convey its brand positioning that 'Life's for Sharing' and to generate massive publicity. Its 'Dance' video, featuring 300 dancers getting the whole of Liverpool Street train station to dance, was viewed millions of times on YouTube.[58]

Put forth the most compelling value proposition

One mistake in a recession is to be overly focused on price reductions and discounts, which can harm long-term brand equity and price integrity. Marketers should increase – and clearly communicate – the value their brands offer, making sure consumers appreciate all the financial, logistical and psychological benefits, as compared with the competition.[59]

Marketers should also review pricing to ensure it has not crept up over time and no longer reflects good value. Procter & Gamble adopted a 'surgical' approach to reducing prices in specific categories in which its brands were perceived as costing too much compared with competitive products. At the same time, it launched communications about the innovativeness and value of its many other brands to help ensure consumers would continue to pay its premium prices.[60]

Fine-tune brand and product offerings

Marketers must ensure they have the right products to sell to the right consumers in the right places and times. They can review product portfolios and brand architecture to confirm that brands and sub-brands are clearly differentiated, targeted and supported based on their prospects. Luxury brands can benefit from lower-priced brands or sub-brands in their portfolios. Take Italian Armani as an example.

Armani

Armani differentiates its product line into three tiers distinct in style, luxury, customisation and price. In the most expensive, Tier I, it sells Giorgio Armani and Giorgio Armani Privé, custom-made couture products that sell for thousands of dollars. In Tier II it offers Emporio Armani – young, modern, more affordable styles – and Armani jeans that convey technology and ecology. In lower-priced Tier III are more youthful and street-savvy translations of Armani style, A|X Armani Exchange, sold at retail locations in cities and suburban malls. The brand architecture has been carefully devised so each extension lives up to the core promise of the Armani brand without diluting the parent's image. But clear differentiation also exists, minimising consumer confusion and brand cannibalisation. In tough economic times, the lower end picks up the selling slack and helps maintain profitability.

Because different brands or **sub-brands** appeal to different economic segments, those that target the lower end of the socioeconomic spectrum may be particularly important during a recession. Value-driven companies such as Aldi and IKEA are likely to benefit most.

SUMMARY

1 To prepare an effective marketing strategy, a company must study competitors as well as actual and potential customers. Marketers need to identify competitors' strategies, objectives, strengths and weaknesses.
2 A company's closest competitors are those seeking to satisfy the same customers and needs and making similar offers. A company should also pay attention to latent competitors, who may offer new or other ways to satisfy the same needs. A company should identify competitors by using both industry- and market-based analyses.
3 A market leader has the largest market share in the relevant product market. To remain dominant, the leader looks for ways to expand total market demand, attempts to protect its current market share, and perhaps tries to increase its market share.
4 A market challenger attacks the market leader and other competitors in an aggressive bid for more market share. Challengers can choose from five types of general attack; challengers must also choose specific attack strategies.
5 A market follower is a runner-up firm willing to maintain its market share and not rock the boat. A follower can play the role of counterfeiter, cloner, imitator or adapter.
6 A market nicher serves small market segments not being served by larger firms. The key to nichemanship is specialisation. Nichers develop offerings to meet fully a certain group of customers' needs, commanding a premium price in the process.
7 As important as a competitive orientation is in today's global markets, companies should not overdo the emphasis on competitors. They should maintain a good balance of consumer and competitor monitoring.
8 Five guidelines improve the odds for success during an economic downturn: (1) explore the upside of increasing investment; (2) get closer to customers; (3) review budget allocations; (4) put forth the most compelling value proposition; and (5) fine-tune brand and product offerings.

APPLICATIONS

Marketing debate

How do you attack a category leader? Attacking a leader is always difficult. Some strategists recommend attacking a leader 'head on' by targeting its strengths. Other strategists disagree and recommend flanking and attempting to avoid the leader's strengths.

Take a position: the best way to challenge a leader is to attack its strengths *versus* the best way to attack a leader is to avoid a head-on assault and to adopt a flanking strategy.

Marketing discussion

Pick an industry. Classify firms according to the four different roles they might play: leader, challenger, follower and nicher. How would you characterise the nature of the competition? Do the firms follow the principles described in this chapter?

FURTHER READING

J. Rudd, N. Piercy and B. Nicoulaud (2017) *Marketing Strategy and Competitive Positioning*, Harlow: Pearson Education Limited.

This book focuses on competitive positioning at the heart of marketing strategy and discusses the processes used in marketing to achieve competitive advantage. The book recognises the emergence of new potential target markets born of the recession and an increased concern for climate change; and it examines ways in which firms can differentiate their offerings through the recognition of environmental and social concerns.

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Part 2 Case study

A retailer with a variety of cheeses
Source: *Sandy Young/Alamy.*

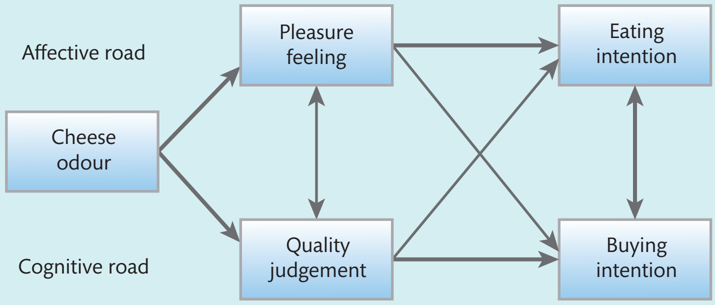
Cheese odour marketing

After completing her master's degree in marketing and economics from the IE Business School in Madrid, Francesca de Silva was employed as a marketing analyst in a small chain of cheese stores. The cheese store chain currently comprises eight stores located in Madrid and two stores in Barcelona. The manager and owner, Gonzálo Garralda, has been head of the cheese store chain for the last nine years and feels that he already has a rather good understanding of cheese consumers' needs and wants. On the other hand, he has been thinking that it probably would be beneficial to have a more analytical approach to the behaviour of cheese consumers in order to get an even better sense of the 'whole picture'. Also, sales have been slightly declining over the past two years and Gonzálo Garralda therefore feels that something needs to be done. As a result of his considerations, Gonzálo Garralda has hired Francesca de Silva and asked her to provide some suggestions on how to improve the marketing of the cheese stores and their products in order to get sales back on track.

During her study at the IE Business School, Francesca de Silva has become increasingly interested in the notion that scent may influence consumer decision making. Significant effects may include time-spending, emotions, judgement and approach-avoidance behaviour, among others. Scent can be classified into two distinct types according to whether the scent originates from a particular object/product (i.e. non-ambient scent) or whether it is generally present in the environment (i.e. ambient scent), for example in a retail store. Francesca de Silva reasons that scent in particular is relevant in cheese consumer behaviour because a cheese odour is generally present in the store (ambient scent), and many cheese products also have their own distinct odour (non-ambient scent).

Francesca de Silva recalls from her study that scent generally invokes two types of consumer responses: cognitive and affective. A cognitive response includes the knowledge, opinions, beliefs and/or thoughts that individuals produce when exposed to a specific stimulus (e.g. an odour). An affective response is a feeling or state that occurs in response to a specific stimulus (e.g. an odour).

She also recalls that consumer responses can be further divided into low-order and high-order cognitive/affective responses, respectively. Whereas a low-order affective response is elicited by a relatively basic process (e.g. seeing a food product may induce a pleasure feeling), a high-order affective response comes from a more deliberate and strategic cognitive processing (e.g. 'how would I feel eating this product?'). A distinction can also be made between low-order and high-order cognitive responses. Cognitive decision making relies, in part, on the ability of decision makers to understand what they expect from the product/how they judge the product (i.e. a low-order cognitive response), and how they intend to react based on their expectation/judgement (i.e. a high-order cognitive response).



Cognitive and affective reactions to cheese odour

Based on such insights, Francesca de Silva has developed the following diagram highlighting cognitive and affective reactions to cheese. She believes that some of the relationships in the diagram are more likely to occur in the consumer's mind than others. More specifically, she speculates that it should be easier to compare responses to each other if they are on the same dimension (i.e. affective with affective or cognitive with cognitive) than if they are on different dimensions. This is because integrating a stimulus into relationships between responses that are on the same dimension should be expected to be less resource-demanding than integrating a stimulus into relationships between responses that are on different dimensions.

In the diagram, the 'affective road' is represented by the relationships between cheese odour, pleasure feeling, and eating intention, whereas the 'cognitive road' is represented by the relationships between cheese odour, quality judgement and buying intention. Also, the anticipated most-likely relationships are marked with bolder arrows.

Although one should recognise that a complete separation between cognitive and affective responses is hardly possible, it seems reasonable to assume that some responses are 'more affective' and some are 'more cognitive'. Indeed, individuals' cognitive and affective responses when interacting with a product or service can be quite different. For instance, one might understand that taking a medicine is useful and necessary for one's health; nevertheless, one can at the same time consider it unpleasant due to its smell and taste.

Francesca de Silva believes that if her speculations are right they may have several important implications for the future design and marketing of the cheese stores:

- If a certain cheese odour is more likely to evoke a positive cognitive response, store managers may wish to stress the presence of product characteristics that can be related to cognitive high-order responses (e.g. 'this product is a bargain', 'take three for the price of two', and the like).
- If, on the other hand, a certain cheese odour is more likely to evoke a positive affective response, managers may wish to stress the presence of product characteristics that can be related to affective high-order responses (e.g. 'eating this product will make you happy', 'a product you will enjoy', and so on).
- In addition, store managers could seek to influence the low-order response (cognitive vs affective) taken by consumers in the buying situations. Such 'manipulation' attempts may be especially important in incidents where consumers' low-order responses are 'blurred', i.e. when it is less obvious whether cognitive or affective low-order responses are predominant.
- Marketing cheese products according to consumers' most likely way of perceiving them may provide the cheese store chain with a competitive advantage by easing consumers' decision processes and by saving consumers' resources.

Questions

1. In your opinion, what methods should Francesca de Silva consider in order to investigate her proposition that consumers may be likely to follow either a cognitive or an affective road when exposed to cheese products?
2. Do you agree with Francesca de Silva that the distinction between cognitive and affective responses could be a fruitful basis for future marketing activities?
3. Could the approach suggested by Francesca de Silva evolve into a competitive advantage for the cheese store chain? Why/why not?
4. Could scent marketing also be appropriate for the business market?

Sources: Based on A. V. Madzharov, L. G. Block and M. Morrin (2015) The cool scent of power: Effects of ambient scent on consumer preferences and choice behaviour, *Journal of Marketing*, 79(January), 83–96; Iberia creates onboard scent (2014) *Business Traveller*, June, 16; J. Blumenfeld (2014) Good scents, *Delicious Living*, 30(2), 19; T. Hansen and S. C. Beckmann (2012) The moderating effects of stimuli in consumer research: A meta-theoretical approach, *Journal of Marketing Trends*, 1(10), 7–18; C. Teller and C. Dennis (2012) The effect of ambient scent on consumers' perception, emotions, and behaviour: A critical review, *Journal of Marketing Management*, 28(1–2),14–36; H. van den Berg, A. S. R. Manstead, J. van der Pligt and D. H. J. Wigboldus (2006) The impact of affective and cognitive focus on attitude formation, *Journal of Experimental Social Psychology*, 42, 373–379; P. F. Bone and S. Jantrania (1992) Olfaction as a cue for product quality, *Marketing Letters*, 3(3), 289–96; P. F. Bone and P. S. Ellen (1999) Scents in the marketplace: Explaining a fraction of olfaction, *Journal of Retailing*, 75(2), 243–262, J.-C. Chebat and R. Michon (2003) Impact of ambient odors on mall shoppers' emotions, cognition, and spending – a test of competitive causal theories, *Journal of Business Research*, 56, 529–539; J. Clement (2007) Visual influence on in-store buying decisions: An eye-track experiment on the visual influence of packaging design, *Journal of Marketing Management*, 23(9/10), 917–928; L. D. Compeau, D. Grewal and K. B. Monroe (1998) Role of prior affect and sensory cues on consumers' affective and cognitive responses and overall perceptions of quality, *Journal of Business Research*, 42, 295–308; E. R. Spangenberg, A. E. Crowley and P. W. Henderson (1996) Improving the store environment: Do olfactory cues affect evaluations and behaviors?, *Journal of Marketing*, 60(2), 67–80; D. Trafimow and P. Sheeran (1998) Some tests of the distinction between cognitive and affective beliefs, *Journal of Experimental Social Psychology*, 34, 378–397.

PART 3
Connecting with customers

In Part 3, having gained essential insights into the structure and buying behaviour in both consumer and business markets, we will see how marketing managers should turn to the task of successfully competing in those markets. Brands are the primary connection between an organisation and its customers. Well-regarded brands gain strong customer acceptance and customer-perceived value. The word *brand* can be viewed as a mnemonic summarising marketing activity, encouraging customers to become brand loyal (i.e. **B**uy **R**egularly **A**nd **N**ever **D**esert).

Part 3: Connecting with customers explores the following key themes:

1. **Segmentation.**
2. **Targeting.**
3. **Positioning.**
4. **The purpose of branding.**
5. **How to create and sustain a strong, well-regarded brand.**

Segmentation is a matter of dividing markets into ‘bite-sized’ chunks so that their specific requirements and potential can be assessed and judged. Once attractive market segments have been identified, companies can apply suitable screening systems to select those that will become their centre of attention – or, their targets. Each targeted market – whether *niche*, *middle* or *entry* – requires separate marketing management to ensure that the appropriate mix of customer benefits is blended into suitable market offerings that meet customers’ perceived value requirements.

This attention to detail enables each company to build strong value sets that can be distinctive but also reflect the overall positive image characteristics of the corporate brand identity. Successful positioning enables companies to provide the right market offerings efficiently to the right target markets in order to secure a sustainable competitive advantage and acceptable degrees of profit.

Successful marketing enhances the value of a brand or family of brands. A brand stands for the vision, mission and success of a company in developing and delivering offerings that have high levels of customer-perceived value. Brands should seek to develop high and lasting confidence ratings with targeted customers. Brands should fit their customers’ needs like well-tailored clothes.

Once established, a brand is a standard that needs to be continually updated in the light of customer requirements. Good brands are well perceived, progressive, responsive to changing customer expectations and seen by the customer to be different.

CHAPTER 10

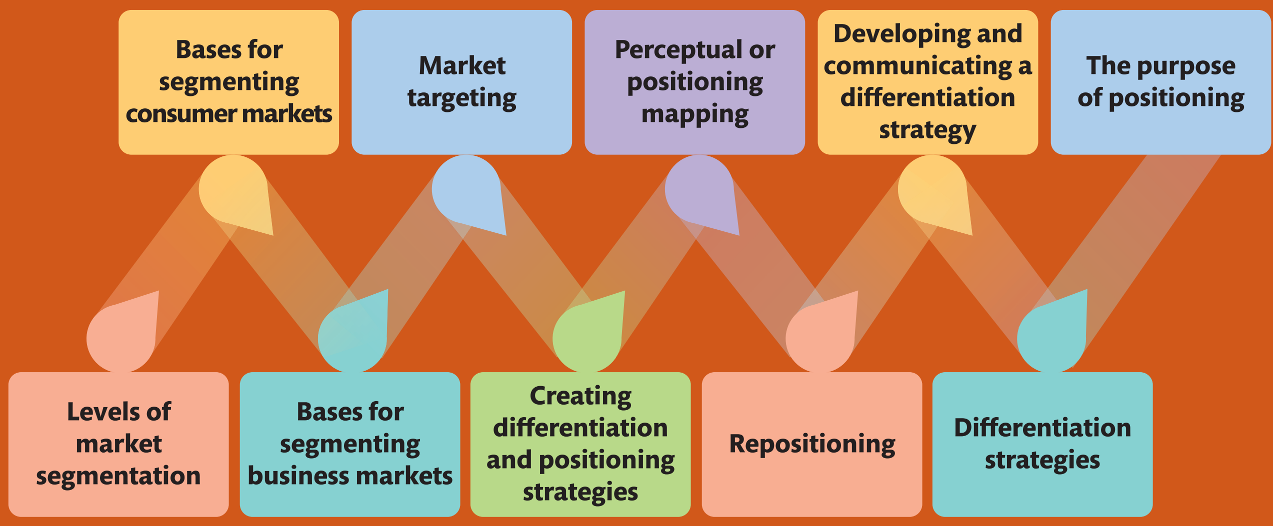
Seeking and developing target marketing differentiation strategies

In this chapter, you will learn about the following topics:

1. The different levels of market segmentation
2. How a company divides a market into segments
3. How a company chooses the most attractive target markets
4. The requirements for effective segmentation
5. How a company creates, develops and communicates a successful positioning strategy in the market
6. Why the concept of positioning is so important to marketing practitioners
7. How companies seek to differentiate their offerings positively in today's market conditions
8. When a company might need to reposition its market offerings and the main inherent risks of such a strategy

Golden Labrador retriever in a bright park on sunny day in autumn.
Source: Suttenwood Photography/Shutterstock

Chapter Journey



Companies cannot connect with all customers in large, broad or diverse markets. However, they can divide them into groups of customers or segments with distinct needs and wants. A company then needs to identify which market segments it can serve effectively and efficiently. This decision requires an understanding of customer behaviour and purposeful strategic thinking. To develop the best marketing plans, managers need to understand what makes each segment unique. Their next task is to explore ways in which companies can effectively position and differentiate their market offerings to achieve a competitive advantage.

One lucrative market segment is that of the people who were born in Europe between 1946 and 1964, who are often referred to as 'baby boomers'. In 2015, baby boomers accounted for 40 per cent of the adult population in the UK. Research shows that the mature population accounts for 50 per cent of consumer spending.[1] Throughout Europe this market has attracted the attention of marketers as it presents a distinct demographic sector that has provided a variety of marketing opportunities over the years. In the United Kingdom companies such as Saga and First Choice have tried to make the over-50s market trendy. However, as they approach the end of their lives, many baby boomers have registered their displeasure at finding themselves on these companies' mailing lists.[2]

To compete more effectively, many companies are now adopting target marketing. Instead of scattering their marketing efforts, they are focusing on customers whom they have the greatest chance of satisfying. Effective target marketing requires that marketers:

- identify and profile distinct groups of buyers who differ in their needs and preferences (market segmentation);
- select one or more market segments to enter (market targeting);
- for each target segment, establish and communicate the distinctive benefit(s) of the company's market offering (market positioning).

Levels of market segmentation

The starting point for discussing segmentation is **mass marketing**. In mass marketing, the seller engages in the mass production, mass distribution and mass marketing communication of one market offering for all buyers. Henry Ford epitomised this strategy when he offered the Model-T Ford in one colour: black.

The argument for mass marketing is that it creates the largest potential market, which leads to the lowest costs, which in turn can lead to lower prices or higher margins. This is the **least cost production paradigm** that has served many firms well for several decades. However, in contemporary buyers' markets in which the number of providers exceeds the likely customer uptake, companies are faced with new challenges. Increasing levels of competition present customers with a wide choice of possible suppliers. This results in them wanting more for their money. There has been a transformation in the concept of value from a factor that was largely determined by suppliers to one that is now heavily influenced by buyers. Firms now have to provide market offerings that their customers perceive to possess the right value standard. Also, many markets display an increasing trend towards breaking up into several segments. Fewer standardised perceived-value packages can be offered to customers. Thus, the use of mass marketing is in decline and most companies are turning to **micromarketing** at one of four levels: segments, niches, local areas or individuals (see Figure 10.1).

Segment group marketing

A *market segment* consists of a group of customers who share a similar set of needs and wants. Rather than creating the segments, the marketer's task is to identify them and to decide which one(s) to target. The company can then devise a market offering that can be positively differentiated from the competition. If strategy is the art of allocating scarce resources, then segmentation – and the understanding it provides about customer groups – is part of the science informing that allocation.

However, such a segment is partly a fiction, in that not everyone in the segment wants exactly the same offering. Business-to-business marketing experts Anderson and Narus have urged marketers to present flexible market offerings to all members of a segment.[3] **Flexible market-perceived value offering** features: a *naked solution* containing the market offering attributes and benefits that all segment members value, and *discretionary value options* that some segment members require. Each customer-perceived option might carry an additional charge: for example, Siemens' Electrical

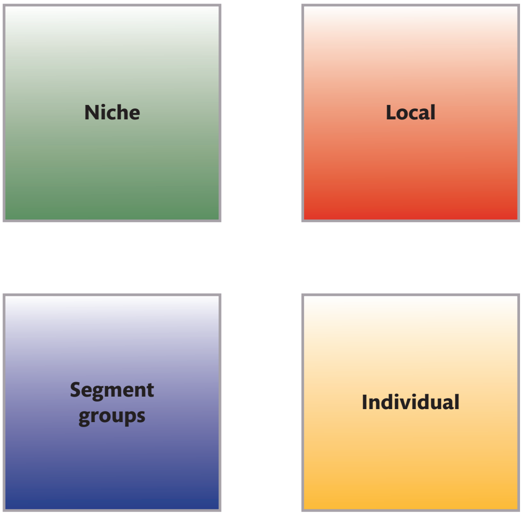


Figure 10.1 Levels of market segmentation
Source: M. R. V. Goodman, AJM Managing Development.

Apparatus Division sells metal-clad boxes to small manufacturers at prices that include free delivery and a warranty. It also offers installation, tests and communication peripherals as extra-cost options. Ryanair offers all economy passengers a seat and soft drinks, and charges extra for alcoholic beverages, baggage handling and snacks.

Market segments can be characterised in different ways. One approach is to identify preference segments. **Homogeneous preferences** exist when all customers have roughly the same preferences. At the other extreme, customers with **diffused preferences** vary greatly in their requirements. If several brands are in the market, they are likely to provide market offerings that appeal to specific consumer preferences. Finally, **clustered preferences** result when natural market segments emerge from groups of customers with shared preferences. Marketers should classify customers into groups based only on needs and factors that drive purchase decisions. A common mistake is to segment customers based on peripheral characteristics that, while interesting, provide no help in achieving the fundamental goal of segmentation: selling more market offerings profitably.

Niche marketing

A niche market is a more narrowly defined customer group seeking a distinctive mix of benefits or values. Marketers usually identify niches by dividing a market segment into sub-segments. For example, while car hire firms such as Europcar and others specialise in airport rental cars for business and leisure travellers, Enterprise has attacked the low-budget, insurance-replacement market by primarily renting to customers whose cars have been written-off or stolen. By creating unique associations with low cost and convenience in an overlooked niche market, Enterprise has been highly profitable.

The objective of a niche competitor, such as Bang & Olufsen, The Body Shop, Burts Potato Crisps, Cartier, Porsche or Skagen, is to be a large fish in a small pool. The niche market customers have a distinct set of value requirements and they will pay a premium to the firm that provides the market offering with the best consumer-perceived value. Niche markets are generally fairly small in terms of volume but constitute a sufficiently attractive profit and growth potential. Also, they are less likely to attract many other powerful competitors and can benefit from focusing their resources to gain economies through specialisation. Some larger companies, such as IBM, have lost parts of their business to successful niche competitors who have been colourfully termed 'guerrillas against gorillas'.[4] The same thing is also happening in the online social networking market, where Facebook has been challenged by LinkedIn, which in turn is being challenged by Twitter and Instagram.[5]

Facebook

Social networking sites are highly competitive and many share many of the characteristics of fads. They quickly become popular and can be an effective market research medium, but they can just as quickly fall out of favour. Pioneering sites initially enjoy a wide appeal and are crucially reliant on advertising revenue. A sudden drop in traffic hits can threaten their survival. Facebook has grown exponentially but its appeal is starting to pale as Instagram and Twitter gain popularity.

Many upstart social networking nichers hope to capitalise on the tendency of individuals to want to congregate with others who share their own particular passions and values, for instance 1Up.com, a content-heavy social site where online gaming fanatics can trade tips, stories, opinions and gossip.

Source: J. Casteleyn, A. Mottart and K. Rutten (2009) How to use Facebook in your market research, *International Journal of Market Research*, 51(4), 439–47; M. Messineo (2015) Induction Ceremony Keynote Speech: What Facebook *knows* about *you* that *you don't know* they know, *International Social Science Review (Online)*, 9(2), 1–12.

Many large companies are turning to niche marketing. Nestlé acquired the Italian premium mineral water companies San Pellegrino and Perrier, as it perceived them to have an appeal to niche customers. Both firms enjoy a good reputation for being ethical and socially responsible, as well as providing quality market offerings.

Internet niching

As marketing efficiency increases, niches that were considered to be too small may become more profitable.[6] Low internet set-up costs have resulted in many small business start-ups. The recipe for internet niching success: choose a hard-to-find market offering that customers do not need to see and touch. After initial losses, Amazon matured as an internet shopping centre. Faced by the long-tail product life cycle curve that characterises many of today's businesses, it has restructured its business and is now profitable. The 'Marketing insight' box outlines how provocative the implications of internet niching can be.

Marketing insight

Chasing the long tail

The advent of online commerce made possible by technology and epitomised by Amazon.com and iTunes has led to a shift in customer buying patterns, according to Chris Anderson, editor-in-chief of *Wired* magazine and author of *The Long Tail.*

In most markets, the distribution of product sales conforms to a curve weighted heavily to one side – the 'head' – where the bulk of sales is generated by a few products. The curve falls rapidly towards zero and hovers just above it far along the X-axis – the 'long tail' – where the vast majority of products generate very few sales. The mass market traditionally focused on generating 'hit' products that occupy the head, disdaining the low-revenue market niches comprising the tail.

Anderson asserts that as a result of consumers embracing the internet as a shopping medium, the long tail harbours significantly more value than before. In fact, Anderson argues, the internet has directly contributed to the shifting of demand 'down the tail, from hits to niches' in a number of product categories, including music, books, clothing, films and videos.

On his blog, Anderson states his argument as follows:

> The Long Tail equation is simple: 1) The lower the cost of distribution, the more you can economically offer without having to predict demand. 2) The more you can offer, the greater the chance that you will be able to tap latent demand for minority tastes that was unreachable through traditional retail. 3) Aggregate enough minority taste, and you'll often get a big new market.

Anderson identifies two aspects of internet shopping that contribute to this shift. First, greater choice is permitted by increased stock and variety. Given a choice between ten hit products, consumers are forced to select one of them. If, however, the choice set is expanded to 1,000, then the top ten hits will be chosen less frequently. Second, the 'search costs' of finding relevant new products are lowered due to the wealth of information sources available online, the filtering of product recommendations based on user preferences that vendors can provide, and the word-of-mouth network of internet users.

Anderson sees the long tail effect as particularly pronounced in media, a category that is historically hit driven, but which benefits enormously from these two aspects of online shopping (see Figure 10.2).

The long tail thesis was also supported by researchers Brynjolfsson, Yu 'Jeffrey' Hu and Smith, who conducted two studies to measure the tail in online versus offline book selling

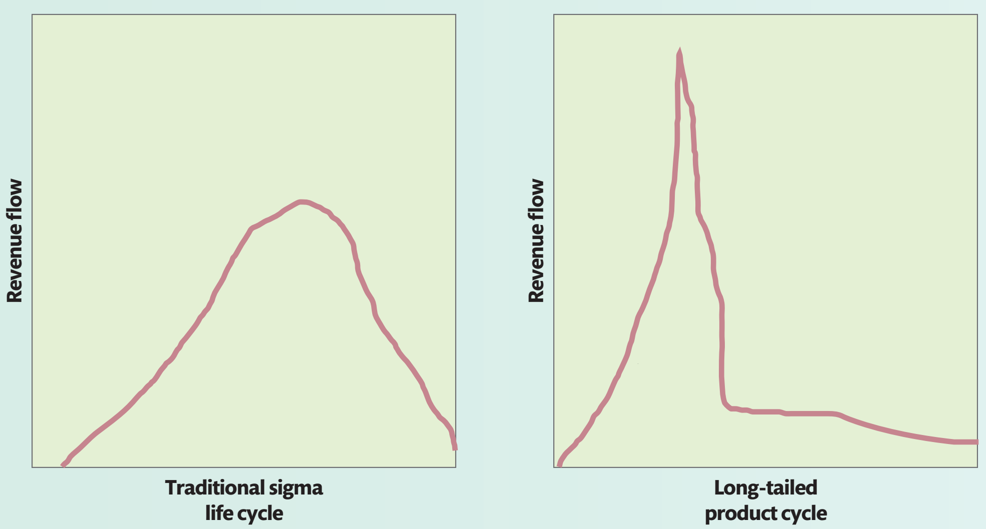


Figure 10.2 Traditional and long-tailed product life cycles
Source: M. R. V. Goodman, Durham University.

and clothing retail. The book-selling study concluded that the increased product variety offered by online bookshops increased customer choice substantially. In the case of online clothing retail, the study found that customers who used both online and catalogue channels purchased a more even distribution of products than would have been the case had they just used catalogue channels.

The same companies that compete in the business of creating hits are beginning to develop ways to evolve niche successes in the long tail. Others have countered that, especially in entertainment, the 'head' where the hits are concentrated is valuable to consumers, not only to the content creators. An article in *The Economist* argued that 'most hits are popular because they are of high quality' and a critique in *The New Yorker* notes that the majority of products and services making up the long tail originate from a small concentration of 'long-tail aggregators' – sites such as Amazon, eBay and iTunes. This observation challenges the premise that old business paradigms have changed as much as Anderson suggests.

Sources: C. Anderson (2006) *The Long Tail*, New York: Hyperion; (2006) Reading the Tail, interview with Chris Anderson, *Wired*, 8 July, 30; (2006) Wag the dog: What the long tail will do, *The Economist*, 8 July, 77; E. Brynjolfsson, Y. (J.) Hu and M. D. Smith (2006) From niches to riches: Anatomy of a long tail, *MIT Sloan Management Review*, Summer, 67; J. Cassidy (2006) Going long, *The New Yorker*, 10 July; www.longtail.com; see also J. Day, L. Ward, S.-H. Choi and C. Zhoo (2011) Catching the long tail: Competitive advantage through distribution strategy, *Journal of Hospitality and Tourism Technology*, 2(3), 204–215.

Local marketing

Target marketing is leading to marketing programmes tailored to local customer groups. Even retail firms such as Marks & Spencer have found great success emphasising local marketing initiatives, but other types of firms are also going local. Supermarkets vary the stock portfolios they carry to suit the locations of their stores. IKEA customises merchandise to match the perceived demand of local areas. Amazon targets customers by email based on locality as well as known purchasing behaviour.

A Polish food shop opens to provide a taste of home for the large local Polish community in Darlington in the north of England
Source: © Gregory Wrona/Alamy.

Sainsbury's Local offers the neighbourhood a convenient but relatively expensive local shopping opportunity
Source: Justin Kase ztwoz/Alamy Stock Photo.

Local marketing reflects a growing trend called **grassroots marketing**. Marketing activities concentrate on getting as close and personally relevant to individual customers as possible. Strong brands and powerful innovations are a prerequisite for growth in sales and profitability over time. To ensure these essentials, the Norwegian conglomerate Orkla's branded goods operations focus on researching brands and concept solutions that meet their customers' needs. Genuine local insight provides a platform for creating customer-perceived value. Similarly, Red Bull has closely engaged students. The 'Marketing in action' box profiles HSBC's intent to be seen as 'the world's local bank'.

The risks associated with localised marketing include:

- a tendency to drive up manufacturing costs and so reduce economies of scale;
- a tendency to create logistical problems;
- a possibility that the overall image of the brand may be put at risk.

Those who advocate localised marketing see national advertising as wasteful because it is too remote and fails to address local needs. Those against local marketing argue that it drives up manufacturing and marketing costs by reducing economies of scale and magnifying logistical problems. A brand's overall image might be diluted if its market offering and message are different in different localities. The advantages focus on firms' abilities to respond to local requirements more effectively than would otherwise be the case. Overall, this advantage generally outweighs the disadvantages experienced in contemporary buyers' markets.

Marketing in action

HSBC

HSBC wants to be known as 'the world's local bank'. This tagline reflects HSBC's positioning as a globe-spanning financial institution with unique focus on serving local markets. Originally the Hong Kong and Shanghai Banking Corporation Limited, HSBC was established in 1865 to finance the growing trade between China and the United Kingdom. It is now the second-largest bank in the world. Despite serving over 100 million customers through 9,500 branches in 79 countries, the bank works hard to maintain a local presence and local knowledge in each area. Its fundamental operating strategy is to remain close to its customers. As HSBC chairman Sir John Bond said, 'Our position as the world's local bank enables us to approach each country uniquely, blending local knowledge with a worldwide operating platform.' The bank's advertisements in its 'world's local bank' campaign depicted the way different cultures interpret the same objects or events.

The bank pulls its worldwide businesses together under a single global brand with the 'world's local bank' slogan. The aim is to link its international size with close relationships in each of the countries in which it operates. HSBC spends $600 million annually on global marketing, which it consolidated in 2004 under the WPP group of agencies. Going forward, it will be seeking to leverage its position as 'the world's local bank' to improve on its $10.5 billion brand value, which placed it 47th in the 2017 Interbrand Best Global Brands rankings.

Sources: D. Orr (2004) New ledger, *Forbes*, 1 March, 72–73; HSBC's global marketing head explains review decision, *Adweek*, 19 January; (2003) Now your customers can afford to take Fido to the vet, *Bank Marketing*, December, 47; K. Hein (2003) HSBC bank rides the coattails of chatty cabbies, *Brandweek*, 1 December, 30; Sir J. Bond and S. Green (2003) HSBC strategic overview, presentation to investors, 27 November; Lafferty Retail Banking Awards 2003, *Retail Banker International*, 27 November, 4–5; (2003) Ideas that work, *Bank Marketing*, November, 10; (2003) HSBC enters the global branding big league, *Bank Marketing International*, August, 1–2; N. Madden (2003) HSBC rolls out post-SARS effort, *Advertising Age*, 16 June, 12; K. Nicholson (2005) HSBC aims to appear global yet approachable, *Campaign*, 2 December, 15; C. Mollenkamp (2006) HSBC stumbles in bid to become global deal maker, *Wall Street Journal*, 5 October, A1, A12; www.hsbc.com; www.rankingthebrands.com/The-Brand-Rankings.aspx?rankingID=37&year=697.

Individual marketing

The ultimate level of segmentation results in 'segments of one', 'customised marketing' or 'one-to-one marketing' offered, for example, by advertising agencies, Amazon and interior designers. Today, customers are taking a more individual initiative in determining what and how to buy. They log on to the internet, look up information and evaluations of market offers, conduct dialogues with suppliers, users and purchase critics and, in many cases, design the market offering themselves.

Wind and Rangaswamy see a movement towards 'customerising' the firm.[7] Mass customisation introduces a *new paradigm* whereby companies seek to fragment the market through economies of scope.[8] Customers become integral to the market offering and design processes, with more sophisticated customers undertaking simulations to answer 'what-if' questions. Market offerings are assembled from valued components or attributes to develop unique customer-perceived value to meet individual needs.

Mass customisation, like one-to-one marketing, requires new organisational thinking. Every customer interaction provides an opportunity to learn more about the customer's needs and to adapt existing company offerings to meet changing circumstances. True customer service leads to strong relationships and an enhanced lifetime value experience for customers. Every employee becomes a marketer, as the whole firm networks to provide the right combination of customer-perceived value attributes.

Customerisation combines operationally driven mass customisation with customised marketing in a way that empowers consumers to design the customer-perceived value offering of their choice. The firm no longer requires prior information about the customer, nor does the firm need to own manufacturing. The firm provides a platform and tools and 'rents' out to customers the means to design their own market offerings. A company is customerised when it is able to respond to individuals by customising its market offerings and messages on a one-to-one basis. In the United Kingdom, Towels R Us offers customised towels, roller towels and dressing gowns. Customers can choose from a large range of logos and can add their own messages. Adidas provides a customisation service for its shoes and sportswear.

Customerisation is particularly important in business-to-business markets. FAG Kugelfischer Georg Schäfer is one of the largest manufacturers of bearings used in cars, railway carriages, airplanes and industrial machinery. The company believes that customising bearings to suit individual tastes provides considerable untapped potential and is a key determinant of future earnings growth.[9]

However, customerisation is not for every company. It may be very difficult to implement for some complex purchases but is now breaking through into the car market. Henry Ford launched mass production over one hundred years ago with his revolutionary assembly line for the Model-T car. It proved a brilliant system – at least for as long as there were customers to drive Ford's cars away. It lost some of its shine when customers became harder to attract. Now a new dream is at hand: to turn mass production on its head with the help of flexible systems and internet ordering. Fiat has identified a strong trend in Europe towards customerisation and offers several ways for customers to personalise the latest version of its 500 model. The goal is to deliver precisely the car that a customer wants.

Customerisation can also raise the cost of purchases by more than the customer is willing to pay. In spite of this, customerisation has worked well for some market offerings. Mass customerisation harnesses these new technologies to bring customised and personalised market offerings to customers at a mass production price. One-to-one marketing[10]seeks to develop long-term relationships with individual customers to tailor responses to their needs.[11]

Bases for segmenting consumer markets

Two broad groups of variables are used to segment consumer markets. Some researchers seek to define segments by looking at descriptive characteristics: geographic, demographic and psychographic. Then they examine whether these customer segments exhibit different needs or company responses. For example, they might study the differing attitudes of 'professionals', 'blue-collar workers' and other groups towards, say, 'safety' as a customer-perceived benefit when considering the purchase of a new car.

Other researchers try to define segments by looking at behavioural considerations, such as customer responses to benefits, use occasions or brands. The researcher then sees whether different characteristics are associated with each consumer-response segment. For example, do people who want 'quality' rather than 'low price' in a clothes purchase differ in their geographic, demographic and psychographic characteristics?

Regardless of which type of segmentation scheme is used, the key is adjusting the marketing programme to recognise customer differences. The major segmentation variables for Europe – geographic, demographic, psychographic and behavioural segmentation – are summarised in Table 10.1.

Geographic segmentation

Geographic segmentation calls for dividing the market into different geographical units, such as nations, states, regions, counties, cities or neighbourhoods. The company can operate in one or a few areas, or operate in all but pay attention to local variations. White goods manufacturers have to cater for variations in demand across European frontiers. Top-loading washing machines are needed for the French market, front loading for the UK market, slow spin speeds for the Italian market (as they have plenty of sunshine) and ecologically efficient machines for northern European markets. Geographic segmentation can also be used to assist marketers to study 'service' markets. In order to understand the different requirements of European visitors to the tourist attractions on the Danish island of Funen, tourists were segmented by nationality.

Regional marketing means marketing right down to a specific postcode. Many companies use mapping software to show the geographic locations of their customers. It is important to note that for both global and local markets, differences in regional, rural and urban characteristics are highly significant. Some approaches combine geographic and demographic data to yield even richer descriptions of customers and neighbourhoods. This has become known as *geodemographic segmentation* – 'the analysis of people by where they live'.[12] A number of specialist companies offer a variety of **geodemographic** databases. Table 10.2 presents some of the leading companies and classification systems that can be accessed in the United Kingdom.

An example of Experian's Mosaic profile is given in Table 10.3.

Table 10.1 Major segmentation variables for consumer markets

Geographic	
Eastern Europe	
Northern Europe	
Southern Europe	
City or metro size	100,000–250,000; 250,000–500,000; 500,000–1,000,000; 1,000,000–4,000,000; over 4,000,000
Location	Urban, suburban, rural
Demographic	
Age	Under 5, 5–10, 11–19, 20–34, 35–49, 50–64, over 65
Family unit size	1–2, 3–4, 5 and over
Family life cycle	Young, single; young, married, no children; young, married, youngest child under 5; young, married, youngest child 6 or over; older, married, with children; older, married, no children under 18; older, single; other
Gender	Male, female
Income	Under €10,000; €10,000–20,000; €21,000–29,000; €30,000–39,000; €40,000–49,000; €50,000–59,000; €60,000–69,000; €70,000–79,000; €80,000–89,000; €90,000–99,000; over €100,000
Occupation	Professional and technical; managers, officials and proprietors; clerical sales; craftspeople; operatives; supervisors; retired; students; homemakers; farmers; unemployed
Education	Primary, secondary, college, university
Religion	Catholic, Protestant, Jewish, Muslim, Hindu, other
Race	White, Black, Asian, Arab
Generation	Baby boomers, Generation Xers
Nationality	E.g. Danish, German, Italian
Social class	Lower, middle, upper middle, aristocrat
Psychographic lifestyle	Culture orientated, outdoor orientated, sports orientated
Personality	Introverted, extroverted
Behavioural	
Benefits sought	Quality, service, economy, speed, value
User status	Non-user, ex-user, potential user, first-time user, regular user
Usage rate	Light, medium, heavy
Loyalty status	None, medium, strong, absolute
Readiness stage	Unaware, aware, informed, interested, desirous, intending to buy
Attitude to market offer	Enthusiastic, positive, indifferent, negative, hostile

Table 10.2 Leading Geodemographic sources in the UK

Source agency/company	**Classification**	**Approach**
Beacon Dodsworth	Prospex	Lifestyle data mapping
CACI	Acorn, Acorn Family	Lifestyle data analysis
Claritas	Mosiac, Prizm	Lifestyle data analysis
ONS/University of Leeds	SAPAC	Census data analysis
Output Area Classification	OAC	Census data analysis
Tesco	Crucible	Store, local data

Note: The Market Research Society's demographics group maintains a database of leading sources in the UK and overseas.

Source: M. R V. Goodman of AJM Management Development in March 2019.

Table 10.3 MOSAIC Group H: stylish singles

Nearly 1.3 million households, representing 5.5 per cent of all UK households:

- 2.8 million people in this group
- students and young professionals
- first-time openers of savings and mortgage accounts
- frequent visitors to the cinema, concerts and exhibitions
- like weekend breaks to European capital cities
- prefer the *Guardian*, *Independent* and *Observer* newspapers
- television viewing is light: current affairs and late films preferred
- shop for food at convenience stores late in the day
- convenience more important than price
- prefer the city to the outer suburbs
- enjoy living in diverse, cosmopolitan, multicultural environment
- big spenders on mobile phones, music, sports equipment, audio and computer equipment

Source: F. Brassington and S. Petit (2003) *After Principles of Marketing*, 3rd edn, Harlow, UK: Pearson Education., © Pearson Education Ltd.

All of these databases have numerous sub-segment variations, but they should be used with caution. There are many uncertainties, such as the reliability and validity of the data and its freshness – CACI makes a selling point out of its claim to update its databases every two years. While this is to be welcomed, these relational databases should be continually updated throughout the year.

Geodemographic services are now available in a variety of microsegments for smaller firms because, as database costs decline, tablets and smartphones proliferate, software becomes easier to use and data integration increases.[13]

Demographic segmentation

The key demographic group segments are listed in Table 10.4.

In demographic segmentation, the market is divided into groups on the basis of variables such as age, family size, family life cycle, gender, income, occupation, education, religion, race, generation, nationality and social class. One reason why demographic variables are so popular with marketers is that they are often associated with customer needs and wants. Another is that they are easy to measure. Even when the target market is described in non-demographic terms (say, by personality type) it may be necessary to link back to demographic characteristics in order to estimate the size of the market and the media necessary to reach it efficiently.

Here is how certain demographic variables have been used to segment markets.

Age and life cycle stage

Consumer wants and abilities change with age. Toothpaste brands such as Crest and Colgate offer three main toothpaste lines to target children, adults and older consumers. McDonald's segments by age, and targets advertisements to different segments: the Ronald McDonald advertisements are directed at children; advertisements for a quick breakfast before work are aimed at adults.

Table 10.4 Key demographic segments

Segment	Example
Age and life cycle change	Saga Group
Life stage	Scottish Widows
Gender	Procter & Gamble cosmetics
Income	Rolex, Rolls-Royce, Walmart
The new consumer	Apple, smartphone firms
Generation	Co-operative firms
Social class	Prestigious universities, e.g. Oxford and Cambridge

Age segmentation can be even more refined. Pampers divides its market into pre-natal, new baby (0–5 months), baby (6–12 months), toddler (13–23 months) and pre-school (24 months plus). LEGO divides its market into Duplo (pre-school), Lego (early mid-school age) and Legotechnic (mid-school to senior school). The Saga brand is designed to appeal to the over-50s.

Marketing in action

Gathering geodemographic data

Prizm (trade name for a geodemographic index marketed by Claritas Europe) is an example of pan-European lifestyle segmentation. This and other similar tools such as Acorn (trade name for A Classification of Residential Neighbourhoods) and Mosaic (trade name for a geodemographic system that is popular in the UK and owned by the US-based Experian Group, a global services information company) function by assuming that residents of each postal unit form a distinct segment. Claritas, which markets Prizm, claims that it can be used to:

- assess market potential or demand for a given area;
- develop customer loyalty and value by identifying the most attractive customers;
- reveal emerging niche markets;
- identify and target customers most likely to defect in order to reduce customer turnover (churn).

Source: Based on F. Brassington and S. Pettitt (2003) *Principles of Marketing*, Harlow: Prentice Hall and Claritas Europe.

Nevertheless, age and life cycle can be tricky variables. Sometimes the target market may be the psychologically young – for example, the Mini Cooper appeals to enthusiasts in several age groups.

Life stage

People in the same part of the life cycle may differ in their life stage. Life stage defines a person's major concern, such as going through a divorce, going into a second marriage, taking care of an older parent, deciding to cohabit, deciding to buy a new home and so on. These life stages present opportunities for marketers.

Memories for baby boomers and a cool car for 20-year-olds
Source: Grisha Bruev/Shutterstock.

The growing proportion of retired people in the affluent European countries has created new market segments and requirements in existing markets, such as senior travel services. The trend towards single-adult households (i.e. the unmarried, divorced, widowed or single-parent families) has stimulated the market for foodstuffs that are marketed in small portions. The trend towards more working women has stimulated the market sectors for time-saving items such as microwave ovens, internet shopping, easy-to-prepare foods and fast-food restaurants. The wedding industry attracts marketers who are keen to market to wedding guests as well as seeking to help newlyweds set up home.

Gender

Men and women have different attitudes and behave differently, based partly on genetic make-up and partly on socialisation.[14] For example, women tend to be more community minded, men tend to be more self-expressive and goal directed. Women tend to take in more of the data in their immediate environment, men tend to focus on things that will help them to achieve a goal. A research study examining how men and women shop found that men often need to be invited to touch an item, while women are likely to pick it up without prompting. Men often like to read product information; women may relate to a product on a more personal level.[15]

In many European countries, women are increasingly influencing buying decisions and exercise a considerable influence in the purchase of new homes. Gender differentiation has long been applied in clothing, hairstyling, cosmetics and magazines. Avon has built a successful business selling beauty products to women. Some products have been positioned as more masculine or feminine. Most beers are designed to attract men. Gillette's Venus is the most successful female shaving line ever, with over 70 per cent of the market, and has appropriate design, packaging and advertising cues to reinforce a female image.

However, it is not enough to present a market offering as simply masculine or feminine. Hyper-segmentation is now occurring within both male and female personal care segments. Unilever earned kudos by targeting women who may be worried about ageing skin by stressing in its Dove 'Campaign for Real Beauty' that true beauty is timeless.

Gillette's Venus shaving line, 'for women who care about their image'
Source: Sheila Fitzgerald/Shutterstock

Dove

Dove's Campaign for Real Beauty features women of all shapes, sizes and colours posing proudly in their underwear. The company claims that the advertising series, developed by Ogilvy & Mather, was not just a vehicle to sell more soap but 'aims to change the status quo and offer in its place a broader, healthier, more democratic view of beauty'. The springboard was a global study sponsored by Dove that researched women's attitudes towards themselves and beauty. Only 2 per cent of women in the study considered themselves beautiful, so not only women, but everyone, took notice when the pictures of beaming full-figured or average-looking women began appearing.

Source: (2005) Dove: 'celebrating curves', WARC Case Study, Henley-on-Thames: World Advertising Centre; E. Wong (2009) P&G, Dial, Unilever target the middle man, *Brandweek*, 50(20), 8; K. Bisseil and A. Rask (2010) Real women on real beauty: Self-discrepancy, internalisation of the thin ideal, and perceptions of attractiveness and thinness in Dove's Campaign for Real Beauty, *International Journal of Advertising*, 29(4), 643–668.

Media have emerged to make gender targeting easier. Marketers can reach women more easily in celebrity, fashion and household women's magazines and through social media. Men can be targeted by advertisements on the sporting satellite channels and through popular male magazines.

Some traditionally more male-orientated markets, such as the car industry, are beginning to recognise gender segmentation and are changing the way they design and sell cars.[16] Women shop differently than men for cars – they are more interested in environmental impact, care more about interior than exterior styling, and view safety in terms of features that help survive an accident rather than handling to avoid an accident. Men are usually more interested in 'go-fast' designs, technical specifications and performance statistics.

Income

Income segmentation is a long-standing practice in such categories as cars, clothing, cosmetics, financial services and travel. However, income does not always predict the best customers. Apparently, blue-collar workers were among the first purchasers of colour television sets as it was cheaper for them to buy these sets than to go to the cinema and theatre.

Many marketers are deliberately targeting lower-income groups, in some cases discovering fewer competitive pressures or greater consumer loyalty.[17] In the UK, Matalan and Primark offer a range of cheap clothing lines and Boundary Mill and TK Maxx offer designer labels at bargain prices.

Low price Matalan store.
Source: Tupungato/Shutterstock

Yet, at the same time, other marketers are finding success with premium-priced offers, as is the case with Pellegrino mineral water and Moët et Chandon champagne. The growing number of dual-income households commanding high levels of disposable income has boosted the sales of premium goods such as innovative and expensive Dyson multi-cyclone battery vacuum cleaners. Of particular note are the DINKYs (double income no kids yet). The growing number of dual-income households commanding high levels of disposable income has also boosted the sales of premium merchandise and exotic service offers.

Companies are increasingly finding that their markets are becoming 'hourglass shaped', as middle-market consumers migrate towards both discount and premium purchases.[18] Companies that miss out on this new market risk being 'trapped in the middle' and seeing their market share decline steadily. The 'Marketing insight' box describes the factors creating this trend and what it means to marketers.

The new consumer

New consumers defy traditional marketing identification. In reaction to a synthetic, processed and packaged world, their main drive is for an 'authentic experience' as a means for the individual to define themselves. For them, consumption is as much about services, experiences and citizenship as it is about the acquisition of goods. These new consumers are a potent economic force and increasingly companies are adapting their standard market offers to meet their requirements.

Marketing insight

Trading up (and down) – the new consumer

While the new consumer growth trends are stronger in the United States than in Europe, European countries are undergoing the same demographic changes.

A new pattern in consumer customer behaviour has emerged in recent years, according to Silverstein and Fiske, the authors of *Trading Up*. In unprecedented numbers, middle-market customers are periodically trading up to what Silverstein and Fiske call 'new luxury' products and services 'that possess higher levels of quality, taste, and aspiration than other goods in the category but are not so expensive as to be out of reach'. Customers might buy an expensive imported French wine, use a premium skin cream or stay in a luxury hotel.

As a result of the trading-up trend, new luxury goods sell at higher volumes than traditional luxury goods, while being priced higher than conventional mid-market items. The authors identify three main types of new luxury product:

1. **Accessible super-premium products,** such as designer-label clothes. Kettle gourmet potato crisps carry a significant premium over middle-market brands, yet consumers can readily trade up to them because they are a relatively low-price item in an affordable category.
2. **Old luxury brand extensions,** which extend historically high-priced brands down market while retaining their cachet, such as the Mercedes-Benz C-Class and Kenwood audio equipment.
3. **Prestige goods,** such as fine wines, which are priced between average middle-market brands and super-premium old luxury brands. They are 'always based on emotions, and consumers have a much stronger emotional engagement with them than with other goods'.

The authors note that in order to trade up on the brands that offer these emotional benefits, customers often 'trade down' by shopping at discount stores such as Aldi and Lidl (for staple food items) and at TK Maxx (for goods that confer no emotional benefit but still deliver quality and functionality).

Sources: M. J. Silverstein and N. Fiske (2003) *Trading Up: The New American Luxury*, New York: Portfolio; M. J. Silverstein (2006) *Treasure Hunt: Inside the Mind of the New Consumer*, New York: Portfolio; J. Cioletti (2006) Moving on up, *Beverage World*, June, 20; W. Smith (2012) Consumer behavior: From trading up to trading off, *Branding Strategy Insider*, 29 January, www.brandingstrategyinsider.com/2012/01/from-trading-up-to-trading-off.html#.U3oeIl6FlZ8; M. Ritson (2008) In with the old luxury, out with the new, *Campaign*, 29 January, www.brandrepublic.com/opinion/780294/Mark-Ritson-branding-old-luxury-new/?DCMP=ILC-Search.

Generation

Each generation is influenced by the age in which it is reared – the music, films, politics and defining events of that period. Demographers call these generational groups **cohorts**. Members share the same major cultural, political and economic experiences and have similar outlooks and values. Marketers often advertise to a cohort by using the icons and images prominent in its experiences. Citroën has used Transformer images in its advertising to attract male customers in the United

Kingdom who have nostalgic memories of the popular Transformer toys of their childhood. The 'Marketing insight' box provides insight into the present key age cohorts.

Although distinctions can be made between the different generational cohorts, they also influence each other. The same products that appeal to 21-year-olds are appealing to youth-obsessed baby boomers. Here are two examples of the rejuvenilisation phenomenon:

1. Adult gadgets, such as mobile phones, cars and even houseware, have been transformed from purely utilitarian to toy-like. Vacuum cleaners come in different primary colours, cars in lemon yellow – Mini Coopers look as if they have been designed for the toddler set.
2. Half the adults who visit Disney World every day do so without children. Disney enthusiasts return to the Magic Kingdom to recapture the safety and serenity of childhood.[19]

Marketing insight

Marketing cohorts

Marketers have classified potential consumers in the following generation cohorts:

Cohort	Birth date
Silent	1928–1945
Boomers	1946–1964
Generation X	1965–1980
Millennials	1981–1996
Generation Z	post-1996

The influences that shaped the cohorts are incredibly important to marketers because they will shape consumer and business markets for years to come. Born between 1965 and 1996, the Generation Xers and Millennials will outnumber the post-Second World War baby boomers. They will command an awesome annual spending power and will probably live (barring any unforeseen catastrophe) well into their eighties and nineties.

Exercise

Search 'marketing to Generation X and Millennial cohorts' on the internet.

Sources: http://uk.businessinsider.com/generation-you-are-in-by-birth-year-millennial-gen-x-baby-boomer-2018-3; see also D. Pitta (2012) guest editorial, The challenges and opportunities of marketing to Millennials, *Journal of Consumer Marketing*, 29(20); C. Gurău (2012) A life-stage analysis of consumer loyalty profile: Comparing Generation X and Millennial consumers, *Journal of Consumer Marketing*, 29 (2), 103–113; M. Lipokski and I. Bondos (2018) The influence of perceived media richness of marketing channels on online channel usage: Intergenerational differences, *Baltic Journal of Management*, 13(2), p 169–190.

Marketing in action

Key trends in the social and cultural environment

Grey market

Marketers keep a close eye on the key trends in the social and cultural environment in the countries in which they do business. The changing environment causes a continuous change in social attitudes and perceived values. Improving living standards has a significant effect on the ways in which customers spend their disposable income.

In the developed West, the so-called **grey market** of the over-60s makes up over 20 per cent of the population and this figure is expected to rise to around 30 per cent by 2050. The segment constitutes an attractive target market for several perceived-value offerings. Increasingly, it will become a significant target for marketing communications activities.

Youth market

As Generation X, the *status quo* weary and cynical youth, gives way to Generation Y, the European youth market will change as they start to experience relatively declining levels of disposable income in the opening decades of the twenty-first century. This is because most of the developed European economies will experience relatively lower growth levels. The rebellious attitudes of Generation X will mutate with the changing fortunes of this market. While fad and fashion will always be attractive to this segment, declining levels of purchasing power will impact on the offerings of the leading clothing companies such as Monsoon, Next and

Hugo Boss, whose businesses will become increasingly price dependent.

Ethnic market

Following the rapid expansion of the European Union (which has been a marked feature since 2000), coupled with an increased tendency for ethnic migration, the developed West will be characterised by rising multi-ethnic societies. As the different cultures have distinct value sets, marketers will develop a strong interest in ethnic marketing programmes. In the United Kingdom, the Halifax Building Society's 'Harvey' character has pioneered the regular use of ethnic actors in TV advertising.

Social class

Social class can be classified using macro-criteria such as profession, education, family income and property value. In Europe, the ESOMAR association (an organisation for encouraging, advancing and elevating market research worldwide), in an attempt to standardise many different national classifications, has developed a model that is based on property, occupation, education and the principal earning power of the main contributor to the household income. Each social class tends to share a mix of common values that has a strong influence on purchasing decisions. Many companies target social class segments and design cars, clothing, home furnishings, leisure activities and so on to suit their preferences. The tastes of these social classes change over time.

Psychographic segmentation

Psychographics is the science of using psychology and demographics to better understand consumer markets. In *psychographic segmentation*, buyers are divided into different groups on the basis of psychological/personality traits, lifestyle or values. People within the same demographic group can exhibit different psychographic profiles and therefore display different lifestyles. Psychographic profiles are typically developed with reference to three variables, known as the **AIO factors**, which describe individual lifestyles:

1. activities;
2. interests;
3. opinions.

Using these factors as a base, a marketer can determine how a particular group of customers will respond to the launch of a new product. This form of segmentation should not be confused with demographic segmentation, as demographic segmentation primarily takes into consideration the age and the gender of the targeted customer group. Figure 10.3 illustrates the synthesising of demographic and psychological factors that guide marketers in customising market offerings to targeted consumers.

Lifestyle studies enhance basic socio-demographic descriptions and aid understanding of customer-perceived value preferences. The main psychographic profiles are general lifestyle studies and product-specific studies. The former classifies the total population into groups according to common characteristics such as 'receptivity to innovation', 'family centred', 'ecologically aware', etc. The latter specifies the importance of such characteristics in consumer purchasing decisions. The French International Research Institute on Social Change has identified ten social–cultural variables that greatly influence the development of European society (see Table 10.5).

Another European typology has been developed by Sinus GmbH and identifies five social classes and value perspectives, as shown in Table 10.6.

One of the most popular commercially available classification systems based on psychographic measurements is the Stanford Research Institute's Consulting Business Intelligence's (SBI) VALS framework. VALS, signifying values and lifestyles, classifies US adults into eight primary groups based on responses to a questionnaire featuring four demographic and 35 attitudinal questions. The VALS system is continually updated with new data from more than 80,000 surveys per year.[20]

Table 10.5 The factors shaping social change and lifestyles

Factors	Influences
1 Environment	climatic and physical
2 Demographic	age, sex
3 Economic	income
4 Cultural	diversity
5 Political/legal	level of social regulation, religious beliefs
6 Socio-cultural	expected cultural group values, fashion
7 Ethics	social tolerance of others
8 Individuality	desire to express individuality
9 Technology	impact on life's necessities and luxuries
10 Ecological	desire to limit damage to the natural environment

Note: The mix and interaction of these factors determines individual perceived value and provides the key data for public and private organisations to customise their responses.

Source: M. R V. Goodman of AJM Management Development in March 2019.

Table 10.6 SINUS typology

1	*Basic orientation*: traditional – to preserve.
2	*Basic orientation*: materialist – to have.
3	*Changing values*: hedonism – to indulge.
4	*Changing values*: post-materialism – to be.
5	*Changing values*: postmodernism – to have, to be and to indulge.

The main dimensions of the VALS segmentation framework are customer motivation (the horizontal dimension) and customer resources (the vertical dimension). Customers are inspired by one of three primary motivations: ideals, achievement and self-expression. Those primarily motivated by ideals are guided by knowledge and principles. Those motivated by achievement look for purchases that demonstrate success to their peers. Customers whose motivation is self-expression desire social or physical activity, variety and risk. Personality traits such as energy, self-confidence, intellectualism, novelty seeking, innovativeness, impulsiveness, leadership and vanity – in conjunction with key demographics – determine an individual's resources. Different levels of resources enhance or constrain a person's expression of primary motivation.

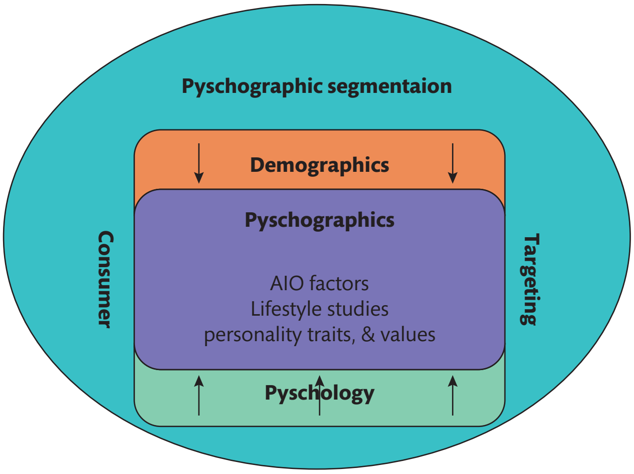


Figure 10.3 Psychographic segmentation and consumer targeting
Source: M. R. V.Goodman, AJM Managing Development.

The four groups with higher resources are:

1 **Innovators:** successful, sophisticated, active, 'take-charge' people with high self-esteem. Purchases often reflect cultivated tastes for relatively upscale, niche-oriented products and services.
2 **Thinkers:** mature, satisfied and reflective people who are motivated by ideals and who value order, knowledge and responsibility. They seek durability, functionality and value in products.
3 **Achievers:** successful goal-orientated people who focus on career and family. They greatly value products that demonstrate success to their peers.
4 **Experiencers:** young, enthusiastic, impulsive people who seek variety and excitement. They spend a comparatively high proportion of income on fashion, entertainment and socialising.

The four groups with lower resources are:

1 **Believers:** conservative, conventional and traditional people with concrete beliefs. They prefer familiar, domestic products and are loyal to established brands.
2 **Strivers:** trendy and fun-loving people who are resource constrained. They like stylish products that emulate the purchases of those with greater material wealth.
3 **Makers:** practical, down-to-earth, self-sufficient people who like to work with their hands. They seek domestic products with a practical or functional purpose.
4 **Survivors:** elderly, passive people who are concerned about change. They are loyal to their favourite brands.

Psychographic segmentation schemes are often customised by culture. The Japanese version of VALS, Japan VALS, divides society into ten consumer segments on the basis of two key concepts: life orientation (traditional ways, occupations, innovation and self-expression) and attitudes to social change (sustaining, pragmatic, adapting and innovating).

Marketers can apply their understanding of psychographic profiles to marketing planning. For example, Martini advertising has been targeted at individuals on the basis of what lifestyle they would like to have. It appeals to 'aspirational lifestyle segments'. While psychographic profiles can greatly assist marketers, they do suffer from a number of drawbacks. They are expensive to maintain, update and develop, and they can obscure the relationship between segment characteristics and brand performance.[21]

Behavioural segmentation

In behavioural segmentation, marketers place buyers into groups on the basis of their knowledge of, attitude towards, use of or response to a product/service or market offering package.

Decision roles

In Europe, men normally choose their shaving equipment and women choose their tights, but even here marketers must be careful in making their targeting decisions because buying roles change. For example, in the UK, Marks & Spencer found that it was women who usually purchased underpants for their men folk.[22] When Dulux discovered that women made 60 per cent of decisions on the brand of household paint, it decided to advertise to women.[23]

People play five roles in a buying decision: initiator, influencer, decider, buyer and user. For example, assume that a wife initiates a purchase by requesting a modern coffee maker for her birthday. The husband may then seek information from many sources, including his best friend who has a Nespresso and is a key influencer in what models to consider. After presenting the alternatives to his wife, he then purchases her preferred model which, as it turns out, is a Nespresso that ends up being used by the entire family. Different people are playing different roles, but all are crucial in the buying decision process and ultimate consumer satisfaction.

Behavioural variables

Many marketers believe behavioural variables – occasions, benefits, user status, usage rate, buyer-readiness stage, loyalty status and attitude – are the best starting points for constructing market segments.

Occasions

Occasions can be defined in terms of the time of day, week, month or year, or in terms of other well-defined temporal aspects of a consumer's life. Buyers can be distinguished according to the occasions when they develop a need, make a purchase or use a market offering (product/service) package. For example, cereals have traditionally been marketed as a breakfast-related food item. Kellogg's has always encouraged consumers to eat breakfast cereal on the 'occasion' of getting up. Recently, however, it has tried to extend the consumption of cereals by promoting them as an ideal 'any time' snack food, while Nestlé markets cereals as a health food.

Marketers can also extend activities associated with certain holidays to other times of the year. While Christmas, Mother's Day and Valentine's Day are the major gift-giving holidays, these and other events account for just over half of givers' budgets. That leaves the rest available throughout the year for occasions such as birthdays, weddings, anniversaries, house warming and the arrival of babies.

Benefits

Not everyone who buys a product/service market offering wants the same benefits from it. This is recognised by the high-street commercial banks, which target their finance packages on the one hand to people who want a high return in the short term and on the other hand to those investors who are looking for an attractive return on their money over the longer term. Research in the toothpaste market has found four main '**benefit segments**' – economic, medicinal, cosmetic and taste.

User status

Every purchase has its non-users, ex-users, potential users, first-time users and regular users. Blood banks cannot rely only on regular donors to supply blood; they must also recruit first-time donors and contact former donors, with a different marketing strategy for each. The key to attracting potential users, or even possibly non-users, is understanding the reasons why they are not buying. Do they have deeply held attitudes, beliefs or behaviours, or do they simply lack knowledge of the product/service offer and its brand attributes, benefits and usage?

Included in the potential-user group are consumers who will become users in connection with some life stage or life event. Mothers-to-be are potential users who will turn into heavy users. Producers of child merchandise, such as Danone's Cow & Gate, push forward their brand names by maintaining close relationships with clinics and doctors, showering potential users with free samples and targeting them with advertisements to capture a share of their future purchases. Market-share leaders tend to focus on attracting potential users because they have the most to gain. Smaller firms focus on trying to attract current users away from the market leader.

Usage rate

Markets can be segmented into light, medium and heavy users. Heavy users are often a small percentage of the market but account for a high percentage of total consumption. For example, heavy beer drinkers account for 87 per cent of the beer consumed – almost seven times as much as light drinkers.[24] Marketers would rather attract one heavy user than several light users. A potential problem, however, is that heavy users are often either extremely loyal to one brand or never loyal to any brand and always looking for the lowest price. They may also have less room to expand their purchase and consumption.

Buyer-readiness stage

Some people are unaware of a market offering, some are aware, some are informed, some are interested, some desire it and some intend to buy. To help characterise how many people are at different stages and how well they have converted people from one stage to another, some marketers employ a marketing funnel. Figure 10.4 displays a funnel for two hypothetical brands, A and B. Brand A performs poorly compared with Brand B at converting one-time triers to more recent triers.

The relative numbers of customers at different stages make a big difference in designing the marketing programme. Suppose a health agency wants to encourage women to have an annual

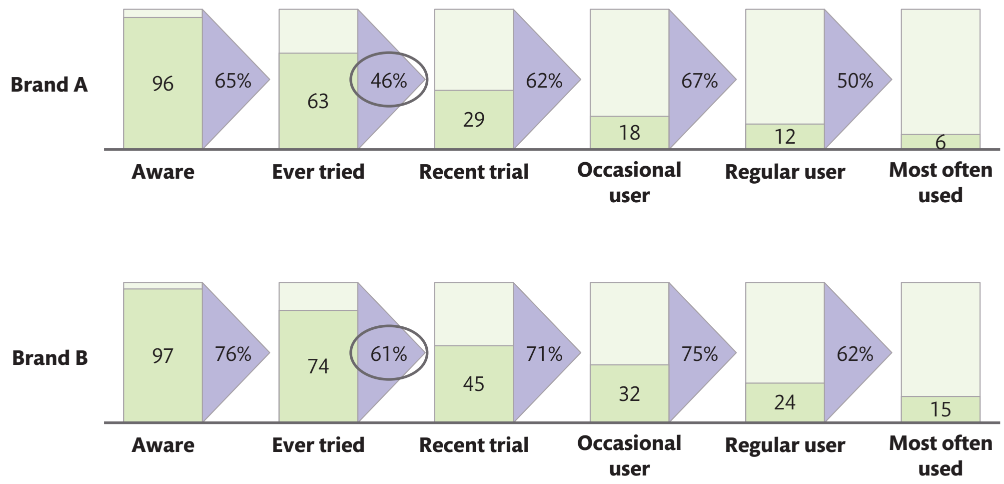


Figure 10.4 Brand funnel

cervical smear to detect possible cervical cancer. At the beginning, most women may be unaware of the smear test. The marketing effort should go into awareness-building advertising using a simple message. Later, the advertising should dramatise the benefits of the test and the risks of not taking it.

Loyalty status

Marketers usually envision four groups based on brand loyalty status:

1 **Hard-core loyals:** consumers who buy only one brand all the time.
2 **Split loyals:** consumers who are loyal to two or three brands at a time.
3 **Shifting loyals:** consumers who shift loyalty from one brand to another.
4 **Switchers**: consumers who show no loyalty to any brand.[25]

A company can learn a great deal by analysing the degrees of brand loyalty. Hard-core loyals can help identify the products' strengths, split loyals can show the firm which brands are most competitive with its own, and by looking at customers who are shifting away from its brand, the company can learn about its marketing weaknesses and attempt to correct them. One note of caution: what appear to be brand-loyal purchase patterns may reflect habit, indifference, a low price, a high switching cost or the unavailability of other brands.

Attitude

Five attitudes about product purchase are enthusiastic, positive, indifferent, negative and hostile. Door-to-door workers in a political campaign use voter attitude to determine how much time to spend with that voter. They thank enthusiastic voters and remind them to vote; they reinforce those who are positively disposed; they try to win the votes of indifferent voters; and they spend no time trying to change the attitudes of negative and hostile voters.

Combining different behavioural bases can help to provide a more comprehensive and cohesive view of a market and its segments. Figure 10.5 depicts one possible way to break down a target market by various behavioural segmentation bases.

The Conversion Model

The Conversion Model measures the strength of customers' psychological commitment to brands and their openness to change. To determine how easily a customer can be converted to another choice, the model assesses commitment based on factors such as customer attitudes towards, and satisfaction with, current brand choices in a category, and the importance of the decision to select a brand in the category.[26]

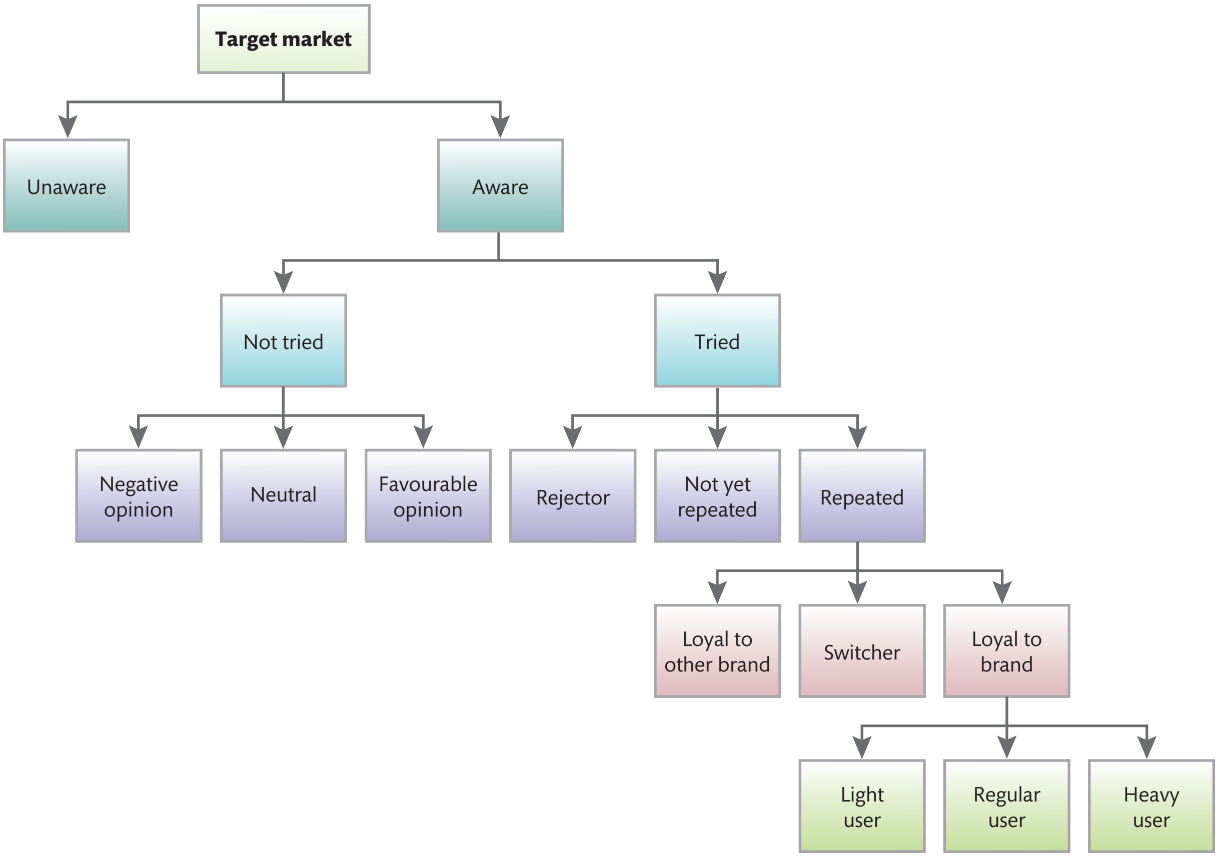


Figure 10.5 Behavioural segmentation breakdown

The model segments *users* of a brand into four groups based on strength of commitment, from low to high, as follows:

1 **Convertible:** most likely to defect.
2 **Shallow:** uncommitted to the brand and could switch – some are actively considering alternatives.
3 **Average:** committed to the brand they are using, but not as strongly – they are unlikely to switch brands in the short term.
4 **Entrenched:** strongly committed to the brand they are currently using – they are highly unlikely to switch brands in the foreseeable future.

The model also classifies *non-users* of a brand into four other groups based on their 'balance of disposition' and openness to trying the brand, from low to high, as follows:

1 **Strongly unavailable:** unlikely to switch to the brand – their preference lies strongly with their current brands.
2 **Weakly unavailable:** not available to the brand because their preference lies with their current brand, although not strongly.
3 **Ambivalent:** as attracted to the brand as they are to their current brands.
4 **Available:** most likely to be acquired in the short run.

In an application of the Conversion Model, TSB (a UK high-street bank) discovered that the profitability of its 'least committed' clients had fallen by 14 per cent in a 12-month period, whereas for the 'most committed' it had increased by 9 per cent. The 'committed' clients were 20 per cent more likely to increase the number of products they held during the 12-month period. As a result, the bank took action to attract and retain high-value committed customers, which resulted in increased profitability.

Finally, a related method of behavioural segmentation has recently been proposed that looks more at the expectations a customer brings to a particular kind of transaction and locates those expectations on a 'gravity of decision spectrum'. At the shallow end of the spectrum, consumers seek products and service market offerings that they think will save them time, effort and money, such as toiletries and snacks. Segmentation for these items would tend to measure customers' price sensitivity, habits and impulsiveness. At the other end of the spectrum, the deep end, are those decisions in which customers' emotional investment is greatest and their core values most engaged, such as deciding on a healthcare facility for an ageing relative or buying a new home. Here the marketer would seek to determine the core values and beliefs related to the buying decision. As the model suggests, focusing on customers' relationships and involvement with products and offerings can often reveal where and how the firm should market to customers.[27]

Bases for segmenting business markets

Business-to-business markets can be segmented with the same variables that are used in consumer markets, such as geography, benefits sought and usage rate. As it is common to find a one-to-one relationship between buyer and seller, segmentations are closely fashioned to the needs of individual organisations. Table 10.7 shows one set of variables that can be applied to segment the

Table 10.7 Major segmentation variables for business markets

Demographic
1 *Industry:* Which industries should we serve?
2 *Company size:* What size companies should we serve?
3 *Location:* What geographical areas should we serve?
Operating variables
4 *Technology:* What customer technologies should we focus on?
5 *User or non-user status:* Should we serve heavy users, medium users, light users or non-users?
6 *Customer capabilities:* Should we serve customers needing many or few services?
Purchasing approaches
7 *Purchasing-function organisation:* Should we serve companies with highly centralised or decentralised purchasing organisation?
8 *Power structure:* Should we serve companies that are engineering dominated, financially dominated and so on?
9 *Nature of existing relationship:* Should we serve companies with which we have strong relationships or simply go after the most desirable companies?
10 *General purchasing policies:* Should we serve companies that prefer leasing? Service contract? Systems purchases? Sealed bidding?
11 *Purchasing criteria:* Should we serve companies that are seeking quality? Service? Price?
Situational factors
12 *Urgency:* Should we serve companies that need quick and sudden delivery or service?
13 *Specific application:* Should we focus on a certain application of our product rather than all applications?
14 *Size of order:* Should we focus on large or small orders?
Personal characteristics
15 *Buyer–seller similarity:* Should we serve companies whose people and values are similar to ours?
16 *Attitude towards risk:* Should we serve risk-taking or risk-avoiding customers?
17 *Loyalty:* Should we serve companies that show high loyalty to their suppliers?

Source: Adapted from T. V. Bonoma and B. P. Shapiro (1983) *Segmenting the Industrial Market*, Lexington, MA: Lexington Books.

business market. The demographic variables are the most important, followed by the operating variables – down to the personal characteristics of the buyer.

The table lists major questions that business marketers should ask in determining which segments and customers to serve. A tyre company, for instance, can sell to manufacturers of cars, trucks, farm tractors, forklift trucks or aircraft. Within a selected target industry, a company can further segment by company size.

Within a given target industry and customer size, a company can segment further by purchase criteria. For example, government laboratories need low prices and service contracts for scientific equipment; university laboratories need equipment that requires little service; industrial laboratories need equipment that is highly reliable and accurate.

Business marketers generally identify segments through a sequential process. Consider an aluminium company. The company first undertook macro-segmentation. It looked at which end-use market to serve: automobile, residential or beverage containers. It chose the residential market and it needed to determine the most attractive product application: semi-finished material, building components or aluminium mobile homes. Deciding to focus on building components, it considered the best customer size and chose large customers. The second stage consisted of micro-segmentation. The company distinguished among customers buying on price, service or quality. Because the aluminium company had a high-service profile, it decided to concentrate on the service-motivated segment of the market.

Market targeting

There are many statistical techniques for developing market segments and targeting. Talent hits a target no one else can hit; genius hits a target no one else can see.[28] Once the firm has identified its market-segment opportunities, it must decide how many and which ones to target. Marketers are increasingly combining several variables in an effort to identify smaller, better-defined target groups. Thus a bank may not only identify a group of wealthy retired adults, but within that group distinguish several segments depending on current income, assets, savings and risk preferences. This has led some market researchers to advocate a *needs-based market segmentation approach*, such as the seven-step approach shown in Table 10.8.

Table 10.8 Steps in the needs-based market segmentation process

	Description
1 Needs-based segmentation	Group customers into segments based on similar needs and benefits sought by customer in solving a particular consumption problem.
2 Segment identification	For each needs-based segment, determine which demographics, lifestyles and usage behaviours make the segment distinct and identifiable (actionable).
3 Segment attractiveness	Using predetermined segment attractiveness criteria (such as market growth, competitive intensity and market access), determine the overall attractiveness of each segment.
4 Segment profitability	Determine segment profitability.
5 Segment positioning	For each segment, create a 'value proposition' and product-price positioning strategy based on that segment's unique customer needs and characteristics.
6 Segment 'acid test'	Create a 'segment storyboard' to test the attractiveness of each segment's positioning strategy.
7 Marketing-mix strategy	Expand segment positioning strategy to include all aspects of the marketing mix: product, price, promotion and place.

Source: Adapted from R. J. Best (2005) *Market-Based Management*, 4th edn, Upper Saddle River, NJ: Prentice Hall.

Effective segmentation criteria

Not all segmentation schemes are useful. For example, table salt buyers could be divided into blonde and brunette customers, but hair colour is undoubtedly irrelevant to the purchase of salt. Furthermore, if all salt buyers buy the same amount of salt each month, believe all salt is the same and would pay only one price for salt, this market would be minimally segmentable from a marketing point of view.

To be useful, market segments must be capable of assessment on five key criteria:

1. **Measurable:** that the size, purchasing power and characteristics of the segments can be measured.
2. **Substantial:** that the segments are large and profitable enough to serve. A segment should be the largest possible homogeneous group worth pursuing with a tailored marketing programme. It would not pay, for example, for an automobile manufacturer to develop cars for people who are less than four feet tall.
3. **Accessible:** that the segments can be effectively reached and served.
4. **Differentiable:** that the segments are conceptually distinguishable and respond differently to different marketing-mix elements and programmes. If married and unmarried women respond similarly to a perfume sale, for this purpose they would not constitute separate segments.
5. **Actionable:** that effective programmes can be formulated for attracting and serving the segments.

Evaluating and selecting market segments

In evaluating different market segments, the firms must look at two factors: the segment's overall attractiveness and the company's objectives and resources. How well does a potential segment score on the five segmentation criteria? Does a potential segment have characteristics that make it generally attractive, such as size, growth, profitability, scale economies and low risk? Does investing in the segment make sense given the firm's objectives, competencies and resources? Some attractive segments may not be compatible with the company's long-run objectives, or the company may lack one or more necessary competencies to offer superior value.

After evaluating different segments, a company can consider five patterns of target market selection, shown in Figure 10.6. Each is now described in turn.

Single-segment concentration

Fiat and Mini concentrate on the small-car market, and Porsche on the sports car market. Through concentrated marketing, the firms gain significant knowledge of the segment's needs and so can achieve a strong market presence. Furthermore, firms are able to gain economies through specialising their production, distribution and promotion. If firms can capture segment leadership, they can earn a high return on investment.

However, there are risks. A particular market segment can turn sour or a competitor may invade the segment: when digital camera technology took off, the earnings of Kodak (film) and Polaroid fell sharply. For these reasons, many companies prefer to spread the risk and choose to operate in more than one segment. If selecting more than one segment to serve, a company should pay close attention to segment interrelationships affecting costs, performance and technology. A company carrying fixed costs (sales force, retail outlets) can add product/service market offerings to absorb and share some costs. The sales force will sell additional items, and a fast-food outlet will offer additional menu choices. Economies of scope can be just as important as economies of scale.

Companies can try to operate in super-segments rather than in isolated segments. A super-segment is a set of segments sharing some significant exploitable similarity: for example, many symphony orchestras target people who have broad cultural interests rather than simply those who regularly attend concerts.

Selective specialisation

A firm selects a number of segments, each objectively attractive and appropriate. There may be little or no synergy among the segments, but each promises to be a money maker. This multi-segment strategy has the advantage of diversifying the firm's risk.

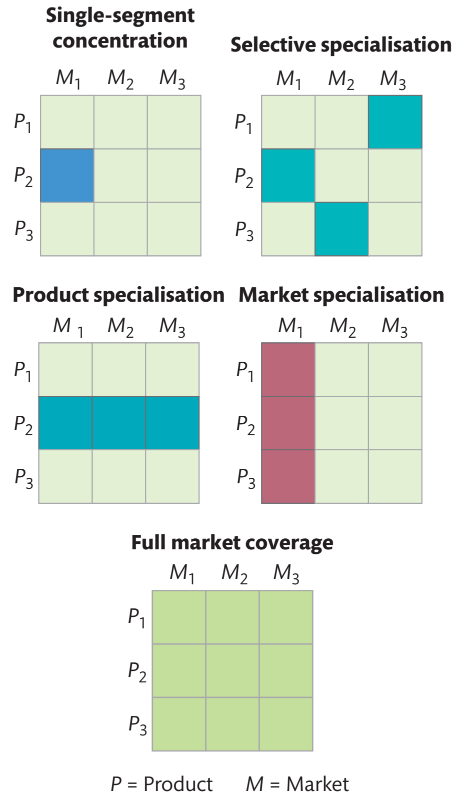


Figure 10.6 Five patterns of target market selection
Source: Adapted from D. F. Abell (1980) Defining the Business: The Starting Point of Strategic Planning, Upper Saddle River, NJ: Prentice Hall, Chapter 8, pp. 192–6. Copyright © 1980. Reprinted by permission of Pearson Education, Inc.

Product (market offer) specialisation

The firm makes a certain item that it offers successfully in several different market segments. A microscope manufacturer, for instance, markets to universities, governments and commercial laboratories. The firm makes different microscopes for the different customer groups and builds a strong reputation in the specific segment market. The downside risk is that the product/service offering may be supplanted by an entirely new technology.

Market specialisation

The firm concentrates on serving many needs of a particular customer group. For instance, a firm can sell an assortment of products/services only to university laboratories. The firm gains a strong reputation in serving this customer group and becomes a channel for additional products/service offerings that the customer group can use. The downside risk is that the customer group may suffer budget cuts or shrink in size.

Full market coverage

The firm attempts to serve all customer groups with all the products/service offers they might need. Only very large firms such as Microsoft (software market), Volkswagen (vehicle market) and Unilever (foodstuff market) can undertake a full market coverage strategy. Large firms can cover a whole market in two broad ways: through undifferentiated or differentiated marketing.

In **undifferentiated marketing** the firm ignores segment differences and trades on the whole market with one offer. It designs a market offering and a marketing programme that will endow it with a superior image and appeal to the broadest number of buyers, and relies on mass distribution and advertising. Undifferentiated marketing is the marketing counterpart to standardisation and mass production in manufacturing. The narrow product/service offer line keeps down the costs of R&D, production, inventory, transportation, marketing research, advertising and brand management.

The undifferentiated advertising programme also reduces promotion costs. The company can then turn lower costs into lower prices to win the price-sensitive segment of the market.

In *differentiated marketing* the firm operates in several market segments and designs different product/service offers for each. Cosmetics firm Estée Lauder markets brands that appeal to women (and men) of different tastes. The flagship brand, the original Estée Lauder, appeals to older consumers;[29] Clinique caters to middle-aged women; Hugo Boss to youthful hipsters; Aveda to aromatherapy enthusiasts; and The Body Shop to eco-conscious consumers who want cosmetics made from natural ingredients.

Nestlé

Nestlé provides a classic example of a highly differentiated marketing business. It operates the Nestlé Model, which is designed both to protect the house brand by spreading its activities across three broad interests – nutrition, health and wellness – and to seek business opportunities in markets that are consistent with the company's mission to build on its position as the world's leading nutrition, health and wellness company. In 2017 turnover was CHF 89.8 billion.

Nestlé has a brand portfolio that includes famous brands in bottled water, baby foods, dairy products, ice cream, nutrition, beverages, chocolate and confectionery, prepared foods, food services and pet care.

Source: Nestlé Annual Report 2017, https://www.nestle.com/investors/annual-report (accessed October 2018).

Differentiated marketing typically creates more sales than undifferentiated marketing. However, it also increases the costs of doing business. Because differentiated marketing leads to both higher sales and higher costs, nothing general can be said about the profitability of this strategy. Companies should be cautious about over-segmenting their markets. If this happens, they may want to turn to *counter-segmentation* to broaden the customer base. For example, Johnson & Johnson broadened the target market for its baby shampoo to include adults. SmithKline Beecham launched its Aquafresh toothpaste to attract three benefit segments simultaneously: those seeking fresh breath, whiter teeth and cavity protection. Kellogg's markets its cereals as an evening snack as well as the traditional breakfast starter.

Additional considerations

Two other considerations in evaluating and selecting segments are segment-by-segment invasion plans and ethical choice of market targets.

Segment-by-segment invasion plans

A company would be wise to enter one segment at a time. Competitors must not know what segment(s) the firm will move to next. Segment-by-segment invasion plans are illustrated in Figure 10.7. Three firms, A, B and C, have specialised in adapting computer systems to the needs of airlines, railroads and trucking companies. Company A meets all the computer needs of airlines. Company B sells large computer systems to all three transportation sectors. Company C sells personal computers to trucking companies.

Where should company C move next? Arrows added to the figure show the planned sequence of segment invasions. Company C will next offer medium-size computers to trucking companies. Then, to allay company B's concern about losing some large computer business with trucking companies, C's next move will be to sell personal computers to railway companies. Later, C will offer medium-size computers to railway companies. Finally, it may launch a full-scale attack on company B's large computer position in trucking companies. Of course, C's hidden planned moves are provisional, in that much depends on competitors' segment moves and responses.

Unfortunately, too many companies fail to develop a long-term invasion plan. PepsiCo is an exception. It first attacked Coca-Cola in the grocery market, then in the vending-machine market, then in the fast-food market, and so on. Japanese firms also plot their invasion sequence. They

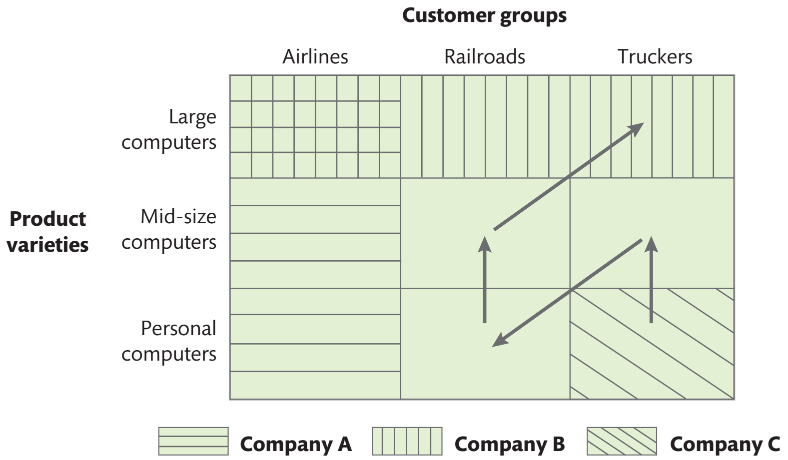


Figure 10.7 Segment-by-segment invasion plan
Source: Adapted from D. F. Abell (1980) *Defining the Business: The Starting Point of Strategic Planning*, Upper Saddle River, NJ: Prentice Hall, Chapter 8, 192–196. Copyright © 1980. Reprinted by permission of Pearson Education Inc.

first gain a foothold in a market, then enter new segments. Toyota began by introducing small cars (Corolla), then expanded into mid-size cars and finally into luxury cars (Lexus).

A company's invasion plans can be thwarted when it confronts blocked markets. The invader must then find a way to break in, which usually calls for a megamarketing approach. **Megamarketing** is the strategic coordination of economic, psychological, political and public relations skills, to gain the cooperation of a number of parties in order to enter or operate in a given market.

Ethical choice of market targets

Marketers must target segments carefully to avoid consumer backlash. Some consumers may resist being labelled. Single people may reject single-serve food packaging because they don't want to be reminded they are eating alone. Elderly consumers who don't feel their age may not appreciate products that identify them as 'old'.

Market targeting can also generate public controversy.[30] The public is concerned when marketers take unfair advantage of vulnerable groups (such as children)[31] or disadvantaged groups (such as inner-city poor people), or promote potentially harmful products. The cereal industry has been heavily criticised for marketing efforts directed towards children. Critics worry that high-powered appeals presented through the mouths of lovable animated characters will overwhelm children's defences and lead them to want sugared cereals or poorly balanced breakfasts. Parents, consumer associations and the EU are increasingly concerned about the impact of marketing on children. In the UK, the government has forbidden schools to operate vending machines that offer confectionery and high-salt-content foods. Toy marketers have been similarly criticised. McDonald's and other chains have drawn criticism for pitching high-fat, salt-laden fare to low-income, inner-city residents. In 2014, a raft of major food and drink companies, including McDonald's, PepsiCo and Coca-Cola, signed up to voluntary restrictions on marketing to children under the age of 12.

Not all attempts to target children, minorities or other special segments draw criticism. Colgate-Palmolive's Colgate Junior toothpaste has special features such as coloured striped paste designed to get children to brush longer and more often. Other companies are responding to the special needs of minority segments.[32] Thus the issue is not *who* is targeted but rather *how* and *for what*. Socially responsible marketing calls for targeting that serves not only the company's interests but also the interests of those targeted. Many countries also place restrictions on the content and timing of advertising to children. Cadbury dropped its 'Get Active' promotion that encouraged children to exchange chocolate packaging wrappers for school sports equipment when critics pointed out that 5,440 wrappers would be needed to obtain one football goal.[33]

Creating differentiation and positioning strategies

No company can be successful if its market offerings too closely resemble those of its competitors. As part of the strategic brand management process, each offering must represent a compelling, distinctive perceived-value offering in the mind of the target market.

A crucial pillar of marketing strategy is market customisation or, as it is more generally known, STP – *segmentation, targeting* and *positioning.* A company discovers different needs and groups in the marketplace (segmentation). It selects those *targets* it can satisfy in a competitive way and then *positions* its offering so the *target* market recognises the company's distinctive offering and image. For market offerings to be successful in current buyers' markets, they need to be developed and differentiated against competitive offerings if a company wants to achieve a **sustained competitive advantage (SCA).** The creation of a strong brand reputation to generate a lasting SCA involves an active consideration of one or a combination of cost leadership, differentiation and combined cost and brand acceptance opportunities.

Yves Saint Laurent

Founded in 1961, Yves Saint Laurent is one of the greatest fashion names of the late twentieth century. Throughout the years, the ground-breaking designs of the couture house created innovative pieces of clothing. Yves Saint Laurent was the first couture house to launch, in 1966, the modern concept of luxury women's *prêt-à-porter*, in a collection called 'Rive Gauche'. It was followed in 1969 by a Rive Gauche men's ready-to-wear line. The Yves Saint Laurent Rive Gauche boutiques were soon opened throughout the world, allowing fashion-conscious working individuals to wear the Yves Saint Laurent designs. This represented the first step in making luxury labels accessible to a wider public.

In 1999, the Gucci Group (the luxury division of the PPR Group, the official trading name of a French luxury goods company organised around six operating branches: Fnac, Redcats Group, Conforam, CFAO, Puma and Gucci Group),[34] acquired Yves Saint Laurent. Since then the brand has been repositioned at the top segment of the luxury goods market. Under the management of Hedi Slimane, the brand has successfully built on the exceptional legacy of its founder, while bringing a contemporary approach to its collections, which combine elegance, top-quality fabrics, refined and discreet but recognisable details.

Today, Yves Saint Laurent's collections include women's and men's ready to wear, shoes, handbags, small leather goods, jewellery, scarves, ties and eyewear. They are designed for both modern women, who have a keen sense of freedom and follow their instincts with assurance, captivating others with their elegance, and for men who prefer a non-conformist look and assert the different facets of their personality in a modern and sensitive way. The Yves Saint Laurent network currently has many directly operated shops, including flagship stores in Paris, New York, London, Milan, Hong Kong and Tokyo. The brand is also present in the most prestigious multi-brand boutiques and department stores in the world and is likely to remain so even after the death of the famous designer in 2008, thus providing evidence of its success in developing and communicating an upmarket STP strategy.

Source: www.ysl.com

Positioning

Positioning is the act of designing the company's market offering and image to occupy a distinctive place in the minds of the target market.[35] The goal is to establish the brand in the minds of consumers in order to maximise the potential benefit to the firm. Good brand positioning helps guide marketing strategy by clarifying the brand's essence, what goals it helps the consumer achieve and how it does so in a unique way.[36] Everyone in the organisation should understand the customer-perceived value that underlies the brand positioning and use it as context for making decisions.[37]

The result of positioning is the successful creation of a *customer-focused value proposition*, a cogent reason why the target customer should buy from the provider. Table 10.9 shows how four companies – Dornier, Nivea, Volvo and Wolford – have defined their value proposition given their target customers, benefits and prices.

Positioning is a marketing concept that enables buyers and sellers to gain from being both effective and efficient. In Figure 10.7 an effective buying experience is realised as sellers provide the right market offering at an acceptable price. The seller gains as the right market offering is supplied cost efficiently. It requires that similarities and differences between brands be defined and communicated. Specifically, deciding on positioning requires determining a frame of reference by identifying the target market and the competition, and identifying the ideal points-of-parity and points-of-difference brand associations.

Table 10.9 Examples of value propositions

Company and market offering	Target customers	Benefits	Price premium (%)	Value proposition
Dornier (G)	Commercial weavers	High technology	20	High-quality, sophisticated weaving machines
Nivea (G)	Personal care-oriented people	Life and care	15	Quality skin and beauty care
Volvo (US/SW)	Safety conscious	Durability and safety	20	Safest car in which a family can travel
Wolford (A)	Women	Fashion and technology	30	High-fashion, high-tech seamless tights

Note: (A) Austria; (G) Germany; (US/SW) USA/Sweden

Source: M. R. V. Goodman, Durham University.

Competitive frame of reference

A starting point in defining a competitive frame of reference for a brand positioning is to determine **category membership** – the market offerings with which a brand competes and that function as close substitutes. Chapter 9 discussed competitive analysis and considered several factors – including the resources, capabilities and likely intentions of various other firms – in choosing those markets where consumers can be profitably served.

Targeting a certain type of consumer can define the nature of competition because competitors have targeted that segment in the past (or plan to do so in the future), or because consumers in that segment may already favour certain brands in their purchase decisions. To determine the proper competitive frame of reference, marketers need to understand consumer behaviour and the consideration factors that influence consumers' brand choices. In the UK, for example, the Automobile Association positioned itself as the fourth 'emergency service' – along with police, fire and ambulance – to convey greater credibility and urgency.

Points-of-parity and points-of-difference

Once marketers have fixed the competitive frame of reference for positioning by defining the customer target market and the nature of the competition, they can define the appropriate points-of-difference and points-of-parity associations.[38]

Points-of-difference (PODs) are attributes or benefits that consumers associate strongly with a brand, evaluate positively and believe they could not find to the same extent with a competitive brand. Associations that make up points-of-difference may be based on virtually any type of attribute or benefit. Examples are IKEA (*affordable design*), Michelin (*performance*) and Liebherr (*quality*). Creating associations that are strong, able and unique is a real challenge but essential in terms of competitive brand positioning. Consider the introduction of Nespresso.

Nespresso

Nestlé succeeded by establishing strong points-of-difference to reach a unique market position. However, it took a relatively long time and the company came close to failure several times. The brand failed to secure a full patent protection on its Nespresso coffee capsules in 2012. Since then it has developed a cult for its coffee and is a popular luxury brand today. As Nespresso's lead promoter, George Clooney, would say, 'What else?'.[39]

Points-of-parity (POPs) are associations that are not necessarily unique to the brand but may in fact be shared with other brands.[40] These types of association come in two basic forms of category and competitive:

- *Category points-of-parity* are associations that consumers view as essential to a legitimate and credible offering within a certain product or service category. In other words, they represent necessary – but not sufficient – conditions for brand choice. Consumers might not consider a travel agency truly a travel agency unless it is able to make air and hotel reservations, provide advice about leisure packages and offer various ticket payment and delivery options. Category points-of-parity may change over time due to technological advances, legal developments or consumer trends, but they are the essential factors for marketers.

- *Competitive points-of-parity* are associations designed to negate *competitors*' points-of-difference. If, in the eyes of consumers, a brand can 'break even' in those areas where the competitors are trying to find an advantage *and* achieve advantages in other areas, the brand should be in a strong – and perhaps unbeatable – competitive position.

Points-of-parity versus points-of-difference

For a market offering to achieve a point-of-parity on a particular attribute or benefit, a sufficient number of consumers must believe the brand is 'good enough' on that dimension. There is a **zone or range of tolerance** or acceptance with points-of-parity. The brand does not literally have to be seen as equal to competitors, but consumers must feel that the brand does well enough on that particular attribute or benefit. If they do, they may be willing to base their evaluations and decisions on other factors potentially more amenable to the brand: for example, a light beer would presumably never taste as good as a full-strength beer, but it would have to taste close enough to be able to compete effectively.

With points-of-difference, however, the brand must demonstrate clear superiority. Customers must be convinced that Louis Vuitton has the most stylish handbags, Duracell is the longest-lasting battery and Crédit Lyonnais offers the best financial advice and planning. Often the key to positioning is not so much achieving a point-of-difference as achieving points-of-parity.

Europcar – from car rental company to mobility provider

The company, an integral part of Volkswagen's mobility concept, claims to be the 'world's leading leisure car rental company' and to be highly committed to its customers: 'We promise to deliver the best car rental experience through excellent customer service and high-quality vehicles.' Europcar has developed into a global provider of mobility services. This has resulted from the development of partnerships with airlines, railway operators, hotel groups, automobile clubs and roadside assistance services. Europcar thus integrates the business of renting cars within a consistent, global mobility concept.

Europcar offers its customers a wide variety of service solutions to the reservation process. The internet has become an increasingly important tool for booking, alongside the telephone or travel agencies' global distribution systems. As a matter of principle, Europcar does not promote any particular reservation channel, but offers customers the choice of all possible reservation methods to meet their individual needs. In an increasingly complex world, the freedom of each person to set individual priorities – whether in business-to-business or private consumer markets – is becoming more and more important. Europcar's strategy is to provide tailored mobility solutions to offer leading market-perceived value solutions.

Source: www.europcar.com

Establishing category membership

Target customers are aware that Chanel is a leading brand of cosmetics, Nestlé is a leading brand of cereal and yogurt, Accenture is a leading consulting firm, and so on. Often, however, marketers must inform consumers of a brand's category membership. Perhaps the most obvious situation is the introduction of new market offerings, especially when category identification itself is not apparent.

There are also situations where customers know a brand's category membership but may not be convinced that the brand is a valid member of the category – for example, people may be aware that Swatch produces watches, but they may not be certain whether they are in the same class as Casio, Seiko and Tissot. In this instance, Swatch might find it useful to reinforce category membership. With this approach, however, it is important not to be trapped between categories. Customers should understand what the brand stands for and not what it does not. The typical approach to positioning is to inform consumers of a brand's membership before stating its point-of-difference.

Consumers need to know what a market offering is and what function it serves before deciding whether it dominates the brands against which it competes. For new offerings, initial advertising often concentrates on creating brand awareness, and subsequent marketing communication builds the brand image.

Straddle positioning

Occasionally, a company will try to straddle two frames of reference. For example, Accenture defines itself as the company that combines (1) strategic insight and vision, and (2) information technology in developing client solutions. While straddle positioning is often attractive as a means of reconciling potentially conflicting consumer goals and creating a 'best of both worlds' solution, it also carries an extra burden. If the points-of-parity and points-of-difference, with respect to both categories, are not credible, the brand may not be viewed as a legitimate player in either category.

Communicating category membership

There are three main ways to convey a brand's category membership:

- **Announcing category benefits.** To reassure consumers that a brand will deliver on the fundamental reason for purchasing a category, marketers frequently use attributes and benefits to announce category membership. Thus, industrial tools might claim to have durability and antacids might announce their efficacy. A cake mix might attain membership in the baked desserts category by claiming the benefit of great taste and support this claim by including high-quality ingredients (performance) or by showing users delighting in its consumption (imagery).
- **Comparing to exemplars.** Well-known brands in a category can also help a brand specify its category membership. When Stella McCartney was an unknown, advertising announced her membership as an emerging UK designer by associating her with famous couturiers – i.e. recognised members of that category.
- **Relying on the product descriptor.** The product descriptor that follows the brand name is often a concise means of conveying category origin. Ford Motor Company, before it sold Jaguar Land Rover to the Indian Tata Steel Group, invested more than US$1 billion in a radical new model called the X-Trainer, to build in its Land Rover plant in the UK, which combines the attributes of an SUV, a minivan and an estate car. To communicate its unique position – and to avoid association with its Explorer and Country Squire models – the vehicle (later called Freestyle) has been designated a 'sports wagon'.[41]

Choosing POPs and PODs

Points-of-parity are driven by the needs of category membership (to create category PODs) and the necessity of negating competitors' PODs. Two important considerations in choosing points-of-difference are that consumers find them desirable and that the firm has the capabilities to deliver on them. As Table 10.10 shows, three criteria can judge both desirability and deliverability.

Marketers must decide at which level(s) to anchor the brand's POD. At the lowest level are the brand's *attributes*, at the next level are the brand's *benefits* and at the top are the brand's *values*. Thus marketers of Dove soap can talk about its attribute of one-quarter cleansing cream, or its benefit of softer skin, or its value of being more attractive. Attributes are typically the least desirable level to position. First, the buyer is more interested in benefits. Second, competitors can easily copy attributes. Third, current attributes may become less desirable over time.

Brands can sometimes be successfully differentiated on seemingly irrelevant attributes, if consumers infer the proper benefit. Kenco differentiates its instant coffee by claiming that it harvests the best mountain-grown beans and then freeze dries them with a unique process to lock in the freshness. Saying that a brand of coffee is 'mountain grown' is irrelevant because most coffee is mountain grown. The 'Marketing in action' box outlines how marketers can express positioning formally.

Table 10.10 Judging desirability and deliverability for points-of-difference (POD)

Desirability criteria	Deliverability criteria
Relevance	***Feasibility***
Target consumers must find the POD personally relevant and important. • National Express, a UK train company serving the London to East Coast route, advertised that all its trains had wi-fi connections in each carriage.	The product design and marketing offering must support the desired association. Does communicating the desired association require real changes to the offering itself or just perceptual shifts in the way the consumer thinks of the offering or brand? The latter is typically easier. • Volkswagen in Germany has had to work hard to overcome public perceptions that Audi is not a youthful, contemporary brand.
Distinctiveness	***Communicability***
Target consumers must find the POD distinctive and superior. • Dyson gained a strong early niche market position by differentiating itself on the basis of its unique design and function.	Consumers must be given a compelling reason and understandable rationale as to why the brand can deliver the desired benefit. What factual, verifiable evidence or 'proof points' can ensure consumers will actually believe in the brand and its desired associations? • Substantiators often come in the form of patented, branded ingredients, such as Nivea Wrinkle Control Crème with Q10 co-enzyme or computers that have an Intel processor inside.
Believability	***Sustainability***
Target consumers must find the POD believable and credible. A brand must offer a compelling reason as to why consumers should choose it over the other options. • Red Bull may argue that it is more energising than other soft drinks and support this claim by noting that it has a higher level of safe stimulants. • Chanel No. 5 perfume may claim to be the quintessential elegant French perfume and support this claim by noting the long association between Chanel and haute couture.	The firm must be sufficiently committed and willing to devote enough resources to create an enduring positioning. Is the positioning pre-emptive, defensible and difficult to attack? Can a brand association be reinforced and strengthened over time? • It is generally easier for market leaders such as Renault, Visa and Lindt, whose positioning is based in part on demonstrable product or service performance, to sustain their positioning than for market leaders such as H&M and Zara, whose positioning is based on fashion and is thus subject to the whims of a more fickle market.

Marketing in action

Writing a positioning statement

To communicate a company or brand positioning, marketing plans often include a *positioning statement.* The statement should follow the form: To [*target group and need*], our [*brand*] is [*the concept*] that [*what the point-of-difference is or does*]. For example: 'To busy professionals who need to stay organised, Palm Pilot is an electronic organiser that allows you to back up files on your PC more easily and reliably than competitive products.'

Red Bull

'Red Bull is a soft drink and promises to revitalise your physical and mental fatigue during stressful and straining situations.' Note that the positioning first states the product's membership in a category (Red Bull is a soft drink) and then shows its point-of-difference from other members of the group (it promises to revitalise physical and mental fatigue). The product's membership in the category suggests the points-of-parity that it might have with other products in the category, but the case for the product rests on its points-of-difference.

Sources: Red Bull website, https://energydrink-uk.redbull.com/company-profile (accessed October 2018).

Creating POPs and PODs

One common difficulty in creating a strong, competitive brand positioning is that many of the attributes and benefits that make up the POPS and PODs are negatively correlated. For example, it might be difficult to position a brand as 'inexpensive' and at the same time assert that it is 'of the highest quality'. Lidl, Matalan and Primark need to convince consumers that their merchandise is both cheap and of good quality. Table 10.11 displays some other examples of negatively correlated attributes and benefits. Moreover, individual attributes and benefits often have positive *and* negative aspects. For example, consider a long-lived brand such as Nestlé's KitKat chocolate biscuit finger bar. On the one hand, the brand's heritage could suggest experience, wisdom and expertise; on the other hand, it could imply being old-fashioned and not up to date.[42]

Table 10.11 Examples of negatively correlated attributes and benefits

Low price vs high quality	Powerful vs safe
Taste vs low calories	Strong vs refined
Nutritious vs good tasting	Ubiquitous vs exclusive
Efficacious vs mild	Varied vs simple

Nestlé launch pink Ruby chocolate in the UK

In an attempt to gain a unique point-of-difference, Nestlé launched pink KitKats in the UK in April 2018. The new confection processes Ruby cocoa beans by a unique process that produces pink chocolate. The bar is already a winner in Japan and Korea and offers a unique and intense berry-flavoured taste. Alex Gonnella, marketing director for Nestlé's UK confectionery business, said: 'Ruby chocolate is a big innovation in confectionery and we are very proud that KitKat is the first major brand in the UK to feature this exciting new chocolate.'

Nestlé has launched more than 350 different variants of KitKat over the years, including green tea, wasabi and cherry blossom versions.

Source: Nestlé press release (2018) Discover a new chocolate experience! KITKAT Ruby arrives in the UK, 10 April.

Nestlé 's Pink Snack bar
Source: Carolyn Jenkins/ Alamy Stock Photo.

Burberry Ltd

In recent years, the trademark Burberry plaid has become one of the world's most recognisable symbols. From its staid place on Burberry raincoats, the plaid began showing up on dog collars, taffeta dresses and bikinis, and unfortunately on gear worn by British soccer hooligans and on an increasing number of counterfeit goods. This integral part of Burberry's heritage, called 'the check' by those in the fashion industry, had suddenly become a liability due to overexposure. Consequently, Burberry's sales became sluggish and its CEO, Angela Ahrendts, sought to jump-start sales growth in numerous ways. For one, she studied Burberry's 150-year history to create new brand symbols, such as an equestrian-knight logo that was trademarked by the company in 1901. Handbags will allude to the brand's tradition as a trench coat maker by featuring leather belt buckles or the quilt pattern that lined Burberry's outerwear.

The other tactic Ms Ahrendts was pushing was to invest aggressively in selling Burberry accessories – handbags, shoes, scarves and belts – rather than apparel, which now accounts for 75 per cent of the company's sales. Not only do these accessories have higher profit margins, but they are also less exposed than clothing to changes in fashion. Ms Ahrendts left Burberry in 2013, joining Apple to spearhead the Apple iWatch project.[43]

A straddle brand positioning can help convince customers that the market offering can accomplish two or more seemingly conflicting benefits, such as Gore-Tex's promise to delivery both breathability and water protection
Source: Cineberg/Shutterstock.

Unfortunately, consumers often want to maximise *both* the negatively correlated attributes and the benefits. Much of the art and science of marketing is dealing with trade-offs, and positioning is no different. The best approach is clearly to develop a market offering product or service that performs well on both dimensions. BMW was able to establish its 'luxury and performance' straddle positioning due in large part to automotive design and the fact that the car was in fact seen as both luxurious and high performance. Gore-Tex was able to overcome the seemingly conflicting images of 'breathable' and 'waterproof' through technological advances.

Some marketers have adopted other approaches to address attribute or benefit trade-offs: launching two different marketing campaigns, each one devoted to a different brand attribute or benefit; linking themselves to any kind of entity (person, place or thing) that possesses the right kind of equity, as a means to establish an attribute or benefit as a POP or POD; or attempting to convince consumers that the negative relationship between attributes and benefits, if they consider it differently, is in fact positive.

Perceptual or positioning mapping

Perceptual or positioning mapping is a marketing tool that enables marketers to plot the position of their offering (product or service), but in buyers' markets it is best to see these as customer-perceived *value* offers against those of the competition.

What can positioning analysis do for a company's business?

Well-regarded positioning statements make a positive and sustained impact in their market segments. To position market offerings in increasingly crowded markets, companies must understand the dimensions along which target customers perceive products in a category and how they view the firm's offer relative to competitive offers. To understand the competitive structure of their markets, firms need to ask these questions:

- How do customers (current or potential) view our brand?
- Which competitive brands do customers perceive to be our closest competitors?
- What market offering and company attributes are most responsible for these perceived differences?

Once marketers have answers to these questions, they can assess how well or poorly their market offerings are positioned in the market. They can then identify the critical elements of a positioning plan to differentiate their offerings from competitive ones: are the brands in the market strongly or weakly differentiated? Which brand has the central position? What should be done to enable the company's target customer segments to perceive their brand offering as being significantly and positively different? Based on customer perceptions, which target segments are most attractive? How should the firm position new product/service market offerings with respect to the company's existing portfolio? What brand name (the company's or a competitor's) is most closely associated with attributes that the target segment perceives to be desirable?

Positioning maps

When a perceptual or positioning map is plotted, two dimensions are commonly used. Figure 10.8 presents a very basic perceptual map of the UK chocolate block sector market.

Belgian and Swiss chocolate, and the UK's Green & Black's brand, are revealed as high quality and high price. Cadbury's Dairy Milk, Mars' Galaxy and Nestlé's Yorkie are relatively low-quality and relatively high-price brands. Superior-quality chocolate blocks are available from leading supermarket own brands and Fair Trade marked brands. It is clear that the leading mass brands in the UK need to launch chocolate bars with an improved quality specification as they are becoming increasingly likely to lose market share to the supermarket own brands and branded Fair Trade offerings.

Developing a positioning strategy

A company's positioning strategy depends on the existing strength or weakness of its brand and its competitive intent.[44] If the market is undersupplied – a sellers' market – then the volume competitors may be content to pursue the same positioning strategy. In buyers' markets it makes more sense to seek to differentiate their brands positively in the fastest-growing market segments. Ultimately, positioning is about how they want consumers to perceive their market offerings and what strategies they select to achieve this goal.

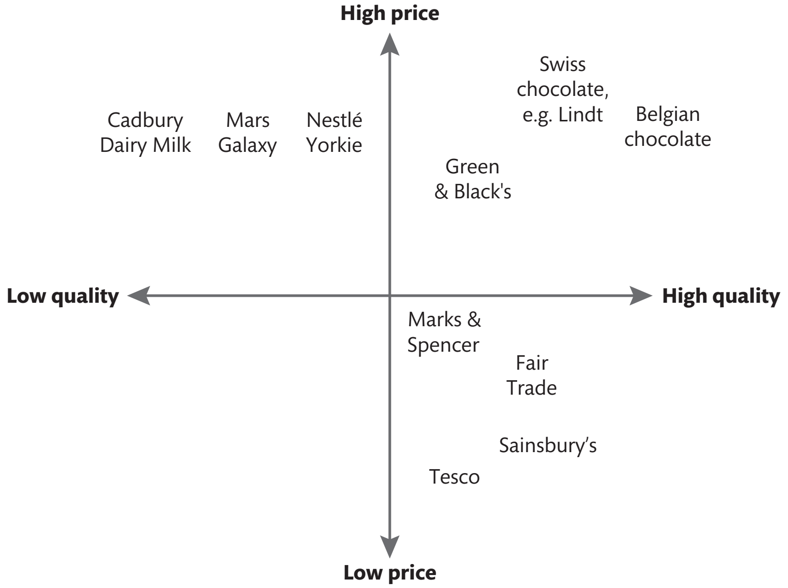


Figure 10.8 Example positioning map of the UK chocolate block sector market
Source: M. R. V. Goodman, Durham University.

Repositioning

Today's markets are highly competitive and volatile, so companies need to be prepared to make both proactive and reactive positioning decisions, as market conditions dictate. Repositioning can become necessary for the following reasons:

- A competitor launches a market offering that is as good as or better than the existing company's brand: for example, supermarkets now sell new chocolate bar products with superior specifications. Honda and Toyota have a well-earned reputation for continually updating their vehicles by such market-perceived value attributes as design, décor, performance and technological innovation.
- There is a marked consumer change in preference: for example, for quality beers or for better-quality overseas package holidays. Grolsch conducted an advertising campaign to reposition the brand away from mainstream lagers.
- New market categories appear: for example, the market for energy drinks caused Lucozade marketers to reposition the brand from a drink for people recovering from illness to a high-energy sports drink for young people.
- An initial launch error: for example, EuroDisney miscalculated the number of frugal visitors to the park and made several cultural errors such as not originally serving alcohol in the park or providing appropriate menus in the restaurants.
- There is a need to change the perception of the firm in the eyes of existing and potential customers. Tesco is continuously using integrated marketing communications to emphasise that it is not a low-price retailer. Interestingly enough, it was advised to drop the brand name of Tesco, as it had become too closely associated with low quality and low price, and to replace it with another to boost its strategy of taking the stores up-market. Diageo's Baileys brand underwent a repositioning programme in 2012 to improve its appeal to younger consumers.

Skoda comes of age

Skoda was founded in what is now the Czech Republic in 1895 and started to produce cars in 1905 and trucks in 1924. It was bought by the Volkswagen Group in 1991 after the collapse of the Soviet Union. After being perceived as an unattractive, down-market marque, Skoda has been steadily repositioning itself in the car market as more of a value brand. Many now regard its vehicles as offering superior market-perceived value than those of its parent company. The growth strategy is bearing fruit. The product range has increased to seven individual model series, supporting further growth in the future. Skoda has maintained a strong position on the major European markets as well as on rapidly developing markets such as China and Russia. The growth strategy, supported by its model campaign and the further internationalisation of the brand, enabled it to deliver 920,800 cars in 2013. In the years ahead, Skoda plans to grow further. To achieve this continued growth, the manufacturer will be introducing a new or revised model on average every six months to remain competitive.[45]

Source: www.skoda-auto.com/en/company/investors

Ryanair repositions

Ryanair boasts to be 'Europe's first and largest low fares airline'. At the heart of the company's success has been the ruthless control of costs. This is best typified by Michael O'Leary, the straight-talking chief executive, who tore into the competition at every opportunity with his no-frills-low-cost message. The result was an incredible growth in passengers. With this rapid growth came problems, as customers started to want more than cheap fares and punctual flights. The levels of customer service and the abrasive nature of the airline started to effect performance. Clearly all was not right and something had to be done to address a reputation for poor customer service and the negative perceptions of the travelling public.

- **2013:** A wide range of customer service changes were launched, including reductions in charges, easier booking, improvements to the website, mobile platforms and an increased social media presence. Ryanair also appointed its first marketing director.
- **2014:** Launch of the 'We are changing' campaign and its first ever TV ads, 2 million customers signed up for myRyanair loyalty scheme, 1 million customers using the mobile app and the launch of a new business service. The result of these initiatives was a 152 per cent increase in profits.
- **2015:** A move away from price-focused messaging to a quality focus supported by the 'Always getting better' campaign, further service improvements were introduced along with 21 per cent increase in marketing spend. Profits for 2015 rose by 43 per cent.
- **2016:** The simplification of its baggage policy, new-look cabins, extra leg room, further improvements to its mobile

app now being used by 8 million customers, the launch of Ryanair Rooms accommodation service. By the year end, Ryanair was carrying over 100 million customers.

- **2017:** The first European airline to launch on Amazon Alexa, further improvements for carry-on baggage, seat allocation and the introduction of new slim-line seats that offer more leg room. By 2017, myRyanair boasted 30 million members and the airline became the first European airline to carry 1 billion customers.

Though still in the budget airlines sector, Ryanair has managed to reposition itself by the clever use of service innovation and its 'digital acceleration and innovation'.

However, 2017 did not finish well for Ryanair, with a damaging spate of cancellations being announced that dented consumer perceptions of the airline once more. Once again it had to recapture customers.

Source: J. Woods, Sheffield Hallam University.

A major repositioning exercise can be an expensive and risky operation, and success cannot be guaranteed. If a company wishes to change the perceptions of its existing target market, it has to find a way to change entrenched attitudes and views, which normally requires an immense investment in an integrated marketing communications initiative. It is easier to reposition by seeking to appeal to a different market category, as Lucozade did successfully until Red Bull intensified the competition in the energy drinks category. Overall repositioning is a complex marketing operation but may be the only way to rescue a brand that has faded badly. It may be better in the long run to abandon it and replace it with another that is in tune with the new positioning strategy. This seems to have been the conclusion of Accenture, as it appears to be dropping long-standing brands that it has acquired, such as Norwich Union, which have grown tired.

Developing and communicating a differentiation strategy

Cost leadership

Firms can gain a positive advantage in markets by developing and sustaining cost/efficiency gains. This cost-based approach can prove to be a winning strategy provided that a company offers an acceptable substitute to competitive offers from a reduced cost base. This gives a company the opportunity to benefit from offering a lower price, to offer the same price as its competitors or to improve market-perceived quality by offering additional market-perceived quality attributes for the ruling competitive price. The achievement of cost gains from operating scale economies, experience curve advantages, tight overhead controls and expenditure on R&D, production and marketing costs is a compound strategy practised skilfully by mass-producing firms such as Philips, Siemens and Swatch.[46]

To achieve maximum benefit from this strategy, firms need to generate high market shares to enable them to maximise the benefits of low raw material, labour and overhead costs. The ability to realise high sales volumes at relative high market prices is crucial. If market prices are squeezed

Swatch

Swatch overcomes crisis and leads to the survival of the Swiss watch industry

In the mid-1970s the Swiss watch industry was in the midst of its worst crisis ever. Technologically speaking, the Japanese competition had been outclassed in 1979 with the launch of the 'Delirium', the world's thinnest wristwatch with a limited number of components. But the event that marked the upturn in the industry's fortunes was the founding of SMH, the Swiss Corporation for Microelectronics and Watch Making Industries. And its answer to the crisis was Swatch – a slim plastic watch with only 51 components (instead of the usual 91 parts or more) that combined top quality with a highly affordable price. It first went on sale in 1983. Since then it has gone on to become the most successful wristwatch of all time, and The Swatch Group, the parent company, is the largest and most dynamic watch company in the world.

For many years, new developments have been taking place alongside the standard Swatch watch in plastic – from Irony (the metal Swatch) to the Swatch SKIN Chrono (the world's thinnest chronograph) to Swatch Snowpass (a watch with a built-in access control function that can be used as a ski pass at many ski resorts throughout the world), and Swatch Beat (featuring the revolutionary Internet Time). Outstanding technical capabilities and advances in the fields of science and technology had already been proven by Swatch during its role as the official timekeeper in several Olympic Games and Ski and Snowboard World Cup competitions.

Source: www.swatch.com

downwards by fierce competition, then this strategy can backfire and leave firms with large stocks of unsold market offerings.

Distinctive superior quality

Companies can also seek a competitive advantage from successfully creating a strong customer-perceived value for their market offerings. Such companies are providing the market with the right quality attributes (performance, reliability, design, novelty, etc.) and the right transactional attributes (price, payment options). Thus, a positive registration is made with prospective buyers as the companies meet and more than meet their purchase expectations and so bring about an enjoyable purchasing experience. This allows companies to command higher prices and therefore higher margins than they could achieve wholly by cost-reduction activities.[47] Bang & Olufsen and Montblanc are differentiated on the basis of superior design, Duracell on superior durability and Miele and Liebherr on superior reliability.

Cost leadership and quality differentiation

The third option is to combine both cost reduction and quality advantages. These strategies are not mutually exclusive.[48] Positive differentiation can be achieved by firms that are determined to offer high levels of market-perceived value (market-perceived quality relative to market-perceived price).

Differentiation strategies

To avoid the commodity trap, marketers must start with the belief that you can differentiate anything (see 'Marketing in action' box).

Competitive advantage is a company's ability to perform in one or more ways that competitors cannot or will not match.[49] Porter urged companies to build a sustainable competitive advantage. But few competitive advantages are sustainable. At best, they may be leverageable. A *leverageable advantage* is one that a company can use as a springboard to new advantages, much as Microsoft has leveraged its operating system to Microsoft Office and then to networking applications. In general, a company that hopes to endure must be in the business of continuously inventing advantages.

Customers must see any competitive advantage as a *customer advantage*. For example, if a company delivers faster than its competitors, it will not be a customer advantage if customers don't

Marketing in action

How to derive fresh consumer insights to differentiate market offerings

In their article 'Discovering new points of differentiation', MacMillan and McGrath argue that if companies examine customers' entire experience with a product or service – the consumption chain – they can uncover opportunities to position their offerings in ways that neither they nor their competitors thought possible. MacMillan and McGrath list a set of questions that marketers can use to help them identify new, consumer-based points of differentiation:

- How do people become aware of their need for your product and service?
- How do consumers find your offering?
- How do consumers make their final selection?
- How do consumers order and purchase your product or service?
- What happens when your product or service is delivered?
- How is your product installed?
- How is your product or service paid for?
- How is your product stored?
- How is your product moved around?
- What is the consumer really using your product for?
- What do consumers need help with when they use your product?
- What about returns or exchanges?
- How is your product repaired or serviced?
- What happens when your product is disposed of or no longer used?

Source: I. C. MacMillan and R. G. McGrath (1997) Discovering new points of differentiation, *Harvard Business Review*, July–August, 133–145.

value speed. Companies must also focus on building customer advantages.[5] Then they will deliver high customer-perceived value and satisfaction, which leads to high repeat purchases and ultimately to high company profitability. For example, German brewers make much of the purity of their beers, which has resulted from the quality dictated by the historical German beer laws.

Marketers can differentiate brands on the basis of many variables. The obvious means of differentiation, and often the most compelling ones to consumers, relate to the attributes and benefits of brands. Swatch offers colourful, fashionable watches. In competitive markets, however, firms may need to go further. Consider these other dimensions, among the many that a company can use to differentiate its market offerings:

- **Personnel differentiation.** Companies can have better-trained employees. Singapore Airlines is well regarded in large part because of its flight attendants. The sales forces of such companies as BMW, Bose, de Beers and Shell enjoy an excellent reputation.[50]
- **Channel differentiation.** Companies can more effectively and efficiently design their distribution channels' coverage, expertise and performance. The leading European supermarkets such as Carrefour and Tesco have developed highly effective and highly efficient distribution strategies.
- **Image differentiation.** Designer jewellers, such as Cartier, pay meticulous attention to positively differentiating their image. Even a seller's physical space, such as international airports' shopping malls and departure lounge shops, can be a powerful image generator.

The purpose of positioning

Professional positioning is of benefit to a supplier as it enables a company to invest its resources and skills in the right marketplace. As such, it is both an *effective* and an *efficient* strategy. The right market offering is being placed on the market and professional know-how is applied to achieve this cost effectively. As Figure 10.9 shows, this is also an activity that results in advantages for customers, as market offerings are *effective* in satisfying their requirements in dynamic market conditions when they have a choice of suppliers. Additionally, they enjoy an efficient buying experience in the marketplace as they select the branded purchase that they perceive as representing the best value.

Figure 10.9 Two satisfied and happy people – perfect positioning
Source: Abi Goodman.

SUMMARY

1 Target marketing includes three activities: market segmentation, market targeting and market positioning.
2 Markets can be targeted at four levels: segments, niches, local areas and individuals. Market segments are large, identifiable groups within a market. A niche is a more narrowly defined group. Globalisation and the internet have made niche marketing more feasible to many. Marketers appeal to local markets through grassroots marketing for trading areas, neighbourhoods and even individual stores.
3 More companies now practise individual and mass customisation. The future is likely to see more self-marketing, a form of marketing in which individual consumers take the initiative in designing market offerings and brands.
4 There are two bases for segmenting consumer markets: consumer characteristics and consumer responses. The major segmentation variables for consumer markets are geographic, demographic, psychographic and behavioural. Marketers use them singly or in combination.
5 Business marketers use all these variables along with operating variables, purchasing approaches and situational factors.
6 To be useful, market segments must be measurable, substantial, accessible, differentiable and actionable.
7 A firm has to evaluate the various segments and decide how many and which ones to target: a single segment, several segments, a specific product, a specific market or the full market. If it serves the full market, it must choose between differentiated and undifferentiated marketing. Firms must also monitor segment relationships, and seek economies of scope and the potential for marketing to super-segments.
8 Marketers must develop segment-by-segment invasion plans and choose target markets in a socially responsible manner at all times.
9 Deciding on positioning requires the determination of a frame of reference – by identifying the target market and the nature of the competition – and the ideal points-of-parity and points-of-difference brand associations. To determine the proper competitive frame of reference, one must understand consumer behaviour and the considerations that consumers use in making brand choices.
10 Points-of-difference are those attribute and benefit associations unique to the brand that are also strongly held and favourably evaluated by consumers. Points-of-parity are those associations not necessarily unique to the brand but perhaps shared with other brands. Category point-of-parity associations are associations that consumers view as being necessary to a legitimate and credible product offering within a certain category. Competitive point-of-parity associations are those associations designed to negate competitors' points-of-difference.
11 The key to competitive advantage is relevant brand differentiation – consumers must find something unique and meaningful about a market offering. These differences may be based directly on the market offering itself or on other considerations related to factors such as personnel, channels or image.
12 As business conditions change and competitive activity varies, companies may need to reposition some or all of their brands in today's business world.

APPLICATIONS

Marketing debate

Is mass marketing dead? With marketers increasingly adopting more and more refined market segmentation schemes – fuelled by the internet and other customisation efforts – some critics claim that mass marketing is dead. Others counter that there will always be room for large brands that employ marketing programmes targeting the mass market.

Take a position: mass marketing is dead *versus* mass marketing is still a viable way to build a profitable brand.

Marketing discussion

Descriptive versus behavioural market segmentation schemes Think of your need to purchase toothpaste. How would you classify yourself in terms of the various segmentation schemes? How would marketing be more or less effective for you, depending on the segment involved? How would you contrast demographic versus behavioural segment schemes? Which ones do you think would be most effective for marketers trying to sell toothpaste to you?

FURTHER READING

L. Quinn, S. Dibb, L. Simkin, A. Canhoto and M. Analogbei (2016) Troubled waters: The transformation of marketing in a digital world, *European Journal of Marketing*, 50(12), 2,103–2,133.

This paper aims to establish how strategic target-market selection decisions are shaped, challenged and driven in response to the rapidly evolving technological landscape. The authors critically evaluate the implications of these changes for the role of marketers and the organisational function of marketing.

The findings reveal an erosion of responsibility for the integrated strategic role of marketing decision making. In particular, the authors reveal that the evolving digital landscape has precipitated a sense of crisis for marketers and the role of marketing within the firm. This extends beyond simply remedying a skills gap and is triggering a transformation that has repercussions for the future of marketing and its practice, thus diminishing functional accountability.

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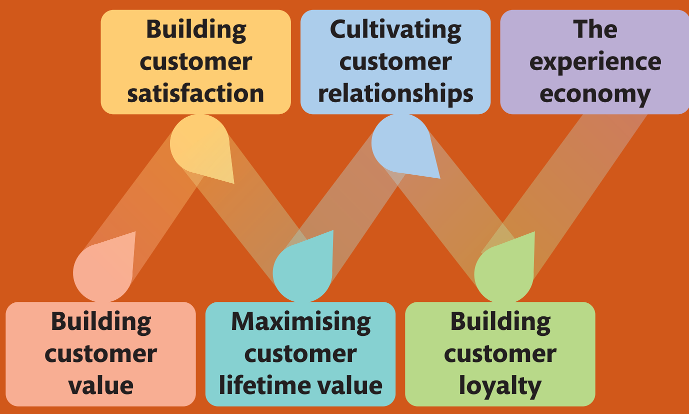
CHAPTER 11
Creating customer value, satisfaction and loyalty

In this chapter, you will learn about the following topics:

1. Customer values, satisfaction and loyalty
2. The lifetime value of customers and how marketers can maximise it
3. How companies cultivate strong customer relationships
4. How companies both attract and retain customers
5. How the experience economy it relates to customers' perception of value

Electrolux works hard to earn customer satisfaction and loyalty
Source: Sergiy Palamarchuk/Alamy.

Chapter Journey



Today, companies face their toughest competition ever. Moving from a product-and-sales, least-cost production philosophy to a holistic marketing philosophy, however, gives them a better chance of outperforming competition (see Chapter 10). The cornerstone of a well-conceived marketing orientation is strong customer relationships. Marketers must connect with customers – informing, engaging and energising them in the process. Customer-centred companies are adept at building customer relations.

Electrolux aims to create the best-in-class experience for consumers with its portfolio of market offerings in the food preparation, clothes care and healthy well-being market segments. The company is sharply focused on customers and is continually learning about their present and future needs through research activity. Providing what customers want is only part of the story. The company strives to back up its products with professional customer services to achieve the best customer experience and loyalty.

While Electrolux has an active interest in sustainability, it operates impressive warranty backup plans for its products. Once consumers sign up and register their appliances they can:

- access any cash-back or promotions that are available;
- see personalised support content and features with instant help and tips on looking after their appliance;
- view accessories that complement their home.

Electrolux's experience shows that successful marketers are the ones that fully engage and satisfy their customers profitably and so earn their loyalty. This chapter explores the ways open to companies to win and retain customers and so secure a sustained competitive advantage. The solution lies largely in beating competition by doing a better job of meeting or exceeding customer expectations.

Building customer value

Creating loyal customers is at the heart of every business.[1] Customers *are* the business. In this digital era, companies must provide whatever help their customers want, whenever and however their customers want it. They must understand their customers and continuously find ways to stay connected with them in order to be as helpful as possible. Peppers and Rogers say:[2]

> **The only value your company will ever create is the value that comes from customers – the ones you have now and the ones you will have in the future. Businesses succeed by getting, keeping, and growing customers. Customers are the only reason you build factories, hire employees, schedule meetings, lay fibre-optic lines, or engage in any business activity. Without customers, you don't have a business.**

Dubois et al. in their book *Business Dictionary*, and others, echo these views and see effective marketing as being about the identification, design and delivery of customer-perceived value.[3] Managers who believe that the customer is the company's only true 'profit centre' consider the traditional organisation chart in Figure 11.1(a) – a pyramid with the CEO at the top, management in the middle and front-line people and customers at the bottom – as obsolete.[4]

Successful marketing companies invert the chart (Figure 11.1(b)). At the top are customers; next in importance are front-line people who meet, serve and satisfy customers; under them are the middle managers, whose job is to support the front-line people so they can serve customers well; and at the base is top management, whose job is to hire and support good middle managers. Customers have been added along the sides of Figure 11.1(b) to indicate that, at every level, company staff must be personally involved in knowing, meeting and serving them.

Some companies have been founded with the customer-on-top business model, and customer advocacy has been their strategy – and competitive advantage – all along. With the rise of digital technologies, today's increasingly informed consumers expect companies to do more than connect with them, more than satisfy them, and even more than delight them. They expect companies to *listen* to them.[5]

Many companies recognise the importance of satisfying their customers in order to develop brand reputations that can deliver a sustainable competitive advantage. Such communication is particularly important in retailing, where the vast majority of staff are either on the shop floor dealing with customers or behind the scenes in areas such as the supply/value chain, where they can feel divorced from central operations. Therefore, in order to attain this goal, companies have developed a commitment to listening to their employees. Asda has become notable for listening to its staff. According to David Smith, Asda's director for people, the success enjoyed by the group in repeatedly winning employment plaudits has been hard won.

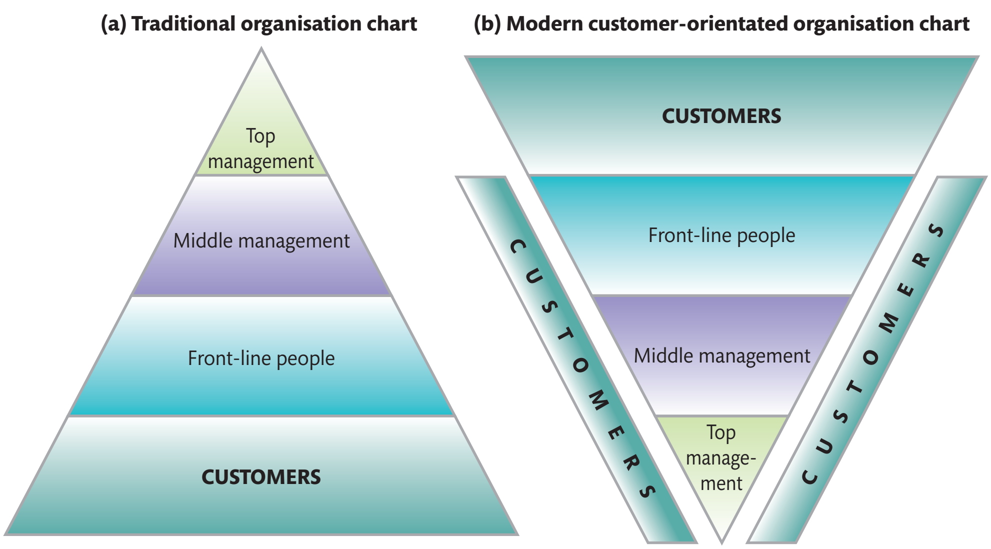


Figure 11.1 Traditional organisation versus modern customer-orientated organisation

Asda guards its reputation fiercely – evolving its methods to keep staff happy: 'You have to keep changing. This success that we have around people has not occurred overnight. We have been working on this for ten years', Smith says.[6] He believes that Asda's success with people comes down to a set of 'very simple mechanics' and has little time for companies with grandiose mission statements that fail to live up to their words. The key to Asda's success is communication. IT involves not only filtering down the right messages from the top of the organisation but also ensuring that feedback from the stores' staff is treated seriously and communicated back to the top.

It is also vital to listen to customers, yet many companies are not as effective in this regard as they could be. A well-known UK BBC TV presenter, Jeremy Paxman, complaining about the declining quality of Marks & Spencer's underwear, criticised the company for not effectively listening to its customers.[7] It is commonly recognised within businesses that 95 per cent of UK customers with a perceived or genuine complaint will never voice it. British Airways trialled a novel way of monitoring the emotional well-being, or otherwise, of its passengers by noting whether its in-flight services and innovations bring happiness or irritation. The airline wrapped sleeping travellers in high-tech blankets interwoven with fibre-optic strands that light up in different colours depending on their emotional state, alerting cabin crew to how they are responding. Passengers on flights from London to New York acted as guinea pigs, wired up to neurosensors that measured brainwave activity.[8]

In today's buyers' markets customers can exercise considerable choice of supplier. Listening to customers makes sense if a firm wishes to be both *effective* (produce what the customer wants) and *efficient* (do this cost efficiently). The concept of customer-perceived value (CPV) enables marketers to discover what customers want through the medium of market research (see Figure 11.2).

Customer-perceived value is the difference between the prospective customer's evaluation of all the benefits and all the costs of a company's offering and the perceived alternatives. **Total customer benefit** is the perceived monetary value of the bundle of economic, functional and psychological benefits that customers expect from a given market offering. **Total customer cost** is the perceived bundle of costs that customers expect to incur in evaluating, obtaining, using and disposing of the given market offering, including monetary, time, energy and psychological costs.

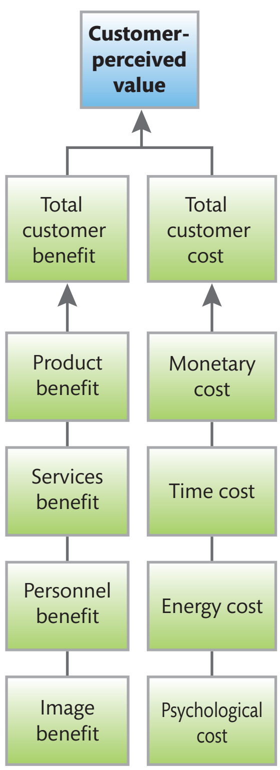


Figure 11.2 Determinants of customer-perceived value
Source: M. R. V. Goodman, Durham University.

The findings from this activity can be expressed as a customer-perceived value offering that will have both perceived quality and attractive financial *attributes*. Once they are expressed as a specification, it is the task of firms to translate the attributes (components) of such an offering to a value package (consisting of both tangible and intangible attributes) that can be traded in the marketplace. The question is: how? Traditionally, many businesses have assumed that the answer lies in the application of the traditional 4Ps (product, price, place and promotion) **marketing mix** as the primary means of achieving a successful market offering.

As markets become more and more competitive, firms need to pay closer attention to supplying the right market offerings – which have the appropriate customer-perceived value rating. The pursuit of suitable CPV offerings calls into question the established status of the 4P marketing mix as being an approach of primary importance in many of today's markets. A more useful, practical insight can be gained from consideration of the steps illustrated in Figure 11.3 and discussed below.

Practical, as opposed to many theoretical, marketers begin with a realistic appraisal of their firm's characteristic approach to business. Is this essentially a product/finance-orientated company or a market-orientated company? Many seem to view these positions as being mutually exclusive. However, in the real world, it is best to see these approaches as opposite ends of a continuum. So firms will be at some point between E1 (efficiency/least-cost production orientation) and E2 (effectiveness/CPV market orientation). Firms determined to become truly market orientated (which entails moving closer to E2) will have accepted the need to formulate and adhere to a management of change programme that will transform their organisation to obtain a sustainable competitive advantage (SCA). However, depending on the size and complexity of the firm, this transformation may take some time to achieve and requires a consistent and steady hand on the corporate tiller.

The primary concern of firms in buyers' markets should be to listen, design and manage a strong and lasting positive differentiation. The next concern is to gain the latest intelligence on the marketplace to discover the relative strength of buyers' choice opportunities and to acquire up-to-date information on the relative strength of the competition. The tertiary concern is for the firm then to design, develop and present a suitable set of CPV market offerings to place on the market.

It is rather simplistic to believe that this can be achieved solely by the conventional 4Ps mix. Such CPV offerings usually consist of a mix of tangible and intangible attributes. Conventional products (*tangibles*) usually form only a part of a CPV package, which in buyers' markets normally includes many supportive services (*intangibles*). That is why it is more useful to view

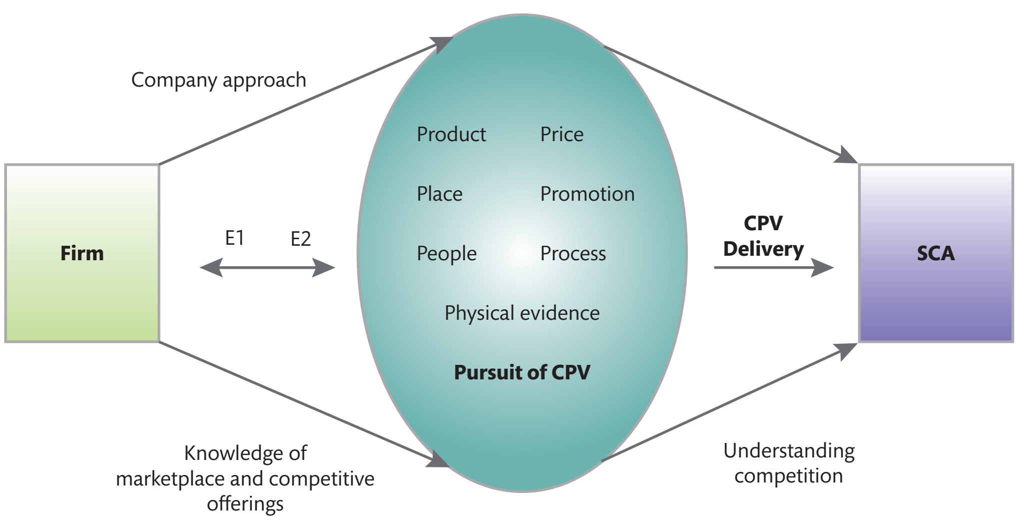


Figure 11.3 The pursuit of customer-perceived value
Source: M. R. V. Goodman, Durham University.

marketing as being concerned with the provision of CPV customer-perceived value attribute circles that deliver real customer benefits, rather than solely with the traditional product or service marketing mixes.

The emphasis should be placed on the provision of a series of value attributes. This can be achieved by developing a deep understanding of marketplaces, customers, competition, costs, channels (distribution or place), marketing communications and the company's strategic marketing approach.

Customer-perceived value

An important consequence of the business environmental paradigm change from a sellers' to a buyers' market has been a subtle transformation in the concept of value. Value is heavily influenced by buyers as they have a choice of supplier and usually demand more for their money. The concept of *customer-perceived value* (CPV) has become a matter of increasing concern in marketing literature. It is imperative for suppliers to offer buyers in competitive markets what they want if they are effectively to generate profitable business. Several empirical studies have sought to explore this in practice. Gounaris et al. researched the relationships between customer value, satisfaction and purchase intentions.[9] Their research suggested that delivering superior customer value enables a firm to achieve favourable ('buy me') behavioural intentions. In contemporary buyers' markets, the concept of CPV has become a vital concern for marketers as it stresses the importance of both the traditional product (tangible) and service (intangible) attribute and benefit components of a market offering.

How, then, do customers ultimately make choices? They tend to be perceived as value maximisers, within the bounds of search costs and limited knowledge, mobility and income. Customers estimate which market offering will deliver the most perceived value and act on it. A challenging task for market-orientated companies is to define, develop and deliver customer-perceived value when this is often notoriously difficult to define. In many respects, it is a matter of perception and sensitivity.

Value circles that make up CPV offerings can be viewed as a collection of ripple circles. Individual circles may be a tangible product value, an intangible service value or a collection of both.
Source: Serif.

The truth about sun creams

It seems that holidaymakers are not always getting what is promised by some brands of sun creams and lotions according to the consumer watchdog Which?. Tanning lotions that promise protection from harmful UV rays (specifically UVA and UCB) from the sun often fail to deliver as promised. The most-expensive brand tested, Piz Buin, sold by Johnson & Johnson for £11.30 per 100ml, was one of three brands out of fifteen that failed the tests carried out by Which?. In contrast, the least-expensive brand tested, Calypso SPF 30 lotion, passed all the tests and is available on the High Street for £1.20 per 100ml. Other well-known brands that failed to record successful ratings included Malibu Protective Lotion SPF 30 and Hawaiian Tropic Satin Protection ultra-radiance SPF lotion.

The underperforming creams offered protection closer to SPF 25 rather than that claimed on the packaging.

Sources: A. Radnedge (2014) *Metro*, 16 May; see also www.which.co.uk/home-and-garden/shopping-grooming-and-wellbeing/reviews-ns/sun-creams/sun-cream-best-buys/; A. Magee (2016) Everything you need to know about sun protection and sunscreen, *The Telegraph*, 10 July.

Whether the offer lives up to expectations affects **customer satisfaction** and the probability that the customer will become a repeat buyer.

CPV is based on the difference between what the customer gets and what he or she gives up for different possible choices. The customer buys attributes, receives benefits and accepts costs. The marketer can improve the perceived value of the customer offering by some combination of increasing economic, functional or emotional attributes and benefits and/or reducing one or more of the various types of cost. In line with the microeconomic concept of demand elasticity (a concept that measures how the level of customer demand changes as price changes), a customer choosing between two value offerings, V1 and V2, will examine the ratio V1:V2. They will favour offer V1 if the ratio is larger than 1; they will choose offer V2 if the ratio is smaller than 1. Lastly, the customer will be totally indifferent if the ratio equals 1.

Applying value concepts

Suppose a buyer for a large construction company wants to buy a backhoe low loader tractor from the UK's JCB or Japan's Komatsu. The competing salespeople carefully describe their company's respective offers. The buyer wants to use the vehicle in residential construction work. The vehicle must deliver certain levels of reliability, durability and performance, and have a good resale value. The buyer evaluates the tractors and decides that the JCB offers greater product performance benefits and also perceives differences in the accompanying services – delivery, training and maintenance – and decides that the JCB offering provides better service as well as more knowledgeable and responsive personnel. He or she gains economic, functional and psychological benefits from these four sources – product, services, personnel and image – and so perceives JCB as delivering the best CPV offering.

Does this result in a purchase of the JCB low loader tractor? Not necessarily, for the buyer also assesses and compares the total cost of transacting with JCB and Komatsu. This requires a consideration of more than money. As Adam Smith observed more than two centuries ago, 'The real price of anything is the toil and trouble of acquiring it'.[10] Total customer cost includes not only the buyer's time, energy and psychological costs expended in acquisition of a JCB but also the costs incurred by usage, maintenance, ownership and disposal. The buyer evaluates these elements together with the monetary cost to form a total customer cost. He or she then considers whether the JCB's total customer cost is too high in relation to the total customer benefits that Komatsu promises. If it is, the buyer might choose Komatsu. The buyer ultimately chooses the market offering that promises the highest CPV. This is also the case with 'service industries'.[11]

Very often, managers conduct a **customer-perceived value analysis** to reveal their company's strengths and weaknesses relative to those of its competitors. The steps in this analysis are:

1 Identify the major attributes and benefits that customers value. Customers are asked what attributes and performance levels they look for in choosing a product (market offering) and possible providers.
2 Assess the quantitative importance of the different attributes and benefits. Customers are asked to rate the importance of the different attributes and benefits. If their ratings diverge too much, the marketer should cluster them into different segments.

When most people think of JCBs, the backhoe loader is the one that comes to mind. Many people have tried to copy it, but no one has been able to better it. It is the original and best! With that beefy bucket and arm on the back (that's the bit that's called the backhoe) and the huge strong shovel on the front, they can do just about any job, anywhere!
Source: Sergey Spritnyuk/Shutterstock.

3 Assess the company's and competitors' performances on the different customer value attributes against their rated importance. Customers describe where they see the company's and competitors' performances on each attribute and benefit.
4 Examine how customers in a specific segment rate the company's performance against a specific major competitor on an individual attribute or benefit basis. If one company's offer exceeds the competitor's offer on all important attributes and benefits, the company can charge a higher price (thereby earning higher profits), or it can charge the same price and gain more market share.
5 Monitor customer values over time. The company must periodically repeat its studies of customer-perceived values and competitors' standings as the economy, technology and features change.

Choices and implications

Some marketers might argue that the process described above is too rational. Suppose the customer chooses the Komatsu tractor. How can this choice be explained? Here are three possibilities.

1 The company buying team (decision-making unit) might be under orders to buy at the lowest price. The JCB salesperson's task is to convince the company's buying team that buying on price alone will result in the delivery of lower long-term profits and customer-perceived value.
2 The buying team will leave before the company realises that the Komatsu tractor is more expensive to operate. The purchasing team will look good in the short run; they are maximising personal benefits. The JCB's sales team's task is to convince other people in the customer company that JCB delivers greater overall customer-perceived value.
3 The chief buyer enjoys a long-term friendship with the Komatsu salesperson. In this case, JCB's salesperson needs to show the chief buyer that the Komatsu tractor will draw complaints from the tractor operators when they discover its high fuel cost and need for frequent repairs.

The point of these examples is clear. Buyers operate under various constraints and in competitive markets make choices that may give more weight to their personal benefit than to the company's benefit. So customer-perceived value is a useful concept and involves the following steps. First, the seller must assess the total customer benefit and total customer cost associated with each competitor's offer in order to know how his or her offer rates in the buyer's mind. Second, the seller who is at a CPV disadvantage has two alternatives: to increase total customer benefit or to decrease total customer cost.

The former calls for strengthening or augmenting the economical, functional and psychological attributes and benefits of the offering's product, services, personnel and image. The latter calls for reducing the buyer's costs by reducing the price or cost of ownership and maintenance, simplifying the ordering and delivery process, or absorbing some buyer risk, say by offering a warranty.[12]

Delivering high customer-perceived value

The degree of loyalty consumers show to specific brands, stores and companies varies considerably. **Loyalty** can be viewed as a deeply held commitment to re-buy a preferred product or service in the future.[13] As most markets have become increasingly competitive, so it has become more difficult for companies to build brand reputations that command sustained customer loyalty. For example, many well-known brands of aspirin are finding it increasingly difficult to succeed when generic or supermarket own-brands are available at less than half the cost.

Many retailers are seeking to build lasting customer loyalty by offering loyalty card schemes of varying descriptions. Essentially what they are trying to do is to ensure that brand recognition (awareness) becomes brand preference (first choice if available), and preferably brand insistence (always first choice).

Building customer satisfaction

Brand inertia and brand loyalty

With frustration verging on despair, marketing gurus and brand managers worldwide bemoan the erosion of customer loyalty.[14] The global loyalty power of consumer brands is not what it used to be and marketers resent it. In the dramatic phrase of an advertising agency executive, consumers today are 'brand sluts' who are most loyal to instant gratification. This 'consumer-as-slattern' attitude is a far cry from advertising grand master David Ogilvy's marketing admonition: 'The consumer isn't a moron. She's your wife.'[15]

In reality, the declared demise of brand loyalty is completely misunderstood. A review of the past decade reveals that customers have not been unfaithful to established brands; quite the opposite. Established brands have cheated on and betrayed their most loyal customers. They charge more and more for less and less; they chase after the youth market or the hot segment *du jour*; their 'innovations' frequently add more complexity than value; and their willingness to apologise and compensate for errors or mistakes is minimal. The more provocative marketing argument is that 'brand inertia', far more than 'brand loyalty', has kept so many customers for so many companies for so long.

Customers are neither sheep nor fools. They can sense when companies are consistently more loyal to investors, employees and regulators than to the people who buy their market offerings. They behave accordingly. Customers are not being disloyal, they are being discriminating. The central marketing question confronting brand leaders, therefore, is not 'How can we radically increase customer loyalty?' but 'How can we radically increase our own loyalty to customers?'

The distinction is enormous. It is analogous to companies that say they promote a culture of 'employee loyalty' even as cutbacks and layoffs surge during economic downturns and mergers. Top management demands loyalty from below while regretfully declining to reciprocate. Yet the moral authority and value of loyalty comes from the courage to hold fast during difficult times. It is the defiant unwillingness of enterprises to be loyal to their best customers that has produced the promiscuous consumer behaviour they deplore. The real sin here is that companies such as British Gas and Marks & Spencer have wilfully confused 'brand loyalty' with 'customer retention'. Just as with sullen employees, that is the perfunctory loyalty of compliance, not of pride or passion.

This challenge is not complex. Companies demonstrate loyalty to employees by investing in them, fairly compensating them, tapping their expertise and declining to throw them overboard when times get tough. Why should customers deserve any less?

This is where traditional marketing and brand advertising fail. Often it is not the brand attribute of flawless service but the act of rapidly recovering from a mistake that wins customer loyalty and repeat business. There are many examples: airline reservation clerks who waive 'change fees' for inadvertently miss-booked flights or mobile telephone operators who politely and without complaint remove rightly disputed charges from the bill. These are less acts of 'customer service' than demonstrations of loyalty to customers. 'Brand value' comes not from promises of perfection but from gracefully compensating for acknowledged weakness. Companies that have conducted customer research have found that their most persuasive 'word-of-mouth' support comes more from customers who have had an unpleasant problem happily resolved than from those who simply enjoyed 'good' or 'excellent' service. The willingness and ability to see a difficult situation through to success despite cost and risk is what defines loyalty.

To be fair, financial pressures, increasing transparency and the multiple demands of many **corporate social responsibility** movements make it more difficult than ever for companies to balance 'customer loyalty' with 'loyalty to customers'. Consumers are far quicker to see a brand as a mask that the company hides behind. However, this is where new technology creates new opportunities for reciprocal loyalty. Cutting-edge companies such as Apple develop strong brands in their own right and create online spaces where customers can collaborate and interact around new features and technical problems. Established brands such as Unilever and the UK's BBC have used digital media to listen to customer ideas and influence new product (market offering) development. Customers know that these organisations have invested seriously in consultation and greatly value their opinions and views. In this millennium, brand value comes from investing as much in valued customers as in valuable product/service market offerings.

The **value proposition** consists of the whole cluster of **tangible** and **intangible** (product and service) attributes and benefits that the company promises to deliver; it is more than the core positioning of the offering. For example, Volvo's core positioning has been 'safety', but the buyer is promised more than just a safe car – other benefits include a long-lasting car, good service and a long warranty period. The value proposition is a statement about the experience customers will

Comfort, safety and speed are key benefits promised in the value proposition of top-quality saloons
Source © Goodard Automotive/Alamy.

gain from the company's market offering and from their relationship with the supplier. The brand must represent a promise about the total experience customers can expect. Whether the promise is kept depends on the company's ability to manage its value delivery system.[17] The **value delivery system** includes all the experiences that the customer will have on the way to obtaining and using the offering. At the heart of a good value delivery system is a set of core business processes that helps to deliver distinctive customer-perceived value to ensure that the customer has a pleasurable purchasing experience. Many customers prefer to contact a human voice. As a result, some companies – for example, service and insurance businesses – are promoting the 'personal approach' in TV advertisements.

Here's a company that is a master at delivering CPV.[18]

Sandvik

Complete customer satisfaction is the ultimate goal for Sweden's Sandvik Materials Technology's way of doing business. Quality is a measure of our performance, as experienced by our customers, and our success in the market depends on our ability to meet or exceed customer expectations. Quality excellence is built on commitment and proactive participation by all employees, which means that each one of us is responsible for quality in everything we do.

Satisfied customers

- At Sandvik Materials Technology we are committed to providing our customers with products and services that meet or exceed their requirements and expectations.
- To succeed, we listen to our customers continuously, understand their needs and implement sustainable improvements in our products and processes.
- To be seen as leaders, we must always perform better than our competitors and deliver our products and services right the first time, on time, every time.

Source: Sandvik Customer Relations website, https://www.home.sandvik/en/about-us/sustainable-business/our-operations/partners/customer-relations/ (accessed October 2018).

Total customer satisfaction

Whether the buyer is satisfied after purchase depends on the offer's performance in relationship to the buyer's expectations and whether the buyer interprets any deviations between the two.[19] If the performance falls short of expectations, the customer is dissatisfied; if the performance matches expectations, the customer is satisfied.[20] If the performance exceeds expectations, the customer is highly satisfied or delighted.[21] Customer assessments of purchase experience and expectations depend on many factors, especially the type of loyalty relationship the customer has with the brand.[22]

Although the customer-centred firm seeks to create high customer satisfaction, that is not its ultimate goal. If the company increases customer satisfaction by lowering its price or increasing its CPV attributes and benefits, the result may be lower profits. The company might be able to increase its profitability by means other than greater satisfaction (for example, by improving manufacturing processes or investing more in R&D). Also, the company has many stakeholders, including employees, dealers, suppliers and stockholders. Spending more to increase customer satisfaction might divert funds from increasing the satisfaction of other 'partners'. Ultimately, the company must operate on the philosophy that it is trying to deliver a high level of customer satisfaction, subject to delivering acceptable levels of satisfaction to the other stakeholders, given its total resources.[23]

How do buyers form their expectations? Expectations result from past buying experience, friends' and associates' advice, and marketers' and competitors' information and promises. If marketers raise expectations too high, the buyer is likely to be disappointed. However, if the company sets expectations too low, it will not attract enough buyers (although it will satisfy those who do buy). Some of today's most successful companies are raising expectations and delivering performances to match.[24] Korean motor manufacturer Kia found success in Europe by launching low-cost, high-quality cars offering seven-year warranties – a strategy previously unheard of in the automotive business.

A customer's decision to be loyal or to defect is the sum of many small experiences with the company. Many companies now strive to create a sustainable 'branded customer experience' and, like Range Rover, place a great emphasis on securing total customer satisfaction before and after purchase.

Range Rover experience

Range Rover has created a brand experience that starts when potential customers first contact the company and extends beyond when they take delivery with a highly customised after-sale service programme. The experience begins when customers are chauffeur-driven from their home to the Range Rover factory in Solihull, south Birmingham. On arrival they're given a presentation of the brand's heritage and history and viewing of a sophisticated light show to excite them, before being invited to test the car on the company's proving ground. The pre-purchase experience excites the customer and stimulates them to make a six-figure purchase to buy into the brand promise.

All are welcome at the company's Customer Relationship Centre and, in August 2016, Jaguar Land Rover opened a specially designed store where potential customers can learn, without any sales pressure, about the company's vehicles and special customer experience and service.

Source: Jaguar Rover Customer Relationship Centre, https://www.landrover.co.uk/contact-us.html; A. Ledger (2016) Jaguar Land Rover to launch 'experience' store, *Campaign*, 23 August.

Monitoring satisfaction

Many companies are systematically measuring how well they treat their customers, identifying the factors shaping satisfaction, and making changes in their operations and marketing as a result.[25] For example, IATA, the International Air Transport Association, which represents some 240 airlines comprising 94 per cent of scheduled international air traffic, regularly monitors customer satisfaction in its Global Airport Monitor operation (www.iata.org).

Companies should measure customer satisfaction regularly, because an important key to customer retention is customer satisfaction. Loyal customers need to be appreciated, and wise companies seek to enhance the CPV experience by giving incentives to purchase – for instance, unique digital content such as videos, competitions and apps – as a reward for their loyalty. A highly satisfied customer generally stays loyal longer and buys more as the company introduces new market offerings and upgrades existing ones. They also promote the company by *word of mouth* and pay less attention to competing brands. They tend to be less sensitive to price and can proffer new product/service value-offering ideas to the company. They also cost less to serve than new customers because transactions can become routine.[26] Greater customer satisfaction has also been linked to higher returns and lower risk in the stock market.[27]

The link between customer satisfaction and customer loyalty, however, is not proportional. Suppose customer satisfaction is rated on a scale from one to five. At a very low level of customer satisfaction (level one), customers are likely to abandon the company and even criticise it. At levels two to four, customers are fairly satisfied but still find it easy to switch when a better value offering comes along. At level five, the customer is very likely to repurchase and actively promote the company. High satisfaction or delight creates an emotional bond with the brand or company, not just a rational preference. Xerox's senior management found out that its 'completely satisfied' customers were six times more likely to repurchase Xerox products over the following 18 months than its 'very satisfied' customers.[28]

When customers rate their satisfaction with an element of the company's performance – say, delivery – the company needs to recognise that customers vary in how they define good performance. Good delivery could mean early delivery, on-time delivery, order completeness and so on. The company must also realise that two customers can report being 'highly satisfied' for different reasons – one may be easily satisfied most of the time and the other might be hard to please but was pleased on this occasion.

Measurement techniques

A number of methods exist to measure customer satisfaction. *Periodic surveys* can track customer satisfaction directly and also ask additional questions to measure repurchase intention and the respondent's likelihood or willingness to recommend the company and brand to others. Theme parks such as Legoland continuously conduct web-based guest surveys of customers who have agreed to be contacted. A key purpose of this is to gather information on customer satisfaction with their theme park experience, including rides, dining, shopping, games and shows.

In the last two decades, the marketing discipline has undergone a paradigm shift from a transactional focus to a relational and internet platform social media perspective.[29] At the same time, there has been a call for the discipline to focus on accurate measurement of the outcome of marketing activities.[30] Empirical research in this area has predominantly examined the sales and profitability of relationships through customer lifetime analysis, or examined attitudinal measures such as satisfaction and loyalty. Sharma[31] attempted to combine both streams of research by examining the profitability, satisfaction and probability of switching associated with transactional customers, relationship customers (up to five years of relationship) and deep relationship customers (more than five years of relationship) in three business-to-business industries. The results demonstrated that the transactional customers were the most profitable, followed by the relationship and deep relationship customers. The probability of switching was in the reverse direction of profitability and there were no differences in satisfaction measures.

Besides conducting periodic surveys, companies can monitor their *customer loss rate* and contact customers who have stopped buying or who have switched to another supplier to find out why. Finally, companies can hire *mystery shoppers* to pose as potential buyers and report on strong and weak points experienced in buying the company's and competitors' market offerings. Managers can enter company and competitor sales situations where they are unknown and experience at first hand the treatment they receive, or they can phone their own company with questions and complaints to see how employees handle the calls.

In addition to tracking customer value expectations and satisfaction for their own firms, companies need to monitor their competitors' performance in these areas.

Marketing insight

Net promoter and customer satisfaction

Measuring customer satisfaction is a top priority for many companies, but a difference of opinion exists as to how they should go about doing it. Reichheld suggests that perhaps only one customer question really matters: 'How likely is it that you would recommend this product or service to a friend or colleague?' According to Reichheld, a customer's willingness to recommend to a friend results from how well the customer is treated by front-line employees, which in turn is determined by all the functional areas that contribute to a customer's experience.[32]

Keiningham et al.[33] disputed Reichheld's assertions. Their results indicated that recommended intention alone would not suffice as a single predictor of customers' future loyalty behaviour. Use of a multiple indicator instead of a single predictor model performed better in predicting customer recommendations and retention. The practical implications of their research challenge assertions that regard intention as the primary, or even sole, gauge of customer loyalty.

Influence of customer satisfaction

For customer-centred companies, customer satisfaction is both a goal and a marketing tool. Companies need to be especially concerned today with their customer satisfaction level because the internet provides a tool for consumers quickly to spread dissatisfaction – as well as satisfaction – to the rest of the world. Some customers even set up their own websites to air their grievances and dissatisfaction, targeting high-profile brands such as Mercedes-Benz.[34] Companies that do achieve high customer satisfaction ratings, such as L'Oréal, make sure that their target market knows it.

Customer complaints

Some companies think they are getting a sense of customer satisfaction by recording the number of complaints, but studies of customer dissatisfaction show that customers are dissatisfied with their purchases about 25 per cent of the time but only about 5 per cent actually complain. The other 95 per cent either feel complaining is not worth the effort, or do not know how or to whom to complain, and they simply stop buying.

Of the customers who register a complaint, between half and three-quarters will do business with the organisation again if their complaint is resolved. The figure goes up to almost 100 per cent if the customer feels the complaint was resolved *quickly*. Customers who have complained to an organisation and had their complaints satisfactorily resolved tell an average of five people about the good treatment they received. The average dissatisfied customer, however, complains to 11 people. If each of them tells still other people, the number of people exposed to this dissatisfaction may grow exponentially.

No matter how perfectly designed and implemented a marketing programme is, mistakes will happen. The best thing a company can do is to make it easy for the customer to complain.

Suggestion forms, freephone numbers, websites and email addresses allow for quick, two-way communication.

Even companies that think they have done everything possible to ensure customers are happy may still not know what additional market offerings they could be marketing. Their customers may not have told them or may not have thought of them. A spokesperson for Volvo cars commented that companies can get into a rut of measuring the same things repeatedly without considering whether the information is still telling them anything useful.[35] Writing in the *MIT Sloan Management Review,* he reported that Volvo began to have doubts about its customer strategy; while its measures showed customers were happy with the cars, they appeared to feel less affection for the company. Customer satisfaction was increasing even as loyalty to the Volvo brand was falling.

Having set up ways to gauge customer satisfaction, companies become reluctant to question whether they are measuring the right things. Volvo believes that 'many factors influence satisfaction and how something is measured can begin to take precedence over *what* is measured'. For example, one Volvo manager insisted the company should concentrate on eliminating quality defects about which customers had complained. However, this 'fails to acknowledge that avoiding dissatisfaction might not necessarily generate satisfaction'.

The difference is easy to miss. As Volvo discovered, many companies have fallen into a self-perpetuating pattern in which practices that are not truly customer orientated are reinforced and those that are customer centred remain undiscovered and unexplored, all while the company's distance from the customer gradually but inexorably increases. So what should companies do? They need to discover more about what motivates their customers, about the way they live and use products. Nokia, one of the most successful innovators of recent years, sends researchers to sit at traffic lights, watching how drivers spend their time while they wait. However, this is an expensive and time-consuming way of collecting information. It is also harder to quantify – and makes it difficult to base people's remuneration on the results.

Given the potential disadvantage of having an unhappy customer, marketers must deal with a negative experience effectively.[36] Beyond that, Kotler advocates the following procedures to help recover customer goodwill:

1. Set up a 7-day, 24-hour freephone 'hot line' (by phone, fax or email) to receive and act on customer complaints.
2. Contact the complaining customer as quickly as possible. The slower the company is to respond, the more dissatisfaction may grow and lead to negative word of mouth.
3. Accept responsibility for the customer's disappointment; never blame the customer.
4. Use customer-service people who are empathetic.
5. Resolve the complaint swiftly and to the customer's satisfaction. Some complaining customers are not looking for compensation so much as a sign that the company cares.

Market offering quality dimension

Customer satisfaction has a key quality dimension. Customer-perceived quality (CPQ) relative to customer-perceived price (CPP) defines customer-perceived value (CPV). However, what exactly is quality?[37] Various experts have defined it as 'fitness for use', 'conformance to requirements', 'freedom from variation', 'the purchase attributes that the customer perceives', and so on. In sellers' markets, quality was usually seen to be a production concern, but in the buyers' markets of today, it is a vital concern of marketers. The European Commission states that quality control involves the formal and systematic use of testing to measure the achievements of specified standards and recommendations, and the measurement and enforcement of defined levels of standards. Thus, a seller has delivered quality whenever the product/service offering meets or exceeds customers' expectations.

A company that satisfies most of its customers' needs most of the time is generally termed a quality company. However, it is important to distinguish between *conformance* quality and *performance* quality (or grade). Stockholm's smoothly running and exceptionally clean metro system, the *Tunnelbannen,* found in the late 1990s that cutting costs was not enough. Quality for customers had to be taken into account. It took a new direction and found a better balance between quality and price, adopting a new overall objective – to attract more passengers by offering higher quality.[38]

The drive to produce goods that are superior in world markets has led some countries – and groups of countries – to recognise or award prizes to companies that exemplify the best quality practices, such as the Deming Prize in Japan, the Malcolm Baldrige National Quality Award in the United States, and the European Quality Award.

Impact of quality

Quality impacts on both customers and the company. Higher levels of quality result in greater levels of customer satisfaction, which support higher prices and (often) lower costs as the volume of sales increases. Studies have shown a high correlation between relative offer quality and company profitability.[39] Companies that have lowered costs to cut corners have suffered when the quality of the **customer experience** suffers: for example, a local private dentist who fails to invest in improving patients' experience by regularly updating equipment and the furnishings in the waiting room. Customer-perceived quality is clearly a vital key to customer-perceived value creation and customer satisfaction.

Total quality

Total quality is everyone's job, just as marketing is everyone's job. Marketers play several roles in helping their companies define and deliver high-quality goods and services to targeted customers:

- They bear the major responsibility for correctly identifying the customers' needs and requirements.
- They must communicate customer expectations properly to product designers.
- They must make sure that customers' orders are fulfilled correctly and on time.
- They must check that customers have received proper instructions, training and technical assistance in the use of the product.
- They must stay in touch with customers after the sale to ensure that they are satisfied and remain satisfied.
- They must gather customer ideas for product and service improvements and convey them to the appropriate departments.

When marketers do all this, they are making substantial contributions to **total quality management** and customer satisfaction, as well as to customer and company profitability.

Maximising customer lifetime value

Ultimately, marketing is the art of attracting and keeping profitable customers. Yet every company loses money on some of its customers. Pareto's 20–80 rule postulates that the top 20 per cent of customers often generate 80 per cent or more of the company's profits. In some cases the profit distribution may be more extreme – the most profitable 20 per cent of customers (on a per capita basis) may contribute as much as 150–300 per cent of profitability. The least profitable 10–20 per cent of customers, meanwhile, can actually reduce profits from 50–200 per cent per account, with the middle 60–70 per cent breaking even.[40] Figure 11.4 displays one customer profit distribution. The implication is that a company could improve its profits by losing its worst customers.

It is not always the company's largest customers who yield the most profit. The largest customers can demand considerable service and receive the deepest discounts. The smallest customers pay full price and receive minimal service, but the costs of transacting with them can reduce their profitability. The medium-size customers who receive good service and pay nearly full price are often the most profitable.

Customer profitability

What makes a customer profitable? A **profitable customer** is a person, household or company that over time yields a revenue stream that exceeds by an acceptable amount the company's cost stream for attracting, selling and servicing that customer. Note that the emphasis is on the lifetime stream

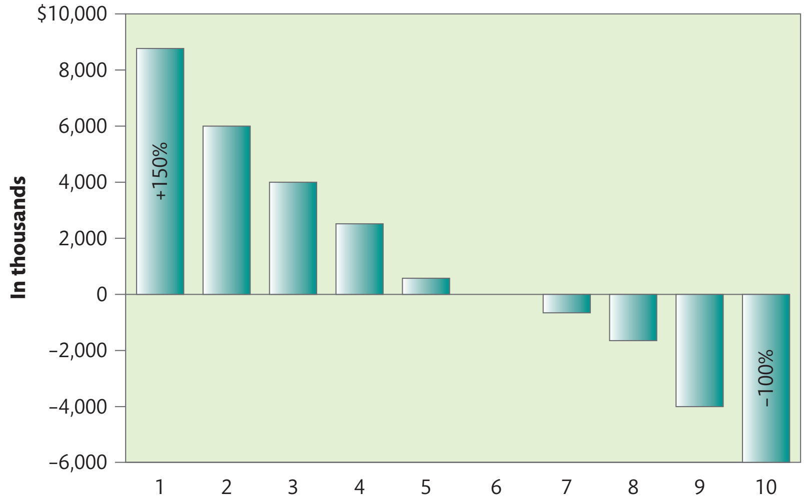


Figure 11.4 The 150–20 rule: 'the 20 per cent most-profitable customers generate as much as 150 per cent of the profits of a company; the 20 per cent least-profitable lose 100 per cent of the profits'
Source: Based on L. Selden and V. S. Selden (2006) Profitable customer: The key to great brands, *Advertising Age*, 77(28), 7–9. Copyright © Crain Communications, Inc.

of revenue and cost, not on the profit from a particular transaction.[41] Marketers can assess customer profitability individually, by market segment or by channel.

Although many companies measure customer satisfaction, most companies fail to measure individual customer profitability.[42] Banks claim this is a difficult task because each customer uses different banking services and the transactions are logged in different departments. However, the number of unprofitable customers in their customer base has appalled banks that have succeeded in linking customer transactions. Some banks report losing money on more than 45 per cent of their retail customers.

Customer profitability analysis

A useful type of profitability analysis is shown in Figure 11.5. Customers are arrayed vertically along the columns and products horizontally along the rows. Each cell contains a symbol representing the profitability of selling that product to that customer. Customer 1 is very profitable and buys two profit-making products (P_1 and P_2). Customer 2 yields a picture of mixed profitability and buys one profitable product and one unprofitable product. Customer 3 is a losing customer because he buys one profitable product and two unprofitable ones.

		Customers			
		C_1	C_2	C_3	
Products	P_1	+	+	+	Highly profitable product
	P_2	+			Profitable product
	P_3		-	-	Unprofitable product
	P_4			-	Highly unprofitable product
		High-profit customer	Mixed-bag customer	Losing customer	

Figure 11.5 Customer–product profitability analysis

What can the company do about customers 2 and 3? It can (1) raise the price of its less profitable products or eliminate them, or (2) it can try to sell customers 2 and 3 its profit-making products. Unprofitable customers who defect should not concern the company and should be encouraged to switch to competitors.

Customer profitability analysis (CPA) can usefully be conducted with the tools of an accounting technique called *activity-based costing*. The company estimates all revenue coming from the customer, less all costs. The costs should include not only the costs of making and distributing market offerings but also those of taking phone calls from the customer, travelling to visit the customer, paying for entertainment and gifts – all the company's resources that go into serving that customer.

When a company does this for each customer, it can classify customers into different profit tiers: *platinum customers* (most profitable), *gold customers* (profitable), *iron customers* (low profitability but desirable for volume) and *lead customers* (unprofitable and undesirable). The company can then move iron customers into the gold tier and gold customers into the platinum tier, while dropping the lead customers or making them profitable by raising prices or lowering the cost of serving them. Generally, marketers must segment customers into those worth pursuing and those potentially less lucrative customers that should receive less attention.

Customer portfolios

Marketers are recognising the need to manage customer portfolios, made up of different groups of customers,[43] defined in terms of their loyalty, profitability and other factors. One perspective is that a firm's portfolio consists of a combination of 'acquaintances', 'friends' and 'partners', which is constantly changing.[44] The three types of customer will differ in their market offer needs, buying, selling and servicing activities, and acquisition costs and competitive advantages.

Another perspective compares the individuals who make up the firm's customer portfolio with the stocks that make up an investment portfolio.[45] In marketing, as in financial investments, it is important to calculate the *beta*, or risk–reward value, for each portfolio item and then diversify accordingly. From this perspective, in order to maximise the portfolio's risk-adjusted lifetime value, firms should assemble portfolios of negatively correlated individuals so that the financial contributions of one offset the deficits of another.

Customer lifetime value – conceptual dream or real-time activity?

As competition in buyers' markets intensifies, it becomes important for companies to retain their customers as long as they can, and preferably for their lifetime. Winning new customers to replace lost ones is not an easy option. So why do customers defect? In short, because they did not like what was on offer; the CPV package failed to achieve a satisfactory experience.

Generally speaking, there are two main reasons why customers defect to a competitor. The first is a breakdown in trust. Companies should not take their customers for granted, but rather should revere them and treat them with respect. While it was Mahatma Gandhi who was the first to coin the phrase 'the customer is king', today most marketers recognise its truth. The CPV concept should be interpreted as a task to provide the right customer value package all the time. Mistakes will occur, and then they need to be rectified promptly and effectively if customer loyalty is to be retained. Too often the horror stories seem to come from the same sectors: the financial sector, the utilities, satellite TV aerial companies, builders and garages, to name but a few of the cases aired in consumer TV programmes such as the BBC's *Watchdog*.

The second reason is a general failure of companies to interface successfully with their customers. The marketing philosophy and culture should be recognised and practised by all in a company. The whole organisation represented by the brand does its job either well or badly. Modern times call for a coordinated team effort to ensure that customers do not experience any problems and are not just satisfied but delighted.[46]

'Chinmusic' is not enough!

Many companies claim to be deeply concerned about customer care but do not pay enough attention to delivering CPV constantly. While the sensitive use of loyalty programmes can prove useful, they are no substitute for failing to recognise the kingship of customers. Companies need to be alert to avoid becoming myopic in today's highly competitive global markets. Many have found that thinking about the long-term value or lifetime value and hence profitability of loyal customers helps to concentrate their strategy and actions.

The concept of **customer lifetime value** (CLV) and its associated metrics has been developed to express the financial importance of long-term customer retention.[47] Several models have been devised to make a realistic assessment of the profitability of loyal customers but, in reality, comparatively few companies actively operate effective CLV metrics. So, for many, it remains a wonderful ambition but a pipedream; in practice, too few are held accountable for maximising customers' CPV.[48]

Cultivating customer relationships

Maximising CPV means cultivating long-term customer relationships. Companies are moving away from wasteful mass marketing to precision marketing designed to build strong customer relationships.[49] Today's economy is supported by information businesses that have the advantage of easily differentiating, customising, personalising and dispatching over a variety of networks at incredible speed.

However, information flows both ways. For instance, customers now have a quick and easy means of comparison shopping by using specialist internet websites. The internet also facilitates communication between customers. Websites such as Amazon.com enable customers to share information about their experiences with market offerings.

Customer empowerment has become a way of life for many companies that have had to adjust to a shift in the importance of their customer relationships. The 'Marketing insight' box describes some of the changes that companies have made in their marketing practices as a result.

Marketing insight

Company response to customer empowerment

Often seen as an important flag bearer for marketing best practices, Unilever decided in the first quarter of 2014 to market its holding company alongside its multiplicity of product brands. This was prompted by Unilever's desire to demonstrate its commitment at a corporate brand level to positive social and environmental practices, which it did with the launch of the Unilever brightFuture platform. Customers increasingly needed 'to buy' into the company behind the product brands and be assured that the business was operated in an ethical and responsible way. The business sought to empower its customers to make informed purchasing choices by providing them with reassurance on such questions as: how does Unilever source raw materials sustainably? What practices are in place to ensure suppliers and workers are treated ethically? How is Unilever working to reduce its water consumption and carbon footprint? The time has come for the corporate brand to step into the limelight and it has chosen to do so in the spirit of its founder, Lord Leverhulme's, philosophy of 'we do well by doing good'.

Unilever
Source: reproduced with kind permission of Unilever PLC and group companies.

Source: see https://www.unilever.com/about/inspiringaction/brightfuture/.

Customer relationship management

Customer relationship management (CRM) is the process of carefully managing detailed information about individual customers and all customer **touchpoints** to maximise customer loyalty.[50] A *customer touchpoint* is any occasion on which a customer encounters the brand and market offering – from actual experience to personal or mass communications to casual observation. For a hotel, the touchpoints include reservations, check-in and check-out, room service, business services, exercise facilities, laundry service, restaurants and bars. For instance, customer-orientated hotels rely on

The Chesterfield Centre

The Centre offers the provision of excellent customer experiences for private, public and not-for-profit business sectors.

Bridging the gap between private, public, business-to-business and not-for-profit market sectors demands a special expertise and attention to detail. The Centre, a single-storey building, was built to a high eco-specification on land owned by St Thomas Church in 2011 to provide a conference and café resource for local business and community needs.

The St Thomas Centre is a non-residential conference and meeting venue in Chesterfield
Source: St. Thomas Brampton.

Customers are treated as honoured guests, and the Centre offers a high level of perceived customer satisfaction to both business and community clients. The facility has a modern hall, with a projection facility, and can accommodate medium-sized groups. A suite of group rooms suitable for smaller meetings and 'break-out rooms' are also available in the airy eco building.

A pleasant licensed coffee bar welcomes visitors and offers quality fare on a daily basis and is able to cater specially for booked events. Food is largely locally sourced and carefully prepared in-house. The Centre has a mission to serve the local community. The Centre is charged with covering its costs and generating a profit, which goes to support local community needs and the pastoral work of St Thomas's Church.

The Centre is people-centric, the service enjoys an excellent customer reputation and is generally heavily booked. All are welcome and the Centre manager firmly believes in the importance of one-to-one marketing. Little 'paid-for' advertising is currently evident as the order book is strongly supported by 'earned' word-of-mouth recommendations, both in Chesterfield and beyond.

Source: https://www.chesterfield.co.uk/business/conferences/st-thomas-centre/ (accessed October 2018).

personal touches, such as staff who always address guests by name and high-powered employees who understand the needs of sophisticated business travellers.[51]

CRM enables companies to provide excellent real-time customer service through the effective use of individual account information. Based on what they know about each valued customer, companies can customise market offerings, messages and media. The process is important because a major driver of company profitability is the aggregate value of the company's customer base.

One-to-one marketing

Some of the groundwork for CRM was laid by Peppers and Rogers,[52] who outlined a four-step framework for one-to-one marketing that can be adapted to practising CRM marketing, as follows:

1 **Identify your prospects and customers.** Do not go after everyone. Build, maintain and mine a rich customer database with information derived from all the channels and customer touchpoints.
2 **Differentiate customers in terms of (1) their needs and (2) their value to your company.** Spend proportionately more effort on the most valuable customers (MVCs). Apply activity-based costing and calculate customer lifetime value. Estimate net present value of all future profits coming from purchases, margin levels and referrals, less customer-specific servicing costs.
3 **Interact with individual customers to improve your knowledge about their individual needs and to build stronger relationships.** Formulate customised offerings that you can communicate in a personalised way.
4 **Customise market offerings and messages to each customer.** Facilitate customer–company interaction through the company contact centre and website.

The practice of one-to-one marketing is not for every company: the required investment in information collection, hardware and software may exceed the payback. It works best for companies that normally collect a great deal of individual customer information and that carry a wide portfolio of market offerings that can be cross-sold, need periodic replacement or upgrading and are of high customer-perceived value.

Increasing the value of the customer base

A key driver of shareholder value is the aggregate worth of the customer base. Winning companies improve the value of their customer base by excelling at the following:

- **Reducing the rate of customer defection.** Selecting and training employees to be knowledgeable and friendly increases the likelihood that the shopping questions from customers will be answered satisfactorily.
- **Increasing the longevity of the customer relationship.** The more involved a customer is with the company, the more likely the customer will remain loyal. Some companies treat their customers as partners – especially in business-to-business markets – soliciting their help in the design of new market offerings.

- **Enhancing the growth potential of each customer.**[53] This may be done by increasing sales to existing customers with new offerings and opportunities. For example, football clubs across Europe market a range of merchandise, including clothing, scarves, souvenir watches and credit cards.
- **Making low-profit customers more profitable or ceasing to deal with them.** To avoid the direct need for termination, marketers can encourage unprofitable customers to buy more products or in larger quantities, forgo certain features or services, or pay higher amounts or fees. Banks, phone companies and travel agencies are all now charging for once-free services to ensure minimum customer revenue levels.
- **Paying additional attention to high-value customers.** The most valuable customers can be treated in a special way. Thoughtful gestures such as birthday greetings, small gifts or invitations to special sports or arts events can send a strong positive signal to the customer. Volvo dealers, for example, have had a long tradition of placing a bouquet of flowers in every new car sold.

Attracting and retaining customers

Companies seeking to expand their profits and sales must spend considerable time and resources searching for new customers. To generate leads they develop advertisements and place them in media that will reach new prospects, send direct mail and make phone calls to potential prospects, send their salespeople to participate in trade shows where they might find new leads, purchase names from list brokers, and so on.

Reducing defection

It is insufficient to simply attract new customers; the company must keep them and increase their business.[54] Too many companies suffer from high **customer churn**, or defection. Adding customers here is like adding water to a leaking bucket. Mobile phone and cable TV operators, for example, are plagued with 'spinners' – customers who switch carriers at least three times a year looking for the best deal. Many lose 25 per cent of their subscribers each year.

To reduce the defection rate, the company must:

- define and measure its retention rate – for a magazine, subscription renewal rate is a good measure of retention; for a college, it could be the first- to second-year retention rate, or the class graduation rate;
- distinguish the causes of customer attrition and identify those that can be managed better – not much can be done about customers who leave the region or go out of business, but much can be done about those who leave because of poor service, badly made products or high prices;
- compare the lifetime value of a lost customer with the costs incurred to reduce the defection rate – as long as the cost to discourage defection is lower than the lost profit, the company should spend the money to try to retain the customer.

Capturing the heart of the serial switcher

In today's buyers' markets, many companies are eagerly trying to build lasting relationships with their customers. However, many have been disappointed in the returns from their investment in CRM programmes. The blame for this is usually laid at the door of managers who allowed technology to dominate the corporate strategy, resulting in back-office muddle and ill-coordinated approaches to customers. It is crucial that managers believe that customers should be won for life, but many companies have failed to become really customer centric. This has meant consumer insight being held by individual employees and becoming weakened when they move on, although thanks to new tools such as CRM software, many businesses are now building some semblance of corporate memory.

The drive for efficiency and cheaper production costs has led to customers being left out of many businesses' CRM strategies. 'In reality, the customer was never at the heart of CRM', says Martin Hayward of Dunnhumby, the UK marketing and data analysis consultancy. 'It was simply about making the company machine as efficient as possible.' Strategies such as farming out customer service to call centres have ended up undermining customer loyalty, which is why brand owners are now struggling to engage with a new generation of 20-something 'serial switchers'. 'These consumers have low brand loyalty and high confidence to move between rival brands at the drop of a hat', Hayward adds. 'This new mindset is now the major challenge facing brand owners.'[55]

Fast-moving consumer goods brand owners including Nestlé and Unilever, for example, are working more closely with supermarkets to strengthen their relationship with their customers at point-of-sale. According to José Ferrão, president (Europe, Middle East and Africa) of Aimia Marketing,[56] many companies have been slow to address this challenge because of unwieldy organisational structures that restrict the ability to respond to customer needs and an overreliance on winning new consumers at the expense of holding on to and deepening their existing client base. Ferrão says:

> **Telecoms businesses in particular have struggled with customer service levels as many have evolved from land-line business into mobile and cable through acquisitions, after which they continued to operate as separate units. Customers' services expectations from the brand owners they deal with are joined up; what they get from many, however, is anything but consistent.**

Mr. Hayward, however, concludes that both a customer-centric focus and low prices are viable brand strategies: 'Major brands currently struggling in national and international markets are those with neither a clear customer-service nor price-led market positioning.' The riskiest place to be is somewhere in no man's land between the two, a place that Tesco strayed into as a result of unexpected severe price competition from rival supermarkets.

Retention dynamics

Figure 11.6 shows the main steps in the process of attracting and retaining customers.[57] The starting point is everyone who might conceivably buy the market offering. The next task is to identify which *potentials* are really good *prospects* – people with the motivation, ability and opportunity to make a purchase. Marketing efforts can then concentrate on converting the prospects into *first-time customers* and then into brand *friends* – people to whom the company gives special and knowledgeable treatment. The next challenge is to turn brand friends into brand *members* by starting a membership programme that offers benefits to customers who join, and then turning brand members into brand *ambassadors* – customers who enthusiastically brands recommend the company and its brands to others. The ultimate challenge is to turn brand ambassadors into brand *partners*.

Unfortunately, much marketing theory and practice centres on the art of attracting new customers rather than on retaining and cultivating existing ones. The emphasis has traditionally been on making sales rather than on building relationships; on pre-selling and selling rather than on caring for the customer afterwards. More companies now recognise the importance of satisfying and retaining customers.

Satisfied customers constitute the company's **customer relationship capital**. If the company were to be sold, the acquiring company would pay not only for the plant and equipment and

Figure 11.6 The customer-development process
Source: M. R. V. Goodman, AJM Management Developing.

the brand name but also for the delivered *customer base* – the number and value of customers who would do business with the new firm. Here are some key issues that can influence customer retention:[58]

- Acquiring new customers can cost five times more than satisfying and retaining current customers. It requires a great deal of effort to induce satisfied customers to switch away from their current suppliers.
- The average company loses 10 per cent of its customers each year.
- A 5 per cent reduction in the customer defection rate can increase profits by 25–85 per cent, depending on the industry.
- The customer profit rate tends to increase over the life of the retained customer due to increased purchases, referrals and price premiums, and reduced operating costs to service.

Endesa, Spain's largest electricity company, has built a detailed customer relationship management system to help it to relate to its customers, so that it does not lose them to its competitors.[59]

Building customer loyalty

Improving loyalty

Creating a strong, tight connection with customers is the marketer's dream and often the key to long-term marketing success. The Danish newspaper publishing company Dagbladet Børsen increases customer loyalty through relationship marketing. Companies that want to form strong customer bonds need to attend to a number of different considerations (see Figure 11.7). One set of researchers sees retention-building activities as adding financial benefits, social benefits or structural ties.[60] The following sections illustrate important types of marketing activity that companies are using to improve loyalty and retention.

Interacting with customers

Listening to customers is crucial to customer relationship management. Some companies have created an ongoing mechanism that keeps senior managers permanently informed of front-line customer feedback.[61]

MBNA, the credit card giant, asks every executive to listen in on telephone conversations in the customer service area or customer recovery units. Once a quarter, more than 1.5 million copies of a glossy publication are posted through letterboxes across Europe. Silky paper, striking photography and edgy design suggest that the articles about travelling to Oman, about LEGO or about the Bouroullec brothers (top French designers) could be from an architectural guide, an upmarket travel magazine or the latest lifestyle publication. The *Mercedes* magazine is all these – and more. Published in a dozen languages, and as many distinct editions, the customer magazine for European Mercedes-Benz owners is part of a publishing phenomenon accelerating faster than one of the prestige German car maker's own convertibles.

Custom publishing – the business of devising and producing magazines under contract for big companies – has become popular in publishing, an industry not known for breakneck growth. According to the International Customer Publishing Federation, customer magazines are the fastest-growing area of publishing, except the internet, and employ about 20,000 people in Europe alone. Sak van der Boom, an industry consultant, says: 'Four of Sweden's top ten magazines by circulation are now customer products. In the UK, the figure is eight, while in the Netherlands customer magazines constitute the top five.'

Publishing for special-interest groups is nothing new: guides and handbooks for clubs and associations have been around for years. But business has mushroomed as consumer-orientated companies, from car makers to retailers, financial services to telecommunications groups, have discovered the appeal of publications delivered directly to customers as a way of marketing brands in a fiercely competitive media environment.

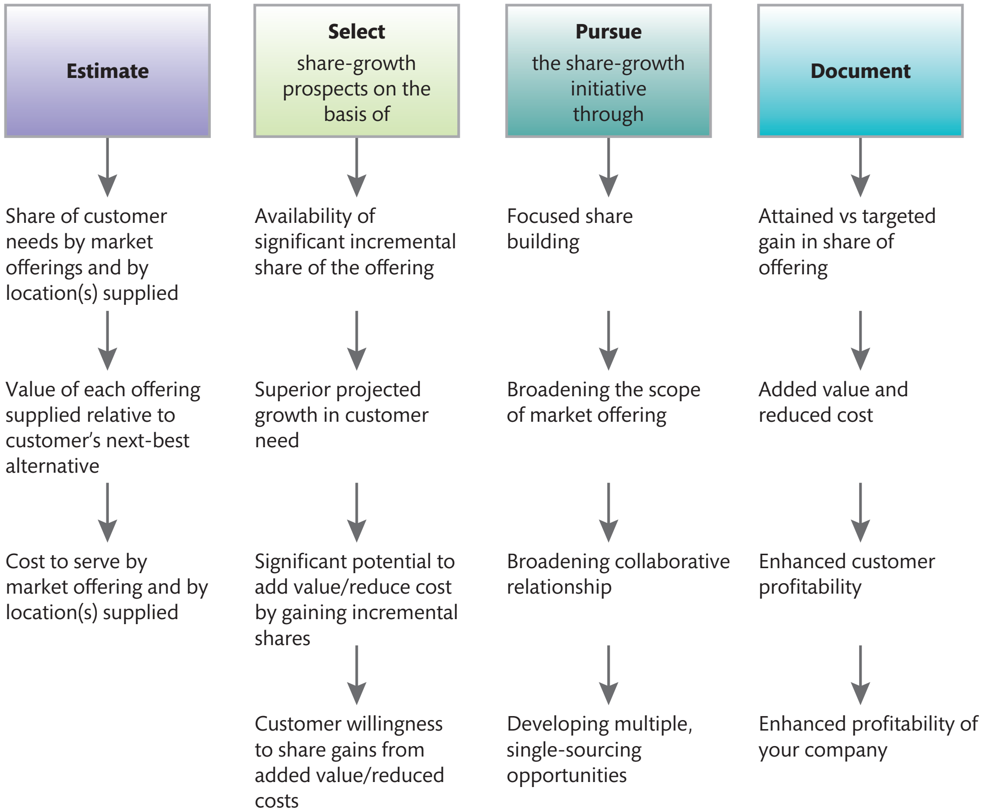


Figure 11.7 Increasing customer share of requirements

Source: J. C. Anderson and J. A. Narus (2003) Selectively pursuing more of your customer's business, *MIT Sloan Management Review*, Spring, 45. Copyright © 2003 from *MIT Sloan Management Review*/Massachusetts Institute of Technology. All rights reserved. Distributed by Tribune Media Services.

The general manager of Forum, a Munich-based corporate publishing company, who also acts as the federation's spokesman, says:

> **The range of communications channels now available has forced advertisers to become more focused. Television viewers' choice has gone from terrestrial channels to countless alternatives on cable and satellite. Meanwhile, print media have been in decline. Traditional newspapers have suffered falling circulations – not always compensated for by freesheets – and magazines have been volatile.**

Customer publishing is filling the gap. *BMW* – the 108-page customer magazine for that other German luxury car maker – is every bit as glossy as the Mercedes equivalent and has a worldwide circulation of 3.2 million. *Waitrose Food Illustrated*, published monthly by the UK supermarket group, runs to 138 pages per issue. According to Forum, 'custom publishing is a very effective marketing tool to position a brand among its customers'. The federation's research demonstrates declining demand for TV and traditional print media, it says, with only customer magazines and the internet on the ascendant.

The UK's Content Marketing Association reports: 'UK customer publishing now accounts for about 5 per cent of companies' total marketing spending, with an annual growth rate of 16 per cent.' That compares with falling rates for traditional print media and sharply declining ones for TV. 'Customer magazines are read on average for 25 minutes. That's a much longer attention span than many other media', she adds. Such comments may sound odd for anyone recalling early customer publications, as uninspired content, unappealing design and crude photography often made such magazines embarrassing.

Today's customer magazines contain a mix of lifestyle, health, sport and travel, explains Wilfred Mons, the Dutchman who publishes nine national editions of the Mercedes magazine outside the core German market. In an attempt to ensure that the magazine is read, building brand loyalty as a by-product, each edition is tailored to its national audience. In Mercedes' case, the Danish version takes about 75 per cent of its content from the core German edition, which is produced separately by a Munich-based group. By contrast, in the 100-page Italian edition, about 80 per cent of the material is originated locally.

The goal is to make such publications as attractive as paid-for magazines, and many contain genuine advertising, which is a testament to their perceived effectiveness. Customer magazines are a part of the marketing mix, not a sideline of conventional public relations. They are now produced as a joint effort between marketing, PR and advertising departments, and include far more sophisticated content.

However, listening is only part of the story. It is also important to be a customer advocate and, as much as possible, to take the customers' side on issues, understanding their point of view. The UK bank Lloyds TSB has established a reputation as being a 'listening bank'. The 'Marketing in action' box describes six keys to create customers who feel so strongly about companies and brands that they go way beyond just purchasing and consuming their market offerings.

Marketing in action

Creating customer evangelists

McConnell and Huba assert that customer evangelists not only buy a company's products or services but believe in them so much that they are compelled to spread the word and voluntarily recruit their friends and colleagues on the company's behalf. In their book, *Creating Customer Evangelists: How Loyal Customers Become a Volunteer Sales Force*, they offer six tips for marketing evangelism:

1. **Customer plus-delta.** Understand what evangelists love by continuously gathering their input.
2. **Publicise your knowledge.** Release your own knowledge, data or intellectual property into a fast-moving distribution network. Sharing knowledge freely makes it more accessible, reducing your biggest threat: obscurity. It is liable to fall into the hands of people who will tell others about it. People talking about your knowledge increases its perceived and actual value.
3. **Build the buzz.** Keep customer evangelists talking by providing them with tools, programmes and features to demonstrate their passion.
4. **Create community.** Give like-minded customers the chance to meet.
5. **Make bite-size chunks.** Bite-size chunks of products and services reduce risk, improve sales cycles and offer upfront value. Even if a customer does not purchase, he or she may spread favourable word of mouth.
6. **Create a cause.** Companies that strive for a higher purpose – such as supporting 'freedom', as Porsche and Air France do – often find that customers, vendors, suppliers and employees naturally root for their success. Customer evangelists crave emotional connection and validation; a well-defined cause generates emotional commitment. When your brand, product or service aspires to change the world, altruism and capitalism converge.

Sources: B. McConnell and J. Huba (2006) Learning to leverage the lunatic fringe, *Point*, July–August; M. Krauss (2006) Work to convert customers into evangelists, *Marketing News*, 15 December, 6; B. McConnell and J. Huba (2012, revised edition) *Creating Customer Evangelists: How Loyal Customers Become a Volunteer Sales Force*, Austin, Texas: Lewis Lane Press; E. P. Becerra and V. Badrinarayanan (2013) The influence of brand trust and brand identification on brand evangelism, *Journal of Product and Brand Management*, 22(5/6), 371–83; see also Loyalty Management UK website: www.manta.com

Developing loyalty programmes

Two popular customer loyalty programmes that companies can offer are frequency programmes and club marketing programmes. **Frequency programmes** (FPs) are designed to provide rewards to customers who buy frequently and in substantial amounts. They can help build long-term loyalty with high customer lifetime value customers, creating cross-selling opportunities in the process. Pioneered by the airlines, hotels and credit card companies, FPs now exist in many other types of business. For example, today most supermarket chains offer price club cards, which provide member customers with discounts on particular items. However, perhaps their real value to the issuer is to provide data on customers' purchasing patterns.

Typically, the first company to introduce an FP in an industry gains the most benefit, especially if competitors are slow to respond. After competitors respond, FPs can potentially become a financial burden to all the offering companies, but some companies are more efficient and creative in managing frequency programmes.

Many companies have created **club membership programmes**. Club membership programmes can be open to everyone who purchases a product/service market offering, or can be limited to an affinity group or to those willing to pay a small fee. Although such open clubs are good for building a database or capturing customers from competitors, limited-membership clubs are more powerful long-term loyalty builders. Fees and membership conditions prevent those with only a fleeting interest in a company's offers from joining. These clubs attract and keep those customers who are responsible for the largest portion of business. Some highly successful clubs include the following.

Apple

Apple encourages owners of its computers to form local Apple-user groups that range in size from fewer than 20 members to over 1,000 members. The user groups provide Apple owners with opportunities to learn more about their computers, share ideas and get product discounts. They sponsor special activities and events and perform a community service. A visit to Apple's website, http://appleusergroupresources.com/find-a-group/, helps customers find their nearest user group.[62]

Local user groups have proliferated among Apple owners, thanks to links on the Apple website that help visitors locate them
Source: Justin Sullivan/Getty Images.

Harley-Davidson

The world-famous motorcycle company sponsors the Harley Owners Group (HOG), which now numbers 650,000 members in over 1,200 chapters. The first-time buyer of a Harley-Davidson motorcycle gets a free one-year HOG membership. HOG benefits include a magazine called *Hog Tales*, a touring handbook, emergency road service, a specially designed insurance programme, a theft reward service, discount hotel rates and a Fly & Ride programme enabling members to rent Harley bikes while on vacation. The company also maintains an extensive website devoted to the HOG, which includes information on club chapters and events and a special members-only section.[63]

Personalising marketing

Company personnel can create strong bonds with customers by individualising and personalising relationships. In essence, thoughtful companies turn their customers into clients and then into advocates. An important ingredient for the best relationship marketing today is the right technology. In order to be successful at personalised marketing, a company must be able to collect information on the individual being targeted. This form of marketing is especially popular on the internet, since the internet is a more interactive platform for communication between company and customer. For example, a web page may use cookies to track the types of market offerings a customer routinely buys. It then creates advertisements specifically for that individual based on the customer's buying history. One example of this is the recommendations Amazon.com makes to customers who are signed into their account: Amazon tracks the purchasing history of customers and then populates that customer's home page with similar products.

Table 11.1 highlights five imperatives of CRM and shows where technology fits in. Companies use email, websites, call centres, databases and database software to foster continuous contact between company and customer. Online companies, in particular, need to make sure their attempts to create relationships with customers do not misfire, as when customers are bombarded by computer-generated recommendations that consistently miss the mark. Buy a lot of books or baby gifts on Amazon.com, and your personalised recommendations suddenly don't look so

Table 11.1 Breaking down customer relationship management: what customer relationship really comprises

CRM imperative				
• Acquiring the right customer	• Crafting the right value proposition	• Instituting the best processes	• Motivating employees	• Learning to retain customers
You get it when . . .				
• you've identified your most valuable customers • you've calculated your share of their wallet for your goods and services	• you've studied what products or services your customers need today and will need tomorrow • you've surveyed what products or services your competitors offer today and will offer tomorrow • you've spotted what products or services you should be offering	• you've researched the best way to deliver your products or services to customers, including the alliances you need to strike, the technologies you need to invest in and the service capabilities you need to develop or acquire	• you know what tools your employees need to foster customer relationships • you've identified the HR systems you need to institute in order to boost employee loyalty	• you've learned why customers defect and how to win them back • you've analysed what your competitors are doing to win your high-value customers • your senior management monitors customer defection metrics
CRM technology can help . . .				
• analyse customer revenue and cost data to identify current and future high-value customers • target your direct marketing efforts better	• capture relevant product and service behaviour data • create new distribution channels • develop new pricing models • build communities	• process transactions faster • provide better information to the front line • manage logistics and the supply chain more efficiently • catalyse collaborative commerce	• align incentives and metrics • deploy knowledge management systems	• track customer defection and retention levels • track customer service satisfaction levels

Source: Reprinted by permission of *Harvard Business Review*, from D. K. Rigby, F. F. Reichheld and P. Schefter (2002) Avoid the four perils of CRM, *Harvard Business Review*, February, 106.

personal! eTailers need to recognise the limitations of online personalisation at the same time as they try harder to find technology and processes that really work.

Companies are also recognising the importance of the personal component to CRM and what happens once customers make actual contact. SAS, the Scandinavian airline, engineered a turnaround based in part on the insight that a customer's impressions of a company are formed through myriad small interactions – checking in, boarding the plane, eating a meal, etc. *Which?* editor, Richard Headland, said: 'We've seen time and again that people won't settle for bad customer service and this is supported by the results of our survey. Stores giving people the care and attention they want have happy customers who return.'[64]

Creating institutional ties

Companies may supply customers with special equipment or computer links that help customers manage orders, payroll and inventory. Customers are less inclined to switch to another supplier when this would involve high capital costs, high search costs or the loss of loyal-customer discounts.

Recapturing customers

Regardless of the nature of the category or how hard companies may try, some customers inevitably become inactive or drop out. The challenge is to reactivate dissatisfied customers through *win-back* strategies.[65] It's often easier to win back ex-customers (because the company knows their names and histories) than to find new ones. The key is to analyse the causes of customer defection through exit interviews and lost-customer surveys and recapture only those who have strong profit potential.[66]

Patronise or personalise?

Customer relationship marketing CRM) professionals have to navigate the narrow channel between earning favour and loyalty and irritating customers. They may be tempted to seek efficiency (to them) at the cost of becoming ineffective by irritating or patronising the customer. The challenge facing companies is to achieve the right balance between efficiency and effectiveness, between direct human communication and CRM automated systems. With banks in mind, a frustrated customer might respond, 'Press 1 to make an appointment to see me; 2 to query a missing payment; 3 to transfer the call to my living room in case I'm there'. CRM can work, providing the goals are modest and there is some worthwhile benefit for customers. However, its capacity to irritate and repel is massive, so it needs to be carried out sensitively.

The experience economy

The value experience

The term 'experience economy' was coined in 1999 by Pine and Gilmore[67] when they described an advanced service economy that began to market a 'mass customisation' of service offerings. Using theatre as a metaphor, they argued that business should function in a similar way to a theatre that develops and presents a performance that it hopes will be appreciated by its audience. To achieve this requires the input of numerous attributes and benefits, some of which are tangible (such as props) and some of which are intangible (such as acting and set expertise). If it all goes well on the night, the audience leaves having had a pleasurable 'experience'. This, they claimed, will produce repeat business, and the 'transformation' that has occurred in the customers' expectations will enhance the customer-perceived value of the company's brand. This, in turn, will enable it to charge a premium price. In experience terms, the memory itself is now the market offering. Although the concept was originally developed with business-to-business markets in mind, Pine and Gilmore claimed that it could be applied effectively to other markets. Early examples included leisure, hospitality, tourism and urban planning.

The core concept at issue here is that of economic value. The concept of the 'experience economy' claims that customising a product turns it into a service. Customising a service turns it into an experience, which transforms it into a customer-perceived value experience. As CPV attributes and benefits can be either tangible or intangible, what ultimately determines an attractive purchase experience is the expertise that a company applies to the development and presentation of the final market offering.

Successful theatrical performances do deliver enjoyable experiences, but for a company or theatre to establish a strong brand appeal, the enjoyable experiences have to be sustained. 'Greatness' lasts only as long as someone fails to imagine something better. Successful companies know that their CPV offerings have to improve consistently. However, recent productivity, technology and transparency developments have placed increasing demands on their value offerings as life cycles shorten under the fierce pressure of global competition.

The Pine and Gilmore thesis, although elegantly expressed as a theatrical metaphor, has a serious flaw. Unconstrained customer expectations in rigorous buyers' markets are unrealistic for most suppliers, which have to make a profit. Mosby and Weissman[68] believe that the solution to the problem of ever-escalating expectations lies in sustained effective market communications. It is a matter of convincing customers that a good company really does offer a better CPV package. However, what happens when the key distinguishing experience becomes increasingly difficult to discern?

Companies have long realised the necessity of building and sustaining brand reputations by satisfying their customers. However, the experience economy notion implies something a lot more aspirational and personal. Peters and Waterman refer to this as 'dream fulfilment' – the next rung on the quality–service–experience ladder.[69] Companies seeking to 'get up close and personal' to their customers often experience difficulty in knowing whether their brand is sufficiently positively differentiated.

A key question for companies to think through is: just what constitutes a business experience? What do they need to offer to succeed? Neither of these questions was addressed by Pine and Gilmore in their original text. For an experience to be effective it has to engage an individual in its delivery. It is a two-way event. It is an act that implies co-creation between a provider and the customer. The result is a memorable experience that has a high level of CPV. As a result, customers will be prepared to pay a premium price.

According to Prahalad and Ramaswamy,[70] deregulation, emerging markets, new forms of regulation, convergence of technologies and industries, and ubiquitous connectivity have changed many facets of the business world. These factors have changed the nature of consumers. Today they are informed, networked, active and global. These factors have also changed the nature of companies, which are now able to fragment their value chain in ways that were not possible in the past.

These contextual changes in markets are enabling a new form of value creation, **co-creation**, in which value is not created exclusively in the firm and then exchanged with the customer but is co-created by the firm *and* the customer. As a result, the world of business is moving away from a company- and product-centric view of value creation towards an experience-centric view of the co-creation of CPV. High-quality interactions that enable an individual customer to co-create unique experiences with the company are the key to unlocking new sources of competitive advantage. Products or, as this text argues, market offerings are merely artefacts around which compelling individual experiences are created. According to Allen and Chudley, who wrote a definitive book on the subject of web user experience, or UX as it is known by marketers, 'experience design is the design of anything, independent of medium, or across media, with human experience as an explicit outcome, and human engagement as an explicit goal'. In his second edition, Garrett argues that his web-centric elements apply also to the user experiences of market offerings.[71] Hence, companies such as Costa Coffee, Pret A Manger and Starbucks bring a value 'experience' as well as providing their key market offerings.

Marketing in practice

Key steps in the co-creation process

1. Define clear objectives for the project.
2. Discover who are the right customers to involve in the process.
3. Work with customers to discover what they really want to include in a market offering.
4. Design market offerings-systems jointly to meet those customers' needs. This includes selecting the partners to be included in a company's network.
5. Decide how to share the customer-perceived value.
6. Overcome internal resistance to change – with seller, buyer and partner organisations.

Sources: https://onedegree.ca/?s=co-creation; https://cspace.com (both accessed October 2018).

Pret A Manger

Pret A Manger is the distinctive sandwich bar operator that creates handmade natural food, avoiding the obscure chemicals, additives and preservatives common to so much of the 'prepared' and 'fast' food on the market today. The company was acquired in May 2018 by the Luxembourg-based JAB Holdings.

The majority of the Pret A Manger outlets are in London, but recent years have seen an expansion into the North American and Chinese markets.

Kotler's concept of CPV, introduced earlier in this chapter, could now be extended to include an additional set of five attributes. Poulsson and Kale argue that a positive experience should include the attributes in the 'experience scorecard' memo below:

1 **Personal relevance:** the individual's internal state of arousal, activation and preparedness to engage in a specific experience.
2 **Novelty:** an attractive change to regularly experienced stimuli.
3 **Surprise:** the emotion generated by the appeal of something that is attractive and new.
4 **Learning:** when an experience has been well received, the resultant learning becomes a positive influence on engagement with the provider.
5 **Engagement**: the process by which providers seek to co-create CPV offerings with customers.

Pret creates handmade natural foods, avoiding the obscure chemicals, additives and preservatives common to so much of the 'prepared' and 'fast' food on the market today
Source: Phillipe Hays/Rex Shutterstock.

Sources: Based on www.bridgepoint.eu/en/investment-portfolio/pret-a-manger/ (accessed October 2018); S. H. G. Poulsson and S. H. Kale (2004) The experience economy and commercial experiences, *Marketing Review*, 4, 267–77; B. J. Pine II and J. H. Gilmore (2014) A leader's guide to innovation in the experience economy, *Strategy and Leadership*, 42(1), 24–29; D. Carvalho de Rezonde and M. A. R. Silva (2014) Eating-out and experiential consumption: A typology of experience providers, *British Food Journal*, 116 (1), 91–103.

Generally speaking, the best approach is to provide consumers with the opportunity to create their own story, as a successful market offering is part of the larger narrative of customers' lives. Harley-Davidson has achieved this effectively with its HOG website. However, not all purchasing 'experiences' need such a pronounced emphasis on the experiential attributes of a CPV offering. Commodity items such as bread, confectionery and salt are likely to require less perceived value in terms of quality and experiential attributes; here the main emphasis will usually be on price. However, wise companies should not forget that a too-cavalier approach towards commodity customers will result in desertion to the competition. The experience economy is a relationship marketing concept that needs to be interpreted by providers in an appropriate way for their market activities. It is a matter of fine-tuning market offerings in terms of customer effectiveness and provider efficiency and with regard to the wider societal implications of marketing activities, as argued by the 'critical' movement.[72]

The empowered customer

As buyers' markets intensify, so customers expect more value for their money. Wise companies seek to discover what their customers want and then attempt to deliver more than their customers expect if they intend to develop profitable brands.[73]

European Commission activity

The late US president John F. Kennedy[74] once said, 'Consumers, by definition, include us all . . . yet they are the only important group . . . whose views are often not heard'. The European Commission is working hard to change this. Empowered consumers are viewed as good for Europe's economy as they encourage companies to work hard, compete and provide quality offerings in the marketplace. The concept is also seen as a way of breaking down the barriers between Europe's national markets. The internal market in Europe offers empowered consumers more choice. The Commission has established a new system – the European Consumer Market Watch – to investigate whether various sectors of the economy are delivering the information, choice and value for money consumers deserve.

Market paradigm change

Most markets are characterised by an excess of providers, thus empowering consumers through the mechanism of their choice of supplier. Paradoxically, and reflecting the past sellers' market conditions, much of the literature on consumer empowerment focuses on consumers' efforts to regain control of their consumption processes from providers. However, many suppliers now set out to achieve success by seeking to empower consumers. The mechanism by which this takes place consists of researching and providing what consumers want – that is, the right mix of quality, price and experiential attributes and benefits. This provides many 'old school' suppliers with a conundrum, as most traditional marketing techniques are market centric. Gross rating points, for example, define message delivery volume. Even the conventional 4Ps (product, price, place and promotion) speak more of how a company wants to conduct business than of how consumers want to engage with the brand. Integrated marketing requires a deep knowledge of consumers' habits, needs and passions. Regular market research should be viewed by providers as an investment decision that enables them to know what mix of CPV attributes and benefits to include in their offerings, and not as a cost decision to be cut as soon as fortunes falter.

Marketing to the empowered consumer

Until recently there was an observable distinction between traditional brand and direct marketing activity. The former focused on creating awareness and share of mind mainly by means of TV, radio and print advertising. The latter concentrated on inspiring a specific action and share of wallet via mail, telemarketing and email. This distinction is rapidly fading as providers realise that both skill sets need to be integrated and directed to securing customer engagement. However, most marketers are still organised around their traditional product lines, markets or technologies. As consumers take up the new technologies that give them fingertip control of how, when and if they want to be marketed to, marketers should seriously reconsider the traditional 4P mantra and engage customers on their own terms.

To achieve this requires providers to adopt a customer-centric organisational philosophy that really does put the customer at the centre of functional activity. The new mantra should emphasise the question: why should consumers buy from an organisation when they can favour several competitors? It is surprising how many companies allow their agency partners to assume too great an influence over their marketing activity. Marketers need to take a more interactive, cross-disciplinary approach to campaign planning that integrates all the activities necessary to develop the required mix of customer-perceived value attributes.

Interactive marketing

The term **interactive marketing** was first proposed by Deighton,[75] who described it as 'the ability to address the customer, remember what the customer says and address the customer again in a way that illustrates that we remember what the customer has told us'. It should be noted that interactive marketing is not the same thing as **online marketing**, although interactivity is facilitated by internet technology. The ability to 'get up close and personal' with customers is boosted when it becomes possible to collect and analyse customer information over the web. Amazon has developed interactive marketing to a fine art and suggests books that fit customers' purchasing profiles.

Cadbury/Schweppes (now demerged as Cadbury was acquired by Kraft in January 2010) used interactive marketing to raise awareness of its use of 100 per cent genuine flavours for its 7Up soft drink in the United States. Visitors to the brand name's website were able to personalise the rabbits that serve as the drink's TV advertising mascots. They could personalise the rabbits with an array of costumes and helpfully provided burps. Text-to-speech technology enabled consumers to create custom messages to transmit to others by email. In the UK, Britvic has held the 7Up franchise since 1987 but has not used such sophisticated interactive marketing techniques.

Many companies are now starting to show an interest in how they could extend the benefits of information and communications technology in their marketing activities.[76] As more and more households sign up for broadband in the UK, and TV advertising goes online, providers have shown a deep interest in **Web 2.0**, the second phase of the internet, where consumers can move from information and search to content and user-generated interactivity. Problems remain, however, in relation to such issues as payment for the server capacity and bandwidth for commercial and free-to-air broadcasters.

Another interesting development is the use of mobile phones to revive coupon redemption. Some leading companies are exploring the viability of a mobile marketing venture in selected supermarket stores. The companies offer marketing software that consumers can download to their mobile phones, which will present redeemable coupons for discounts on certain products.

Complexity of markets

Complexity has been one of the most frequently used terms for some time now. Managers talk about complex systems, complex interrelationships, complex problems, etc. There is hardly a presentation or discussion among executives without some reference to complexity – for instance, the complexity of markets, market offerings and processes. In many respects, management is the art and/or science of handling complexity. In today's competitive world, companies are finding that complexity is becoming more difficult to manage. It is necessary to bring a system under control, but it is wise not to adopt too tight a management *modus operandi* as this can slow down the ability of a company to respond to important market movements. As business becomes an ever more dynamic activity, responsive firms will build-in some degree of flexibility to market forces. Thus loose/tight approaches hold the promise of getting the right balance between market effectiveness (supplying the right market offering) and provider efficiency.

Market types

Economists describe markets as places where buyers and sellers gather to expedite exchange. As business has become a world rather than a local, national or international affair, so, in a sense, there is now one global market with many specialist sub-markets. Communication between the selling and buying parties is a key characteristic of market trading. This has greatly changed in nature as modern technological communication advances have made it possible for this to occur electronically. The global market is highly complex and this is further complicated by the challenging dynamics of modern buyers' markets in the world as a whole, but particularly in developed nations.

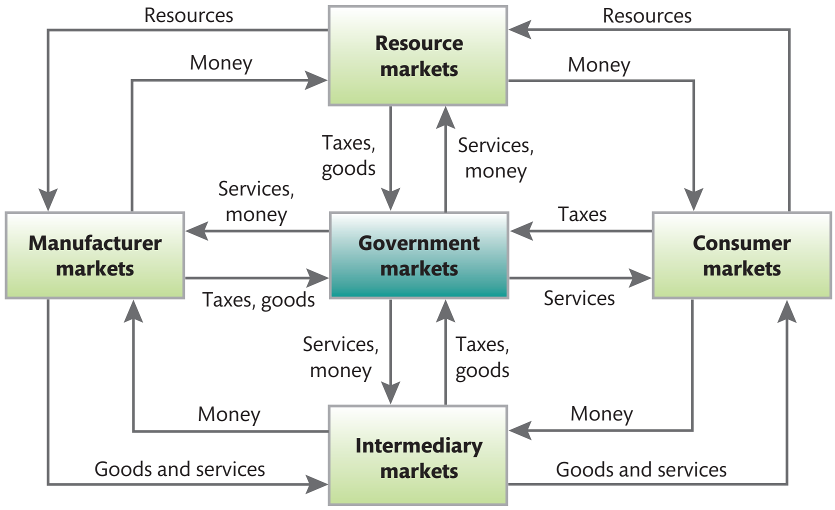


Figure 11.8 Structure of flows in a modern exchange economy

To begin to understand this complexity, five basic markets have traditionally been viewed as a promising start. Figure 11.8 presents this basic structure and shows the flows in a modern exchange economy. This is, of course, an oversimplification. The complexity of modern markets demands a deep and continuous understanding of the realities evident and emerging in every market of interest to companies. The suppliers' markets evident in most of the developed countries and the export potential that became available in the underdeveloped countries have led to a business approach that has been heavily supply orientated. The added complexity of widespread buyers' choice in most markets has brought many companies to deeply challenging times. So has marketing entered a mid-life crisis? This text has argued that marketing management is also a wide canvas. Theory and practice have their place, but how to mix knowledge with effective market operations or know-how is a massive challenge for companies, as there are no easy answers or quick fixes.

Emotional turn

Emotions matter as they can be fashioned to influence and change attitudes in marketing communications. They affect the way in which an audience can sense their past, present and future: all can seem bright, dull or darkened by emotional outlooks. **Emotional turn** or, as it is sometimes known, affective marketing (also affective economics), emphasises the emotional engagement that marketers seek to gain with their target audiences. Recent advances in the study of neurological and psychological insights – originating from brain scanning and neurological experiments – on basic emotional processes in the brain have led marketers to assess their application potential. Hansen and Christensen and others have brought together much of the theory and understanding of the role that emotion plays in advertising and marketing communications. Their work provides a solid underpinning for all marketers who wish to understand the interactions between feelings, moods and emotionally based reactions to advertising, market offerings, brands and hence consumer choice.[77]

Today, marketers influence people differently from the way they did in the era of sellers' markets, when companies tended to place the emphasis on rational messages to further their intentions. As consumer choice has increased following the explosion of buyers' markets, marketing practitioners have sought to connect with their targeted audiences by means of emotional communications. As buyers' markets become ever more fiercely competitive, marketers are now seeking to achieve customer engagement. Many might wonder what the practical difference is between engagement and connecting emotionally. The answer lies in the realisation that consumers have more market power today. The concept of engagement recognises this power and seeks to share it between consumers and marketers. As a consequence, consumers are key parties to co-creating their perceived-value offerings. So, leading marketers in the experience economy are seeking to engage all five senses in their brand building and are viewing this as the leading edge of their marketing.

Emotion triggers

Emotion lies in the acceptance and perception of many customer-valued brands. It can be expressed in many different forms in advertising. Tesco has used celebrities in soap-drama-type advertisements to engage with its audience, including actresses Prunella Scales and Jane Horrocks in a long-running series. Marks & Spencer has featured the model Twiggy in several of its seasonal clothes videos.

The main appeals designed to elicit emotional responses are as follows:[78]

- **Fear.** This is generally used in one of two ways. First, it is used to demonstrate the negativity and undesirability of certain behaviours that might put the individual and society in danger. Many governments brief marketers to help them with important messages, such as the dangers inherent in drinking and driving. Financial firms sponsor TV dramas on the commercial channels and invite viewers to take care of their families in every advertising break. Second, fear is used to shame audiences. Examples here would include anti-dandruff shampoos and anti-ageing cream advertisements.
- **Humour.** This draws attention and stimulates interest and is widely used throughout Europe. The series of TV advertisements for Walkers, featuring Gary Lineker (the former international footballer and current TV soccer presenter) in amusing situations, did much to boost the company's sales of potato crisps. Marketers, however, should always realise that what is amusing and funny in one culture may not transfer to another.
- **Animation.** Recent and dramatic advances in animation technology provide the opportunity to register effectively with both child and adult audiences. Children appreciate mini-stories featuring their favourite TV and film characters. Adults laugh at the 'Ask Churchill the dog' screenings.
- **Sex.** The use of sex and sexual innuendo is both powerful and controversial as it usually attracts attention. Recent such screenings in the UK include campaigns for fast-moving consumer goods – such as confectionery and cosmetics – and durables such as cars.
- **Music.** Music is a powerful aid to recall. Old screenings of lawn fertiliser advertisements can easily be reused every season and audiences warm to familiar jingles. Classical music is frequently used to suggest 'quality' in some shape or form.
- **Fantasy and surrealism.** Fantasy is used to provide a distraction from expected or everyday life events and so create 'space' for a market-offering message. The advertisements are different and either appeal or distract. Guinness has acquired a quality reputation over the years for such messages, and car companies such as Citroën, Honda and Toyota are increasingly following suit.

Mood indigo

Literature research has shown that persuasive impact is greater if the target audience is in a happy, benevolent mood. A limitation of many studies concerning mood and advertising effectiveness, however, is that mood is manipulated under experimental, 'laboratory' conditions. As many authors state, these studies require replication under more realistic conditions. Research by Bonner et al. and others[79] has shown that target audiences are often in a better mood on Sundays.

Creating customer value, satisfaction and loyalty to develop and sustain long-term advantage in highly competitive markets is the marketer's commission. Such a commission requires vision, mission and a determination to 'delight' customers, for, as César Ritz, the famous Swiss hotel proprietor, quipped: '*Le client n'a jamais tort*' ('The customer is never wrong').[80]

SUMMARY

1 Customers are value maximisers. They form an expectation of value and act on it. Buyers will buy from the firm that they perceive to offer the highest customer-delivered value, defined as the difference between total customer benefits and total customer cost.
2 A buyer's satisfaction is a function of the product's perceived performance and the buyer's expectations. Recognising that high satisfaction leads to high customer loyalty, many companies today are aiming for TCS – total customer satisfaction. For such companies, customer satisfaction is both a goal and a marketing tool.
3 Losing profitable customers can dramatically affect a firm's profits. The cost of attracting a new customer is estimated to be five times the cost of keeping a current customer happy. The key to retaining customers is relationship marketing.
4 Quality is the totality of features and characteristics of a product or service that bears on its ability to satisfy stated or implied needs. Marketers play a key role in achieving high levels of total quality so that firms remain solvent and profitable.
5 Marketing managers must calculate the customer lifetime values of their customer base to understand their profit implications. They must also determine ways to increase the value of the customer base.
6 Companies are also becoming skilled in customer relationship management, which focuses on developing programmes to attract and retain the right customers and meet the individual needs of those valued customers.
7 Future marketing managers should be able competently to develop and maintain customer relations. In this respect, companies not only may be competing against other companies but also may belong to networks that are competing against other networks.
8 The world of business is moving away from a company- and product-centric view of value creation towards an experience-centric view of the co-creation of customer-perceived value.
9 The experience economy is a relationship marketing concept that needs to be interpreted by providers, in an appropriate way for their market activities. It is a matter of fine-tuning market offerings in terms of customer effectiveness and provider efficiency, and with regard to the wider societal implications of marketing activities, as argued by the 'critical' movement.
10 Most markets are characterised by an excess of providers, thus empowering consumers through the mechanism of their choice of supplier.
11 The added complexity of widespread buyers' choice in most markets has brought many companies to deeply challenging times.

APPLICATIONS

Marketing debate

Online versus offline privacy As more and more firms practise relationship marketing and develop customer databases, privacy issues are emerging as an important topic. Consumers and public interest groups are scrutinising – and sometimes criticising – the privacy policies of firms and raising concerns about potential theft of online credit card information or other potentially sensitive or confidential financial information. Others maintain that the online privacy fears are unfounded and that security issues are every bit as much a concern in the offline world. They argue that the opportunity to steal information exists virtually everywhere and that it is up to the consumer to protect their interests.

Take a position: (1) privacy is a bigger issue in the online than the offline world *versus* privacy is no different online than offline; (2) consumers on the whole receive more benefit than risk from marketers knowing their personal information.

Marketing discussion

Consider the lifetime value of customers (CLV). Choose a business and show how you would go about developing a quantitative formulation that captures the concept. How would that business change if it totally embraced the customer equity concept and maximised CLV?

FURTHER READING

V. Melnyk and T. Bijmolt (2015) The effects of introducing and terminating loyalty programs, *European Journal of Marketing*, 49(3/4), 398–419.

This paper empirically investigates the effects of a loyalty programme (LP) introduction and termination, accounting for simultaneous effects of LP designs, cross-customer effects and competition effects. Despite firms across the globe spending billions of dollars on LPs, it is not clear: whether these programmes enhance customer loyalty, what happens if a programme is terminated and which LP design elements enhance the effectiveness of LPs.

While the characteristics of LP are more important in influencing customer behaviour when they join the LP, the competitive environment and the duration of membership in an LP are the primary drivers of customer reactions to LP termination. Non-monetary discrimination between members and non-members, such as customer-perceived value, is a more powerful tool in creating customer loyalty than offering higher discounts or saving points. The effect of discrimination on loyalty sustains when an LP is terminated.

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CHAPTER 12
Creating and managing brands and brand equity

In this chapter, you will learn about the following topics:

1. What we understand by brand management
2. The key strategic brand management decisions
3. How to create and manage brand identities
4. About brand equity and how it can be measured

Procter & Gamble successfully markets nearly 300 brands in 160 countries
Source: Art Directors & TRIP/Alamy.

One of the most valuable intangible assets of a firm is its brands. Building a strong brand is both an art and a science. It requires careful planning, a deep long-term commitment and creatively designed and executed marketing. A strong brand commands intense consumer loyalty, and at its heart is a great product or service. Building a strong brand is a never-ending process. The most successful brands in the world are worth billions to companies. Zara, the Spanish fashion retailer brand, has a brand value of €15 billion, IKEA, the Swedish furniture brand, is valued at €18 billion while BMW, the German car manufacturer, is valued at €41 billion.[1] How marketers create and manage brands is of the utmost importance. More than one-third of the world's most powerful brands are European.

Marketers of successful twenty-first-century brands must excel at the strategic brand management process despite market, societal and political challenges.[2] **Strategic brand management** combines the design and implementation of cross-functional marketing activities and programmes to build, measure and manage brands to maximise their value. It has four main steps:[3]

- Identifying and establishing brand positioning.
- Planning and implementing brand marketing.
- Measuring and interpreting brand performance.
- Growing and sustaining brand value.

Chapter 10 covered brand positioning and the other three topics are discussed in this chapter, with digital and global branding discussed in Chapter 13.

Procter & Gamble (P&G) is one of the most skilful marketers of consumer packaged goods, competing with companies such as Europe's Unilever, Colgate-Palmolive, L'Oréal, Germany's Henkel and the UK and Dutch company Reckitt Benckiser. P&G owns many household brands, such as Olay, Fairy Liquid, Pringles, Pampers, Braun, Pantene, Oral-B, Ariel, Crest, Wella, Always and Gillette, and has 23 per cent of its global sales within the European market. The company's scope and accomplishments are staggering. It markets nearly 300 brands in more than 160 countries; it is a global leader in seven of the 12 different product categories in which it competes; P&G has 23 brands with annual sales of between €1 billion and €10 billion, and 14 with sales of between €500 million and €1 billion – many of those with billion-euro potential. Nearly all of its 23 top brands and the vast majority of its €500 million to €1 billion brands hold the number one or two positions in their category or segment, and they all have significant growth and value creation potential. The company had total worldwide sales of more than €65 billion in 2017.[4]

Its sustained brand leadership rests on a number of different capabilities and philosophies:

- **Customer knowledge.** P&G studies its customers – both end consumers and channel members – through continuous market research and intelligence gathering, spending hundreds of millions annually to understand customer needs.

- **Long-term outlook.** P&G takes the time to analyse each opportunity carefully and to prepare the best product. It then commits to making this product a success. It struggled with Pringles for almost a decade before achieving market success and selling the brand to Kellogg's.
- **Product innovation.** P&G is an active product innovator, devoting over €2 billion (3.5 per cent of sales), resulting in winning innovations such as Crest Pro Health and Meta Wellness supplements. It employs more science PhDs than Harvard, Berkeley and MIT combined and applies for roughly 3,000 patents each year.[5]
- **Brand extension strategy.** P&G produces its brands in several sizes and forms to gain more shelf space and prevent competitors from moving in to satisfy unmet market needs. The Mr Clean brand has been extended from a household cleaner to a bathroom cleaner, and then to a carwash system.
- **Multibrand strategy.** P&G markets several brands in the same product category, such as Luvs and Pampers nappies and Oral-B and Crest toothbrushes. Each brand meets a different consumer desire and competes against specific competitors' brands, while other brands are regularly pruned and reviewed.
- **Brand-management system.** P&G originated the brand-management system, in which one executive is responsible for each brand. The system has been copied by many competitors, but not often with P&G's success.

P&G's brand management strategy is based not on doing one thing well, but on successfully orchestrating the myriad factors that contribute to form brand leadership.[6]

The iconic brand LVMH opened the Foundation of Louis Vuitton Building to align with its brand values of fostering high quality and design globally
Source: Soltan Frédéric/Corbis Documentary/Getty Images.

The main benefit of a brand is that customers will remember your business. Managing brands means managing all aspects of the company. In branding, 'everything matters'. Louis Vuitton, the French luxury handbags brand, is the world's most valuable and profitable luxury brand and it closely manages and controls every aspect of how its brand is perceived (see the Foundation of Louis Vuitton Building pictured). During renovation work at its flagship store on the Champs-Elysées in Paris, it used a giant visual of Louis Vuitton luggage to cover the scaffolding – so that its store continued to reflect its brand image.

Understanding brand management

Brands can be extremely valuable assets and an engine for growth within companies. A core management skill of marketers is their ability to create, maintain, enhance and protect brands through their use of all the marketing mix variables. Building a brand is a very expensive and long-term development for companies and must be managed with great expertise, both tactically and strategically.[7]

What is a brand?

A **brand** is a name, symbol, logo, design or image, or any combination of these, which is used to identify a product or service and distinguish it from those of competitors. A brand is an entity that offers customers (and other relevant parties) added value over and above its functional performance.[8] Branding can occur for a product (Pantene shampoo, BMW X5 series), a service (France Telecom, Aviva general insurance), a shop (Les Galeries Lafayette, Carrefour), a person (David Beckham, Jamie Oliver), a place (Paris, the Costa del Sol), an organisation (UNICEF, the Automobile Association), a group (Twenty One Pilots, Coldplay) or an idea (free trade, freedom of speech).[9] A successful brand is augmented in such a way that the buyer or user perceives relevant unique, sustained added value that matches their needs most closely.[10] A brand basically exists to distinguish a particular product or service from its competitors. A brand is the embodiment of customer goodwill or their feelings and experiences accumulated during the lifetime of use and engagement with the brand. The Chartered Institute of Marketing (UK) defines a brand as a symbol that represents the consumer's experience with an organisation, product or service. A brand is a product or service whose dimensions differentiate it in some way from other products or services, designed to satisfy the same need. It can be viewed as a holistic, emotional and intangible experience. A brand can be strong enough to evoke feelings of belonging, love and affection. Research has continually identified the emotional responses associated with brands, such as sensory pleasure, aesthetic beauty or excitement.[11] For example, 35 per cent of consumers said 'Mercedes' when asked to name a car that described quality–a reflection of how the brand Mercedes is associated with quality and luxury in the market.

Powerful brands create meaningful images in the mind of the consumer. British Airways, LEGO, Gillette, Harvey Nicols and Cadbury are all European brands that command a strong position and image in consumers' minds, have a price premium and elicit deep customer loyalty.[12] Newer companies such as Google, Innocent, Red Bull and Zara capture the imagination of consumers and have quickly become major brands. Brands such as Ryanair and EasyJet, Aldi and Lidl have all captured market share and brand loyalty in the low-price, low-service area.

Brand management is the companywide practice and process of endowing products and services with the power of a brand. It is all about creating differences between offerings. Marketers need to teach consumers 'who' the offering is, by giving it a name and other brand elements to identify it, as well as what the offering does and why consumers should care. Branding creates mental structures that help consumers organise their knowledge about products and services in a way that clarifies their decision making and, in the process, provides value to the firm.

Branding has been around for centuries and has survived despite many controversies.[13] In 2700 BC, Egyptians used trademarks on farm animals to protect them from being stolen. In Europe, the medieval guilds required craftspeople to put trademarks on their products to protect themselves and their customers against inferior-quality products. In 1266, under English law, bakers were obligated to put their specific symbol on every product they sold. In the fine arts, branding began with artists signing their works. Nowadays the influence of brands in our society is widespread, evidenced by the fact that children as young as three years old can recognise brand logos. A study that provoked much debate about the effects of marketing on children showed that pre-schoolers felt identical food items – even carrots, milk and apple juice – tasted better when wrapped in McDonald's packaging than when in unmarked wrappers.[14]

The roles of brands

Brands play many roles. Two of the main roles are functional and emotional roles:

- **Functional role of brands.** This relates to the actual performance of the product or service. Did the product work; did the service provide what was needed? The focus is on the tangible, rationally assessed product or service performance and benefits that satisfy the consumer's practical needs. Functional aspects of products and services were prevalent in the early twentieth century as companies stressed how well their offerings worked. This was because in some cases the functionality could not be assured. Unlike nowadays, car owners did not always expect their cars to start and many people could service their own cars. Today we are more assured that the products or services will work, and many of the functional benefits of products and services are similar, so rather than competing on functionality there has been a major move to brand management investing in designing an emotional connection.
- **Emotional role of brands.** This is concerned with the move away from the functionality of the brand to connecting with the customer emotionally – building emotional ties with the customer rather than focusing on how the product or service works.[15] Nike, for example, does not mention its product or the functional values of its sports shoes but relates to the emotional connection to great athletes. Nike is about winning and all the emotions connected with winning. **Emotions** are an affective state of consciousness in which feelings of joy, sorrow, fear, hate or the like are experienced and these emotions can play a powerful role in the customer's selection, satisfaction and loyalty towards brands. Marketers need to understand the emotional dynamics involved when a customer selects and decides to continue to use a product or service brand. Research has confirmed that modern *consumers no longer simply buy products and services; instead they buy experiences and dreams.*[16] **Emotional branding** is engaging the consumer on the level of senses and emotions, forging a deep, lasting, intimate emotional connection to the brand that transcends functional satisfaction. It involves creating a holistic experience that delivers an emotional fulfilment through a special bond with the brand.[17] As Robert Polet, chief executive of the Gucci Group, noted: 'We are not in the business of selling handbags. We are in the business of selling dreams!'[18] Marketing is not a battle of products and services, it is a battle of perceptions. The power of a brand lies in what resides in the minds of customers – what they learned, felt, saw and heard about the brand as a result of their experiences over time and how they feel about the brand.

Many marketing experts believe that a good brand should have both functional and emotional bond components. In other words, they should appeal to the head (actually work as desired) and the heart (have an emotional connection). A **brand promise** embodies a clear idea and value proposition, and it connects with people on functional *and* emotional levels.[19]

The 'Marketing insight' box reviews the Lexus brand, which uses a range of emotional branding connections to consistently gain the top-ranking customer satisfaction spot in its industry.

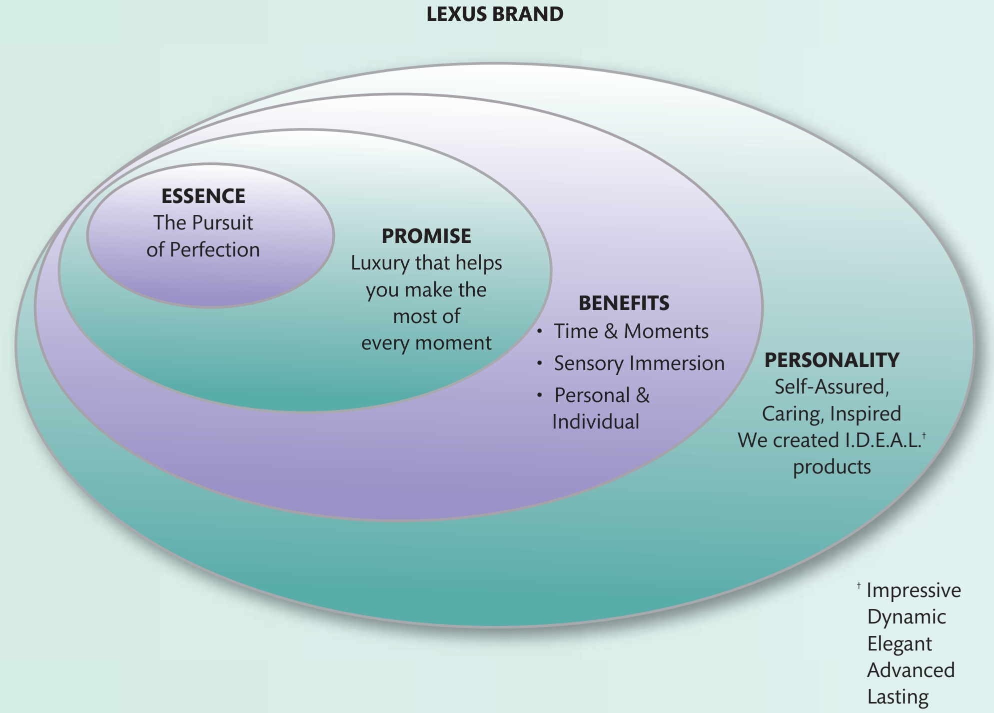
Marketing insight

Toyota's Lexus creates an emotional brand connection

The idea of Toyota competing in the luxury BMW and Mercedes brand arenas in Europe was something both the market and Toyota did not think was possible. Toyota was not positioned as a premium brand in the minds of consumers, so what it had to do to compete in this market segment was to *create* a premium brand. Although it shared engineering, chassis and design elements with other Toyota cars, the Lexus was the model developed to go beyond that and into the luxury domain in functionality – a great car – and also in emotional connection with the customer. According to Toyota, it is 'always focused on what matters most to the luxury customer. This is why we build products that are not only admired on the outside but also highly refined on the inside. And why we don't simply produce fine cars but pursue perfection to create the finest luxury vehicles on the road. It's also why we don't merely offer an excellent dealership experience but one that is unequalled in the luxury automotive category. And why we promise to make the most of every moment our customer spends with us.'

Lexus has shown its consistency in brand positioning, creating a brand service experience valued by the customer. Almost 96 per cent of Lexus customers said that their cars were perfectly serviced.

The Lexus brand engages emotionally with its customer through formal brand guidelines.



Lexus creates an emotional brand connection through a combination of brand essence, promise, benefits and personality.
Source: Lexus Brand Guidelines, http://images.mileone.com/matt/mwlogos/Lexus/LexusBrandGuideline.pdf , p. 3.

In our consumer culture, people no longer consume for merely functional or emotional satisfaction. Consumption becomes meaning based, and brands are often used as symbolic resources for the construction and maintenance of identity.[20] Brands are consumed because of what they symbolise.[21] People can express themselves – their identities – through their brand choices. Take a look around you; look at how people brand themselves by the clothes they wear, the people they associate with, the places they go, what they consume, what music they listen to, and what they upload on their iPods or to their online social networking site. This is all part of personal branding, and shows how the concept of branding is so prevalent within our society that it permeates into the core of life.[22] A **lifestyle brand** is a brand that attempts to embody the interests, attitudes and opinions of a group or a culture and can be seen as a way to break free of the cut-throat competition within a category by connecting with consumers on a more personal level.[23] Two companies that are lifestyle brands are Italian car manufacturer Ferrari and Apple, which have linked into people's lifestyles, creating almost a club of people who buy into the beliefs of their brand. As the president of Ferrari, Luca di Montezemolo, noted: 'We make cars, they make computers, but Apple and Ferrari join in the same passion and love towards the product, the absolute care about technology and design.' Consumers aspire to having the lifestyle promoted by these products, feeling that when they buy the brand they are part of something and have a sense of belonging.

The self-expressive function of brands can be related to the notion of *conspicuous consumption*, a term used to describe the acquisition of products and services mainly for the purpose of attaining or maintaining social status.[24]

Let us distinguish between brand identity and brand image. **Brand identity** is the way a company aims to identify or position itself or its product or service in the minds of the consumer. **Brand image** is the way the consumer actually perceives the visual or verbal expressions of a brand, which leads to the psychological or emotional associations that the brand aspires to maintain in the mind of the consumer.[25] So, identity is company planned while image is in the mind of the consumer. For the right brand image to be established in the minds of consumers, the marketer must convey brand identity through every available marketing mix variable. Brand identity should be diffused into everything the company does.

The power of the brand lies in what resides in the mind of the consumer. **Brand knowledge** consists of all the thoughts, feelings, images, experiences, beliefs and so on that become associated with the brand. In particular, brands must create strong, favourable and unique brand associations with customers. Think of Volvo (safety), Hallmark (caring) and Red Bull (adventure). Understanding consumer brand knowledge – all the different things that become linked to the brand in the minds of consumers – is thus of paramount importance because it is the foundation of **brand equity** – which is the added value the brand gives a product or service as compared with its generic equivalent, and is the commercial assessment of the brand value to the organisation. Brands are often considered a company's most valuable asset. It is the value above and beyond its objectively perceived value.[26] Consider L'Oréal.

L'Oréal, Maybelline and many more

L'Oréal, the French personal care company headquartered in Clichy, Hauts-de-Seine, currently markets over 500 brands in all sectors of the beauty business including: L'Oréal Professional hair products, Maybelline cosmetics, Garnier hair and skin products, Vichy skin care, Biotherm skin care, Kiehl's skin care, Lancôme cosmetics, Shu Uemura cosmetics, Redken hair products, Helena Rubenstein cosmetics, Elvive hair care and Plénitude skin care range.

Why would L'Oréal want to own so many competing brands and also keep innovating and bringing out new brands? Simple. Each brand is positioned towards a different type of consumer and lifestyle choices. Lancôme, for example, is one of the heavyweights of the cosmetics world, providing glamour for those for whom money is no object. Shu Uemura is the work of Mr Shu Uemura, a Japanese make-up artist, and in typical Japanese fashion offers a high-quality blend of art, technology and style. Maybelline focuses on a larger, younger market. The L'Oréal brand sits nicely in the mainstream – it has good, consistent products at affordable prices, and has captured the imagination of a select target market with a tagline suggesting that people who buy L'Oréal consider themselves worth the investment in this product.[27]

The **brand religion model**[28] describes the evolution of the role of brands in consumers' lives as a five-stage process. Figure 12.1 highlights the steps that customers can go through as they move forward in their beliefs about brands. Weak brands play the role of mere *products or services* in people's lives; they have no meaning beyond their functionality. *Concept brands* carry with them emotional values that resonate with consumers and call for increased involvement. *Corporate concepts* are those brands that reflect the corporate strategy, expressing a wider philosophy that extends throughout the company. More valuable still are those brands that become **brand cultures**, seen by consumers as being fully embedded in their social lives. The most coveted place on this evolution is when a product or service achieves a status of a *brand religion,* when consumers view it as a total way of life. Nike has worked hard to create fanatic fans waiting anxiously for and loyal to their running shoes. Brand religion is particularly important for small-to-medium businesses because it leverages the power of small communities to evangelise the product or service.

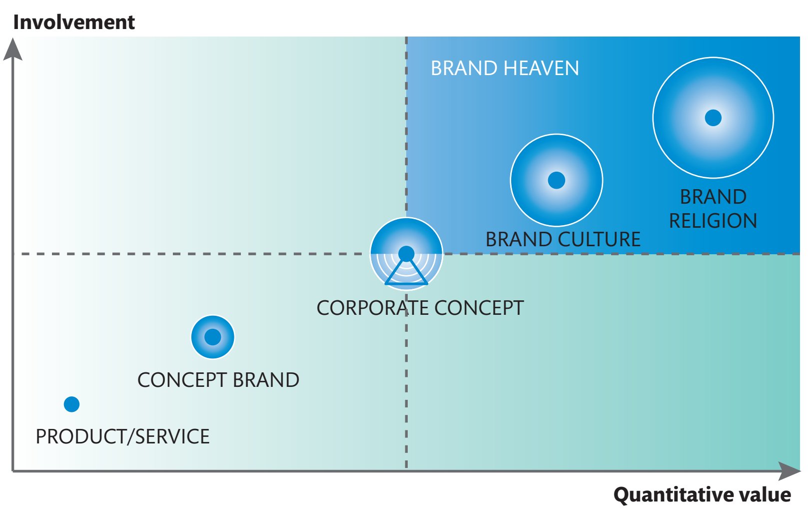


Figure 12.1 Brand religion model

Source: J. Kunde (2002) *Corporate Religion*, Harlow, UK: Financial Times Prentice Hall. © 2002 Pearson Education. Reproduced with permission. Kunde & Co. (2011).

Marketing in practice

Brand advantages

Brands provide many advantages to customers and companies, and valuable functions for companies within their channels of distribution and networks:[29]

- Brands signal a certain level of quality or expected level of satisfaction.[30]
- Brands reduce the perceived risk in purchasing, and the time needed to make decisions. As consumers' lives are often complicated, rushed and time starved, the ability of a brand to simplify decision making and reduce risk is invaluable.[31]
- A brand offers legal protection for unique features.[32] The brand name can be protected through registered trademarks. These intellectual property rights ensure that a company can safely invest in a brand and reap the benefits of a valuable asset.
- Brands create greater customer loyalty, which provides predictability and security of demand for the company and creates barriers to entry that make it difficult for other companies to enter the market.
- Brand loyalty also means that companies are less vulnerable to competitive marketing activities or to business crises.
- Brand loyalty can also translate into customer willingness to pay a higher price – often 20–25 per cent more than for competing brands.[33] Brand loyalty often ensures that customers are more receptive to price increases.
- Brands are hard to copy. Although competitors may duplicate many of the marketing mix activities, they cannot easily match lasting impressions left in the minds of individuals by years of marketing activity and customer experiences.
- Branding can be a powerful means to secure a competitive advantage.[34]
- Brands help companies to differentiate their offerings from others'. Think of the perception of the high level of service provision from airlines such as Air France-KLM, British Airways and Lufthansa as opposed to low-price, minimal service from Ryanair and EasyJet. All offer the customer air travel, but the brands reflect different levels of service.
- Brands increase marketing communication efficiencies.
- Brands elicit stronger support from channel and supply network partners.
- Brands create growth opportunities through brand extensions and licensing.
- Brands help companies to segment their markets and enable them to have a variety of products or services within the same market but aimed at different target markets.

Strategic brand management decisions

Brand management uses the choice, design and implementation of marketing mix activities to build, measure and manage the brand value.[35] **Strategic brand management** is the long-term effort of consciously providing an offering with an identity that is understood on all levels. It is the sustained effort by the company to encourage people to see its brand in the light in which it portrays it. This is a focus on people both internally and externally and includes customers, employees, suppliers and distributors – see the brand advantages in the 'Marketing in practice' box.

Strategic brand management can dramatically increase corporate success, according to a study by Booz Allen Hamilton, which noted that 80 per cent of European companies that are managed with a strong brand focus have operating profits twice as high as the sector average.[36] Companies' stock values reflect a belief that strong brands result in better earnings and profit performance, which, in turn, create greater value for shareholders.[37] See the 'Marketing insight' box.

An important issue is to have a **brand vision** that offers a clear and consistent message about the value of the brand. A brand vision involves recognising the inherent potential of a brand, which is based in part on its brand equity – the value of the brand to the company. The brand value is increased if the right marketing processes, programmes and activities are put in place.

There must be clear value propositions from the consumer perspective. The long-term brand vision is operationalised through both long- and short-term marketing endeavours. Marketers must provide a clear sense of direction for each employee within the company to appreciate how their role affects brand values. The four core activities are:

1. Ensure identification of the brand with customers and an association with the brand in customers' minds with a specific product or service class or customer need.
2. Firmly establish the brand meaning in the minds of customers (by strategically linking a host of tangible and intangible brand associations).
3. Elicit the proper customer responses to this brand identity and brand meaning.
4. Convert brand response to create an intense, active loyalty relationship between the customer and the brand.

Marketing insight

Europe's brand-orientated companies almost twice as successful

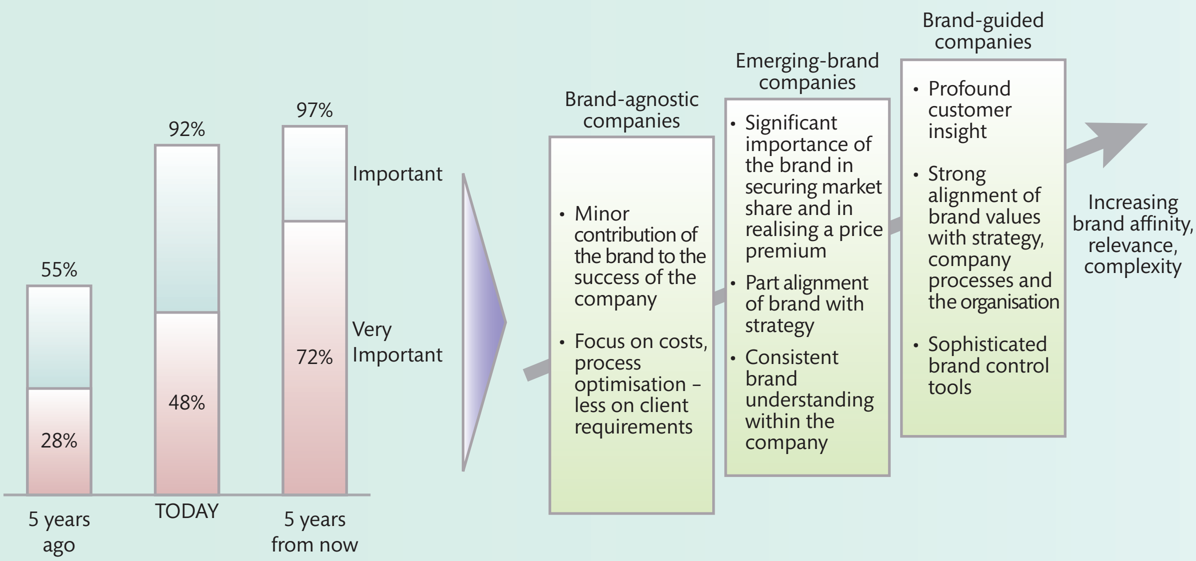
Strategic brand management can dramatically increase corporate success, according to a study by Booz Allen Hamilton and branding experts Wolff Olins, based on interviews with leading marketing and sales executives at Europe's top 500 companies.

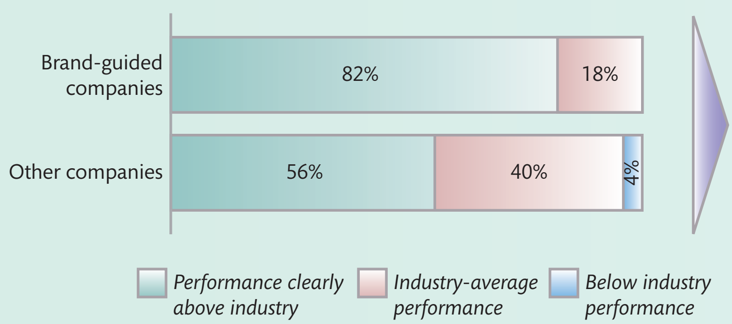
Some 90 per cent of the companies surveyed are convinced that brand orientation is a key factor in their success.

The study places companies into one of three categories:

1. **Brand-agnostic companies:** management assumes that branding makes only a modest contribution to corporate success, as it focuses instead on factors such as costs and optimising processes.
2. **Emerging-brand companies:** on the threshold of full-brand orientation. These companies recognise the growing importance of a brand's contribution to value and have already begun to embed it into their corporate strategy.
3. **Brand-guided companies:** already rigorously implementing brand management to achieve corporate success. The study revealed a clear correlation among brand-guided companies, the application of sophisticated marketing techniques and corporate success.

Companies with a strong brand orientation more frequently measure the key ratios that enable them to manage their marketing performance. For example, 45 per cent regularly calculate their share of their customers' total spend, compared to 24 per cent of the other companies surveyed; 64 per cent of brand-guided companies regularly examine whether their brand position allows any degree of price flexibility, compared





• Case study, banks: brand-guided companies surveyed achieve a return on equity of 19% against 8% for remaining players

• Case study, industrial goods: brand-guided companies surveyed achieve an EBITDA of 17% against 10% for remaining players

Importance of brand orientation in company performance, according to the statements of the interviewees

Source: Booz Allen Wolff Olins (2004) European Survey Among Marketing and Sales Officers, August, in G. Harter, A. Koster and M. Peterson (2005) *Managing Brands for Value Creation*, New York: Booz & Co., 2, Exhibit 1, Exhibit 2.

to only 20 per cent of brand-agnostic or emerging-brand companies.

The study also revealed another common trait shared by brand-guided companies. Brand management is handled at the strategic management level of the organisation and is closely tied to developing strategy and managing the organisation.

The best brands play a different, connected, collaborative role, and they are fascinating. Growth is no longer just a matter of market share. In a world dominated by constraint, the brands that grow do so by understanding and meeting more and more needs and producing products and services to meet those needs. Growth is about share of mind and wallet, not simply share of market.

Sources: Wolff Olins (2012) Game Changers: A report by Wolff Olins, Five behaviours that are shaping the future of business, http://slatier1.rssing.com/chan-3170012/all_p4.html#item61; G. Harter, A. Koster, Dr M. Peterson and M. Stomberg (2005) *Managing Brands for Value Creation*, New York: Booz, Allen, Hamilton; https://www.strategyand.pwc.com/media/uploads/Managing_Brands_for_Value_Creation.pdf.

Different marketing activities have different strengths and can accomplish different objectives. Marketers should therefore engage in a range of marketing mix activities, each of which plays a specific role in building or maintaining the brand. Sometimes marketers do not understand the real importance of all aspects of marketing to their brand until they change a crucial element of the brand and over time see the effects. An example is Burberry, the British luxury brand, which had to be repositioned skilfully after it lost control of aspects of its marketing.

Burberry

Burberry found, to its cost, that how the consumer views a company and its brand can change. The familiar check pattern, synonymous throughout the world as the Burberry brand of luxury and elitism, began to be worn by more and more people, including C-grade celebrities. The distinctive beige Burberry check, once only associated with A-listers, had become the uniform of a rather different social group within the UK called 'chavs'. 'Chav' is a mainly derogatory slang term for a person fixated on low-quality or counterfeit goods and is often associated with anti-social behaviour. Burberry's appeal to 'chav' fashion sense was a sociological example of prole drift (short for proletarian drift), where an up-market product begins to be consumed *en masse* by a lower socioeconomic group. Burberry argued that the brand's popular association with 'chav' fashion sense was linked to counterfeit versions of the clothing.

Burberry had to react fast to the damage to its brand image. From a product perspective it removed the checked pattern from all but 10 per cent of its product range and discontinued sales of baseball caps from its product line. Burberry also cracked down on fake/counterfeit goods through RFID tags and sensor technology. It also took legal action against high-profile infringements while also changing its supply network, reverting to up-market shops only, reflecting its brand image.[38] This brand recapture worked and Burberry is now the seventh most-valuable luxury brand in the world.

Strategic brand management focuses on building the brand after the positioning choices (Chapter 10) have been made. It is the planning and implementing of a brand management programme that consists of the following six main features:

1 Creating and managing brand identities: names, logos, slogans and images.
2 Managing individual or house brand names.
3 Manging brand extensions.
4 Managing brand portfolios.
5 Brand reinforcing and revitalisation.
6 Growing and sustaining brand equity.

We will look at each of these in turn.

Creating and managing brand identities: names, logos, slogans and images

As more and more firms realise that the brand identities associated with their offerings are among their most valuable assets, creating, maintaining and enhancing the strength of those brand identities has become a marketing management imperative.[39] There are three main challenges to creating and managing brand identities:

1 The initial brand identity choices include the brand names, URLs, logos, symbols, characters, slogans, jingles, websites, product or service design and features, signage, packaging and so on. Juicy Couture, for example, is an edgy, contemporary, cutting-edge fashion brand and so uses a somewhat risqué name linked to a rebellious attitude.[40]
2 All accompanying marketing mix activities such as product, price, place, promotion, physical evidence, process and people must support the brand.
3 Other associations need to be transferred indirectly to the brand by linking it to other entities (people, places or things) called **secondary brand associations**. The brand name Credit Suisse, used as a symbol of reliability in commercial banking, leverages the perceived view of the country as reliable in banking.

Choosing brand elements

Brand elements are devices that can be trademarkable and that identify and differentiate the brand. Most strong brands employ multiple brand elements. Nike uses the distinctive 'swoosh' logo (one of the most recognised brand logos in the world), the empowering 'Just Do It' slogan and the 'Nike' name based on the Greek winged goddess of victory. Marketers should choose brand elements to build as much brand equity as possible. The test is how consumers would think or feel about the offering if the brand elements were all they knew.

Brand element choice criteria

There are six main criteria for choosing brand names, listed below. The first three – memorable, meaningful and likeable – are 'brand building'. The latter three – transferable, adaptable and protectable – are 'defensive' and deal with how to leverage and preserve the equity in a brand name in the face of challenges.

In general, brand names should be short and simple, easy to pronounce and spell, pronounceable in only one way and one language, and easy to recognise and remember. Many, such as BBC and MasterCard, follow the criteria below, while some very successful names do not – such as Birkenstock, Adidas and Stella Artois.

1 **Memorable.** How easily is the brand element recalled and recognised? Short names such as Virgin, Sky, Dove and Zara are memorable brand names.
2 **Meaningful.** Is the brand name credible and suggestive of the product or service? Does it suggest something about a product ingredient or service quality, or the type of person who might use the brand? Consider the inherent meaning in names such as Crisp'n Dry, Head and Shoulders, Fast Fit Exhausts, Right Guard deodorant, Sure Underarm Protection, Energizer Batteries and Lean Cuisine low-calorie foods.
3 **Likeable.** How aesthetically appealing is the brand name? Is it likeable visually, verbally and in other ways? A trend is playful names, such as Flickr photo sharing. Brand names such as Mr Muscle, Little Chef and Shake n' Vac are likeable names. Many characters associated with brands are also inherently likeable. Think of Snuggle the fabric softener bear, or Tony the Tiger from Frosties.[41]
4 **Transferable.** Can the brand element be used to introduce new products or services in the same or different categories? Does it add to brand equity across geographic boundaries and market segments? Though an American company, Amazon, as the largest river in the world, was the name chosen to reflect a global brand vision.
5 **Adaptable.** How adaptable and updatable is the brand name? Take Zara – the brand name is adaptable and timeless across its markets.
6 **Protectable.** How legally protectable is the brand name? Names that become synonymous with product or service categories can be difficult to manage. Brand names such as Kleenex, Hoover, Sellotape, Google, Xerox and Band-Aid have all become known as the general title for the product or service. For example, you hear people saying, 'Did you google that?' or 'Do you have a band-aid?'.

See the 'Marketing in practice' box for further discussion of brand names.

Developing brand elements

Brand elements can play a number of brand-building roles.[42] Brand elements should be easy to recognise and recall, and inherently descriptive and persuasive. The likeability and appeal of brand elements may also play a critical role in awareness and associations, leading to high brand equity.[43] The Snap, Crackle and Pop characters from Kellogg's reinforce the sense of magic and fun for breakfast cereals. The three elf brothers made their debut in 1933 but have since had several makeovers and still maintain their popularity. Birds Eye also developed an image that remains relevant today – Captain Birdseye still sails the Birds Eye ship. Many UK-based insurance companies have used symbols of strength (the Rock of Gibraltar for Prudential and the stag for Hartford), security (the eagle of Eagle Star with the tag line 'we will take you under our wing'), and agility and strength (the horse for Lloyds Bank).

Marketing in practice

Brand names come in many styles.

- **Acronym:** a name made of initials, e.g. BP, UPS and IBM.
- **Descriptive:** names that describe a product benefit or function, e.g. Whole Foods, Volkswagen and Airbus.
- **Alliteration and rhyme:** names that are fun to say and stick in the mind, e.g. LuLuLemon, Ted Talks, Range Rover.
- **Evocative:** names that evoke a relevant vivid image, e.g. Amazon and Crest.
- **Neologisms:** completely made-up words, e.g. Wii and Kodak.
- **Foreign words:** adoption of a word from another language, e.g. Volvo and Samsung.
- **Founders' names:** using the names of real people or the founder's name, e.g. Henkel and Adidas. Alfa Romeo combines an acronym from Anonima Lombarda Fabbrica Automobili (ALFA) with Romeo added when Nicola Romeo bought ALFA in 1915.
- **Geography:** many brands are named after regions and landmarks, e.g. Dijon Mustard – named after the town of Dijon where it was first made.

Remember – many of the rules can and will be broken – think Diageo or even Google, which is a cutesy misspelling of the mathematical term 'googol'.

Source: R. L. G. (2014) Branded a fool, The Economist, www.economist.com/blogs/prospero/2014/10/johnson-brand-names; Merriam Associates (2009) Styles and types of company and product names, http://lisamerriam.com/?s=styles+and+type&searchsubmit=

Brand slogans

Brand slogans or taglines are an extremely efficient means to build and manage brands, and are externally focused. **Brand slogans** are part of a persuasive appeal that is intended to convey in words something good or to remind consumers of a brand's attributes.[44] Brand slogans or taglines help to attain humanlike personality traits for the brand, which allow consumers to develop emotional attachments. Therefore the brand slogans or taglines can function as useful 'hooks' or 'handles' to help consumers grasp what the brand is and what makes it special – summarising and translating the intent of the total marketing programme. Think of the inherent brand meaning in slogans such as KitKat's 'Have a break – have a KitKat'; Carlsberg's 'Probably the best lager in the world' or its more recent 'That calls for a Carlsberg'.

KitKat chocolate bar created the well known brand slogan of 'have a break, have a KitKat.
Source: Page frederique/Shutterstock.

Brand mantras

To support the intent of brand positioning and the way companies would like consumers to think about the brand, it is often useful to define a brand mantra as an internal focus for the brand, whereas the brand slogan or tagline is an external focus.[45] A **brand mantra** is an articulation of the heart and soul of the brand and is usually a short, three- to five-word phrase that captures the irrefutable essence or spirit of the brand. Its purpose is to ensure that all employees within the organisation and all external marketing partners understand what the brand fundamentally represents, so they can adjust their actions accordingly. Disney's Fun, Family and Entertainment is a good example of a brand mantra.

Brand mantras must economically communicate what the brand is and what it is *not*. What makes for a good brand mantra? A high-profile and successful example is Nike, which shows the power, range and utility of a well-designed brand mantra.

Nike

Nike has a rich set of associations with consumers, based on its understanding of consumer motivations, innovative product designs, its sponsorship of top athletes, its award-winning advertising, its competitive drive and its irreverent attitude. Internally, Nike marketers adopted the three-word brand mantra, 'authentic athletic performance', to guide their efforts. Thus, in Nike's eyes, its entire marketing programme – and not just its products and how they are sold – must reflect those key brand values. Over the years, Nike has expanded its brand meaning from 'running shoes' to 'athletic shoes' to 'athletic shoes and clothing' to 'all things associated with athletics (including equipment)'. Each step of the way, however, it has been guided by its 'authentic athletic performance' brand mantra. For example, as Nike rolled out its successful clothing line, its focus was on being innovative through material, cut and design to truly benefit top athletes. The brand slogan or external tagline is 'just do it', targeted at athletic performance.

Brand mantras are designed with internal purposes in mind. A brand slogan is an external translation that attempts creatively to engage consumers. Here are the three key criteria for a brand mantra:

1 **Communicate.** A good brand mantra should define the category (or categories) of business for the brand and set the brand boundaries. It should also clarify what is unique about the brand, e.g. Nike sets the boundary at 'athletic performance' and Disney focuses on 'family entertainment'.
2 **Simplify.** An effective brand mantra should be memorable. For that, it should be short, crisp and vivid in meaning.
3 **Inspire.** Ideally, the brand mantra should also stake out ground that is personally meaningful and relevant to as many employees as possible.

Brand mantras are typically designed to capture the brand's points-of-difference: that is, what is unique about the brand. Other aspects of the brand positioning – especially the brand's points-of-parity – may also be important and may need to be reinforced in other ways.

Brand narratives and storytelling

Rather than outlining specific attributes or benefits, some marketing experts describe positioning a brand as telling a narrative or storytelling.[46]

Randall Ringer and Michael Thibodeau see **brand narratives** as based on deep metaphors that connect to people's memories, associations and stories.[47] They identify five elements of narrative branding: (1) the brand story in terms of words and metaphors; (2) the consumer journey in terms of how consumers engage with the brand over time and touchpoints where they come into contact with it; (3) the visual language or expression for the brand; (4) the manner in which the narrative is expressed experientially in terms of how the brand engages the senses; and (5) the role/relationship the brand plays in the lives of consumers. Based on literary convention and brand experience, they also offer the following framework for a brand story: (see also Fairy's brand narrative)

- **Setting:** the time, place and context.
- **Cast:** the brand as a character, including its role in the life of the audience, its relationships and responsibilities, and its history or creation myth.
- **Narrative arc:** the way the narrative logic unfolds over time, including actions, desired experiences, defining events and the moment of epiphany.
- **Language:** the authenticating voice, metaphors, symbols, themes and leitmotifs.

Fairy Liquid

A great brand narrative is visible with Fairy Liquid, Britain's number one dish-washing brand, and a trusted household name since it first appeared in 1950. Today, the brand represents a range of products renowned for their cleaning ability and caring nature, with Fairy consistently bringing effective and innovative new formulas to the market. It scores well in the OnePoll AESOP Brand Storytelling Index with the maintenance of a consistent story during its almost 70-year history around virtues such as mildness and domestic harmony, with a soft and caring story of the love between a mother and daughter. Recently, to tap into customer memories, the brand relaunched its historic white bottle, but it did so by asking its social media audience to share their memories of the brand and vote for the best design. 'Every story needs to have content and emotion', says P&G brand director for northern Europe, Roisin Donnelly. 'The brands that are really succeeding today are the ones that differentiate themselves through storytelling.'[48]

Managing individual or house brand names

Another **branding strategy** decision is how to develop a brand name for a product or service category. A brand name should provide a positive contribution to brand equity: for example, it should convey certain value associations or responses. Based on its name alone, a consumer might expect ColorStay lipsticks to be long lasting and Sunkist Orange Juice to be a healthy, natural orange juice full of vitamin C.

Four general strategies are often used:

1. **Individual brand names**. The British/Dutch company Unilever has many individually named brands, including many familiar names such as Hellmann's, Knorr, Birds Eye, Surf, Dove, Pond's and Calvin Klein. A major advantage of an individual names strategy is that the company does not tie its reputation to the individual product or service. If a product or service fails or appears to have a brand image contrary to the company's, the other products or services are not damaged. Companies often use different brand names for different quality lines within the same product or service class. Lufthansa owns most of GermanWings but does not share a name with the low-cost airline, in part to protect the brand equity of its more up-market Lufthansa brand.
2. **Blanket corporate, family or house names.** Many companies use their corporate, family or **house brand**, also called umbrella brand, across their range of products or services.[49] Development costs are lower with blanket brand names because there is no need to manage a separate brand name or spend heavily on advertising to create recognition. Apple works under a family, or umbrella branding strategy. It uses the highly recognisable Apple logo on all its products including computers, phones, accessories, music players and tablets.
3. **Separate family or house names for all products and services.** Inditex, a company most people have probably never heard of, uses separate brand names for its retail shops, from the familiar Zara and Massimo Dutti to Pull & Bear, Stradivarius and Bershka. These are all very different brand names targeted at different segments with various levels of success. If a company produces quite different products, one blanket name is often not desirable. LVMH (Louis Vuitton and Moët Hennessy) manages a whole portfolio of luxury brands under different brand names. They range from wines and spirits (Hennessy, Krug, Belvedere Vodka) to jewellery (TAG Heuer, Chaumet, Bulgari) to fashion labels (Dior, Marc Jacobs, Donna Karan) and perfume (Dior, Gerlain and Givenchy).
4. **Corporate name combined with individual product names.** Kellogg's combines corporate – the Kellogg's name – and individual names. For example, Kellogg's Rice Krispies, Kellogg's Bran Flakes and Kellogg's Corn Flakes. So does Honda, in the Honda Accord, Honda Civic and so on. The company name legitimises, and the individual name individualises, the product or service.

Individual names and blanket family names are sometimes referred to as a 'house of brands' and a 'branded house' respectively, and they represent two ends of a brand relationship continuum. Separate family names come in between the two, and corporate-plus-individual names combine them. Companies rarely adopt a pure example of any of the four strategies.[50]

Two key components of virtually any branding strategy are brand extensions and brand portfolios.

Managing brand extensions

Most new products or services are, in fact, line extensions – typically 80–90 per cent of new products and services introduced in any one year are **brand extensions**. Examples include Mars extending its brand to ice cream and Caterpillar to shoes and watches. Mattel, the owner of the Barbie brand, has had many struggles to extend the Barbie brand from a doll to other products. Aware that its customer base will grow out of playing with their Barbie doll, Mattel has launched a range of Barbie-inspired teenage clothing and also Barbie make-up for teenagers has been launched by Sephora. Dyson innovated in the vacuum cleaning area with the Dyson cleaner and then moved to hand dryers with the Dyson Airblade, and now has a Dyson hair dryer.

Deciding how to brand new or extended services or products is critical and involves three main choices:

1. The company can develop new brand elements for the new product or service.
2. It can apply some of its existing brand elements.
3. It can use a combination of new and existing brand elements.

Brand extensions fall into two general categories.[51] In a **line extension**, the **parent brand** covers a new product or service within a product or service category it currently serves, such as with new

The Apple watch is a brand extension of the iPhone moving their brand closer to wearable technology and the watch market.
Source: Frank Gaertner/Shutterstock.

flavours, forms, colours, ingredients and package sizes. The French food company Danone has introduced several types of Danone yogurt over the years. These include Fruit on the Bottom, All Natural Flavours and Fruit Blends.

In a **category extension**, the parent brand is used to enter a different product or service category from the one it currently serves. Honda is the fifth-largest car manufacturer in the world, as well as the largest engine maker in the world, producing more than 14 million internal combustion engines each year. Honda has used its company name to cover such different products as cars, motorcycles, snowblowers, lawnmowers, marine engines and snowmobiles. This allowed Honda to advertise that it could fit 'six Hondas in a two-car garage'. A successful category extension may not only reinforce the parent brand and open up a new market but also facilitate even more new category extensions.[52] The success of Apple's iPod and iTunes products meant that they: (1) opened up a new market; (2) helped sales of core Mac products; and (3) paved the way for the launch of the iPhone and iPad products. (See also the box feature on Magnum ice cream.)

A **brand line** consists of all products or services – originals as well as line and category extensions – sold under a particular brand. A **brand mix** is the set of all brands a particular seller makes. Many companies produce **branded variants**, which are specific brand lines supplied exclusively to specific retailers or distribution channels. They result from the pressure retailers put on manufacturers to

Magnum pleasure stores

Magnum, the Swiss ice cream brand, is part of the British/Dutch Unilever company and has extended multiple times since the original 1990 Magnum Classic of a thick bar of vanilla ice cream on a stick, covered with white or dark chocolate. In 1994 Magnum ice cream cones arrived, and in 2002 an ice cream sandwich, followed by Magnum Mint, Double Chocolate and other flavours. Magnum then extended into frozen yogurt and 'Mini Moments' bite-size ice cream treats, with a recent extension into Magmilk, which is a luxury liquid ice-cream. Another extension is the pop-up Magnum Pleasure Store, where dipping and choosing toppings gives customers a customised ice-cream brand experience – a brand extension into retailing.

Source: G. Degun (2018) Magnum's Pleasure Store will teach visitors how its ice cream is made, *Campaign*, July, https://www.campaignlive.co.uk/article/magnums-pleasure-store-will-teach-visitors-its-ice-cream-made/1487135.

provide distinctive offerings. Valentino, the Italian designer, designs and supplies different lines of suits and jackets to department stores compared to his own outlets.[53]

A **licensed product or service** is one whose brand name has been licensed to others. Marketers have seized on licensing to push their company name and image across a wide range of products – from bedding to shoes – making licensing a €30 billion-plus business.[54] The Harry Potter brand, which has been valued at over €25 billion, has had phenomenal success with licensing hundreds of products including cups, T-shirts and video games.[55] Hallmark obtained the Harry Potter licence to design Harry Potter greeting cards, wrapping paper and partyware, while Warner Bros own the licence for Harry Potter clothing, ornaments and sweets.

Table 12.1 lists a number of academic research findings on brand extensions. Marketers must judge each potential brand extension by how effectively it leverages existing brand equity from the parent brand, as well as how effectively it contributes to the parent brand's equity.[56] The most important consideration with extensions is that there should be a 'fit' in the mind of the consumer, based on common attributes, usage situations or user types.

Advantages of brand extensions

As the costs of establishing a new brand name are so high, it is understandable that brand extensions are so popular. Extensions can avoid the difficulty – and expense – of coming up with a new name. They also allow for much efficiency across all the marketing mix variables, including distribution, inventory, communications, packaging and labelling. Similar or identical packages and labels can result in lower production costs for extensions and, if coordinated properly, more prominence in the retail store via a 'billboard' effect. For example, Birds Eye offers a variety of frozen foods with similar packaging that increases their visibility when they are stocked together. With a portfolio of brand variants within a product category, consumers who need a change – because of boredom, satiation or whatever – can switch to a different product type without having to leave the brand family.

From a marketing communications perspective, an introductory campaign for an extension does not have to create awareness of both the brand *and* the new product or service, but can concentrate instead on the new product or service itself.[57]

Brand extension success characteristics

Marketers must judge each potential brand extension by how effectively it leverages existing brand equity from the parent brand as well as how effectively, in turn, it contributes to the parent brand's

Table 12.1 Research insights on brand extensions

- Successful brand extensions occur when the parent brand is seen as having favourable associations and there is a perception of fit between the parent brand and the extension product.
- There are many bases of fit: product-related attributes and benefits, as well as non-product-related attributes and benefits related to common usage situations or user types.
- Depending on consumer knowledge of the categories, perceptions of fit may be based on technical or manufacturing commonalities or more surface considerations such as necessary or situational complementarity.
- High-quality brands stretch farther than average-quality brands, although both types of brands have boundaries.
- A brand that is seen as prototypical of a product category can be difficult to extend outside that category.
- Concrete attribute associations tend to be more difficult to extend than abstract benefit associations.
- Consumers may transfer associations that are positive in the original product class but become negative in the extension context.
- Consumers may infer negative associations about an extension, perhaps even based on other inferred positive associations.
- It can be difficult to extend into a product class that is seen as easy to make.
- A successful extension can not only contribute to the parent brand image but also enable a brand to be extended even farther.
- An unsuccessful extension hurts the parent brand only when there is a strong basis of fit between the two.
- An unsuccessful extension does not prevent a firm from 'backtracking' and introducing a more similar extension to the parent brand.
- Vertical extensions can be difficult and often require sub-branding strategies.
- The most effective advertising strategy for an extension emphasises information about the extension (rather than reminders about the parent brand).

Source: Kevin Lane Keller (2013) *Strategic Brand Management*, 4th edn, Upper Saddle River, NJ: Pearson. Printed and electronically reproduced by permission of Pearson Education, Inc., Upper Saddle River, NJ.

equity. Crest White Strips leveraged the strong reputation of Crest to provide reassurance in teeth whitening while also reinforcing its dental authority image. Marketers should ask a number of questions when judging the potential success of an extension:

- Does the parent brand have strong equity?
- Is there a strong basis of fit?
- Will the extension have the optimal points-of-parity and points-of-difference?
- How can marketing programmes enhance extension equity?
- What implications will the extension have for parent brand equity and profitability?
- How should feedback effects best be managed?

To help answer these questions, Table 12.2 offers a sample scorecard with specific weights and dimensions that users can adjust for each application.

Disadvantages of brand extensions

On the downside, brand extensions may cause the brand name to be less strongly identified with any one product.[58] Ries and Trout call this the brand(line)-extension trap'.[59] **Brand dilution** occurs when consumers no longer associate a brand with a specific or very similar product or service and start thinking less of the brand.

If a company launches extensions that consumers deem inappropriate, they may question the integrity of the brand or become confused and perhaps even frustrated: not sure which version of the brand is the 'right one' for them. The company itself may become overwhelmed. When LEGO, the Danish toy manufacturer, decided to become a lifestyle brand and launch its own lines of clothes, watches and video games, it neglected its core market of 5- to 9-year-old boys. When plunging profits led to layoffs of almost half its employees, the company streamlined its brand portfolio to emphasise its core businesses and returned to the core brand values.[60]

The worst possible scenario is for an extension not only to fail, but also to harm the parent brand image in the process. Fortunately, such events are rare. 'Marketing failures', where

Table 12.2 Brand extendability scorecard

Allocate points according to how well the new **product concept** rates on the specific dimensions in the following areas:

Consumer perspectives: desirability		
10 pts	_____	Product category appeal (size, growth potential)
10 pts	_____	Equity transfer (perceived brand fit)
5 pts	_____	Perceived consumer target fit
Company perspectives: deliverability		
10 pts	_____	Asset leverage (product technology, organisational skills, marketing effectiveness via channels and communications)
10 pts	_____	Profit potential
5 pts	_____	Launch feasibility
Competitive perspectives: differentiability		
10 pts	_____	Comparative appeal (many advantages, few disadvantages)
10 pts	_____	Competitive response (likelihood, immunity or invulnerability from)
5 pts	_____	Legal/regulatory/institutional barriers
Brand perspectives: equity feedback		
10 pts	_____	Strengthens parent brand equity
10 pts	_____	Facilitates additional brand extension opportunities
5 pts	_____	Improves asset base
TOTAL	_____	pts

insufficient consumers were attracted to a brand, are typically much less damaging than 'product or service failures', where the brand fundamentally fails to live up to its promise. New products such as Virgin Cola, Levi's Tailored Classic suits, Fruit of the Loom washing powder, Bic Perfume, Capital Radio restaurant and Pond's toothpaste failed because consumers found them inappropriate extensions for the brand.[61] Even though Bic spent over €20 million on advertising its perfume in a bottle with the tagline 'Paris in your pocket', it was not able to overcome its lack of cachet in the perfume market, or its cheap image, and the extension failed. Even then, product or service failures dilute brand equity only when the extension is seen as very similar to the parent brand. Bic's failure in this case did not damage its other brands, such as disposable pens and lighters.

Consider the mixed successes for Virgin.

Virgin

The Virgin brand, which revolves around an authentic and people-orientated brand image, has hundreds of brand extensions – Virgin consists of more than 400 companies around the world. At one stage the brand category extension potential of Virgin was widely debated as Virgin entered a range of industries with brand extensions, from aeroplanes to trains, from record stores to mobile phones. UK newspaper *The Observer* explored a fictitious future world – entitled 'The Virgin Life' – which Virgin controlled, if the brand extensions did not stop. 'Every morning you can wake up to Virgin Radio, put on Virgin clothes and make-up, drive to work in a car bought with money transferred from your Virgin bank account and relax later in the Virgin gym or Virgin cinema'.

Virgin has had many successes but also some brand extension failures. Virgin Coke was one such failure and may have been a brand extension too far for the Virgin Group.[62] According to Matt Haig in his book *Brand Failures*, Virgin Cola failed because it did not show the competitor's weakness. In addition, distribution is key in the soft drinks industry and Virgin struggled in this area. Some brand extensions could be seen as brand ego trips and have been costly failures for the group, but others have really engaged with customer needs and Virgin brand values, such as Virgin Airways and Virgin Mobile, to phenomenal success. The latest project is in the space aviation industry with Virgin Galactic: this will be the world's first spaceline, giving customers the groundbreaking opportunity of being among the world's first non-professional astronauts. We do not yet know if this will be the success of the future or a vision too far for the Virgin brand.

Brand switching

Even if sales of a brand extension are high and meet targets, the revenue may be coming from consumers switching to the extension from existing parent-brand offerings – in effect, cannibalising the parent brand. Intra-brand shifts in sales may not be a disadvantage if they are a form of pre-emptive cannibalisation. In other words, consumers might have switched to a competing brand instead of the company's own line extension, which would be worse.

One easily overlooked disadvantage of brand extensions is that the company forgoes the chance to create a new brand with its own unique image and equity. Consider the advantages to Disney of having introduced more adult-orientated Touchstone films; to Levi's of creating casual Dockers trousers; and to Black & Decker of introducing high-end DeWalt power tools.

Managing brand portfolios

The **brand portfolio** is the set of all brands and brand lines that a particular company offers in a particular category or market segment. In an article entitled 'How do brand portfolio strategies affect firm value?', Hsu, Fournier and Srinivasan suggest that 'Most companies operating in today's complex market environment own and manage a brand portfolio: a complex set of brands designed in response to market fragmentation, channel dynamics, global realities, heightened competition, commoditization, and pressures to leverage and extend existing brand assets in cost-effective ways.'[63] Marketers often need multiple brands in order to pursue multiple target markets. Consider Armani.

The hallmark of an optimal brand portfolio is the ability of each brand in it to maximise equity in combination with all the other brands. If a company can only increase profits by dropping brands, a portfolio is too big; if it can increase profits by *adding* brands, it is not big enough. The

Armani

Armani has set out to create a product line differentiated by style, luxury, customisation and price to compete in three distinct price tiers. In the most expensive, Tier I, it sells Giorgio Armani and Giorgio Armani Privé, which are custom-made runway couture products that sell at the very high price point. In the more moderately priced Tier II, it offers Emporio Armani, young and modern, as well as the informal A|X Armani. In the lower-priced Tier III, the company sells the more youthful and street-savvy translation of Armani style, Armani Exchange, at retail locations in cities and shopping centres.

Armani's line of luxury clothing is differentiated to appeal to three distinct price tiers
Source: WWD/REX/Shutterstock.

basic principle in designing a brand portfolio is to *maximise market coverage,* so that no potential target market customers are being ignored, but to *minimise brand overlap,* so company brands are not competing for customer approval. Each brand should be clearly differentiated and appeal to a sizeable enough market segment to justify its marketing and production costs.[64]

Brands can also play a number of specific roles as part of a brand portfolio.

Flankers

Flanker or 'fighter' brands are positioned with respect to competitors' brands so that more important (and more profitable) flagship brands can retain their desired positioning. Procter & Gamble markets Luvs nappies in a way that flanks its more popular and premium Pampers brand. Marketers walk a fine line when designing **flanker brands**, which must not be so attractive that they take sales away from their higher-priced comparison brands.

Cash cows

Some brands may be kept around despite dwindling sales because they still manage to hold on to enough customers and maintain their profitability with virtually no marketing support. Companies can effectively 'milk' these '**cash cow**' brands by capitalising on their reservoir of existing brand equity. The iPhone is the cash cow for Apple, with the company able to invest the excess from the market growth into other products, services and projects.

Low-end entry level

The role of a relatively low-priced brand in the portfolio may often be to attract customers to the brand franchise. Retailers like to feature these 'traffic builders' because they are subsequently able to 'trade up' customers to a higher-priced brand. For example, one aspect of BMW's introduction of its 1 Series was a means of bringing new customers into the brand franchise, with the hope of later 'moving them up' to higher-priced models.

High-end prestige

The role of a relatively high-priced brand is often to add prestige and credibility to the entire portfolio. Mobile phone companies normally have a high-end model in their range. Most customers will not buy this product but will buy the mid-range, flagship model. Nonetheless, it is often the high-end model that attracts the consumers' attention.

Brand reinforcing and revitalisation

As a company's major enduring asset, a brand needs to be carefully managed so that its value does not depreciate.[65]

Brand reinforcement

Marketing reinforces brand equity through marketing actions that consistently convey the meaning of the brand to consumers, with the brand representing the core benefits it supplies and the needs it satisfies. It also conveys what makes the brand superior and what strong, favourable and unique brand association should exist in the mind of the consumer. The most important consideration in **brand reinforcement** is consistency of support in terms of both the amount and the nature of that support.[66]

Brand equity is reinforced by marketing actions that consistently convey the meaning of the brand in terms of:

- what products and service the brand represents, what core benefits it supplies and what needs it satisfies; Nivea, one of Europe's strongest brands, confirms the Nivea brand promise of 'mild', 'gentle' and 'caring' in the skin and personal care domain;
- how the brand provides the service or products needed and what value added is created;[67] Ryanair has become the largest airline in Europe by focusing on its core brand value – providing cheap airline travel to over 100 million passengers annually, who prefer low cost to high service, although Ryanair has increased and improved its service in recent years.

The Apple brand example showcases a brand that is consistently well managed.

Reinforcing brand image requires innovation and relevance throughout the marketing programme. The brand must always be moving forward – but moving forward in the right direction, with new and compelling offerings and ways to market them.

Apple

It is clear that Apple is a successful brand that has created an army of Apple brand-loyal customers, many of whom are even Apple evangelists. Apple really invests in understanding customer needs and listening to and acting proactively – staying ahead of its competitors. Not only does it produce great products and services, which combine superior design, functionality and style that reflect consumer needs, but the company is also expert in understanding that, within branding, everything you do and say matters and everything must reflect the brand values. Apple also keeps pushing the boundaries of innovation with brand extensions – some to great acclaim (iPods and iPads) and others that have not had such success (think Apple TV).

Its brand success is built on organising by customer rather than by product/service and it is always thinking about new ways to create, deliver and capture value for the customer. Think of its creation of an experience ecosystem for its customers, which provides a single access for customers to a multitude of products and services in a secure and seamless way. The iPod and iPhone are linked to and supported by iTunes and the App Store respectively. Apple puts the customer at the centre of its brand values. Its big concern must be to continue to do this, and not to fall into the functionality or technological trap but to stay emotionally connected to its customers to ensure continued brand success in a mature market.[68]

Brand revitalisation

Changes in consumer tastes and preferences, the emergence of new competitors or new technologies, or any new development in the marketing environment can affect the fortunes of a brand. In virtually every product or service category, once-prominent and admired brands – such as BlackBerry, Little Chef, Kodak, Alitalia and HMV – have fallen on hard times, struggled with their brand image or even disappeared.[69] A number of brands have managed to make impressive comebacks in recent years, as marketers have breathed new life into them. Dr Scholl's and Birkenstock are brands that have been revitalised, becoming popular once again but in a different market. Birkenstock – the German sandal – was predominantly used by the medical profession but moved into everyday comfort shoes within an environmentally friendly target market.

Lucozade

The European energy-drink market continues to grow, with Germany and the UK accounting for the largest market share. Energy drinks account for £1 in every £5 spent on soft drinks in the UK. One of the main players, Lucozade, is only in this market due to a successful **rebranding** or revitalisation of the brand that saw the company move from a child-orientated, health-related tonic to an energy sports drink. The original Lucozade, first manufactured in 1927, was available in hospitals throughout the UK. In 1983, a rebranding of Lucozade into an energy drink started moving the slogan that suggested the need for recovery from

Source: Hector/Alamy Stock Photo.

Lucozade successfully repositioned from a tonic for sick children to an energy drink for athletes
Source: Jeff Morgan 11/Alamy Stock Photo.

illness to a slogan that focused on exercise and replacing the energy used during intense workouts and engagement with sport. The effect of the rebranding was dramatic: the value of UK sales of the drink tripled to almost €95 million. During the 1990s it tapped into the sports market and introduced Lucozade Sport, now the market leader in sports drinks. Lucozade uses leading sports teams and personalities to keep the sports brand value in front of the consumer. Lucozade sponsors a variety of sports, including FA Premier League, English Rugby, the Irish football team, the London Marathon and so on. The current slogan again develops the brand positioning focusing on top athletes and how Lucozade can help them to perform at the highest level and for longer.

Source: E. Connolly (2016) Lucozade Sport extends London Marathon sponsorship, http://www.sportspromedia.com/news/lucozade_sport_extends_london_marathon_sponsorship; Superbrands (2005) Superbrands case studies: Lucozade, Campaign, https://www.campaignlive.co.uk/article/superbrands-case-studies-lucozade/232378?src_site=brandrepublic.

Often, the first thing to do in **brand revitalisation** is to understand what the sources of brand equity are to begin with. Are positive associations losing their strength or uniqueness? Have negative associations become linked to the brand? Then it has to be decided whether to retain the same positioning or create a new one and, if so, which new one. Sometimes the marketing programme or marketing mix activities are the source of the problem, because they fail to deliver on the brand promise. In other cases, however, the old positioning is just no longer viable and a 'reinvention' strategy is necessary. Consider Lucozade.

Brand reinforcement and brand revitalisation strategies

At some point, failure to fortify the brand will diminish brand awareness and weaken brand image. Without these sources of brand equity, the brand itself may not continue to yield valuable benefits. With a fading brand, the depth of brand awareness is often not as much of a problem as the breadth – that is, the consumer has too narrow a view of the brand. Although changing brand awareness is probably the easiest means of creating new sources of brand equity, marketers often need to create a new marketing mix programme to improve the strength, favourability and uniqueness of brand associations. The challenge in all these efforts to modify the brand image is not to destroy the equity that already exists. *Reinforcing brands* involves ensuring innovation in product and service design, manufacturing and merchandising, and ensuring relevance in user and usage imagery. *Brand revitalisation*, on the other hand, requires either that lost sources of brand equity are recaptured, or that new sources of brand equity are identified and established, often by increasing consumption in quantity and frequency and by creating or bolstering fading associations. Figure 12.2 summarises the main features of brand revitalisation and brand reinforcement strategies.[70]

Consider Nokia's failure to respond to core brand challenges as the market changed.

Nokia – brand failure

For 14 years, Nokia dominated mobile phone sales as the world's industry leader, before being surpassed by Samsung in 2012, marking the end of an era. Once the pride of Finland, the company has found itself outsold by Samsung even on its home soil. How could such a high-flying brand come crashing to earth? In a nutshell, it failed to innovate and stay relevant. Nokia did not respond to the hugely successful iPhone and the shifting consumer demand that accompanied it. The company thought the iPhone was too expensive to manufacture and not up to standard. So even though Nokia had spent over €35 billion on R&D over the preceding decade and was a smartphone pioneer, it chose not to invest in smartphones. Without the right new products, Nokia became associated by consumers with a different era of technology – a fatal blow in the fast-moving, technologically intensive smartphone market. The new marketing director suggests that he can revitalise the brand within 10 years : 'We (have) a once-in-a-lifetime opportunity to revive one of the greatest consumer brands of all time', he says.[71]

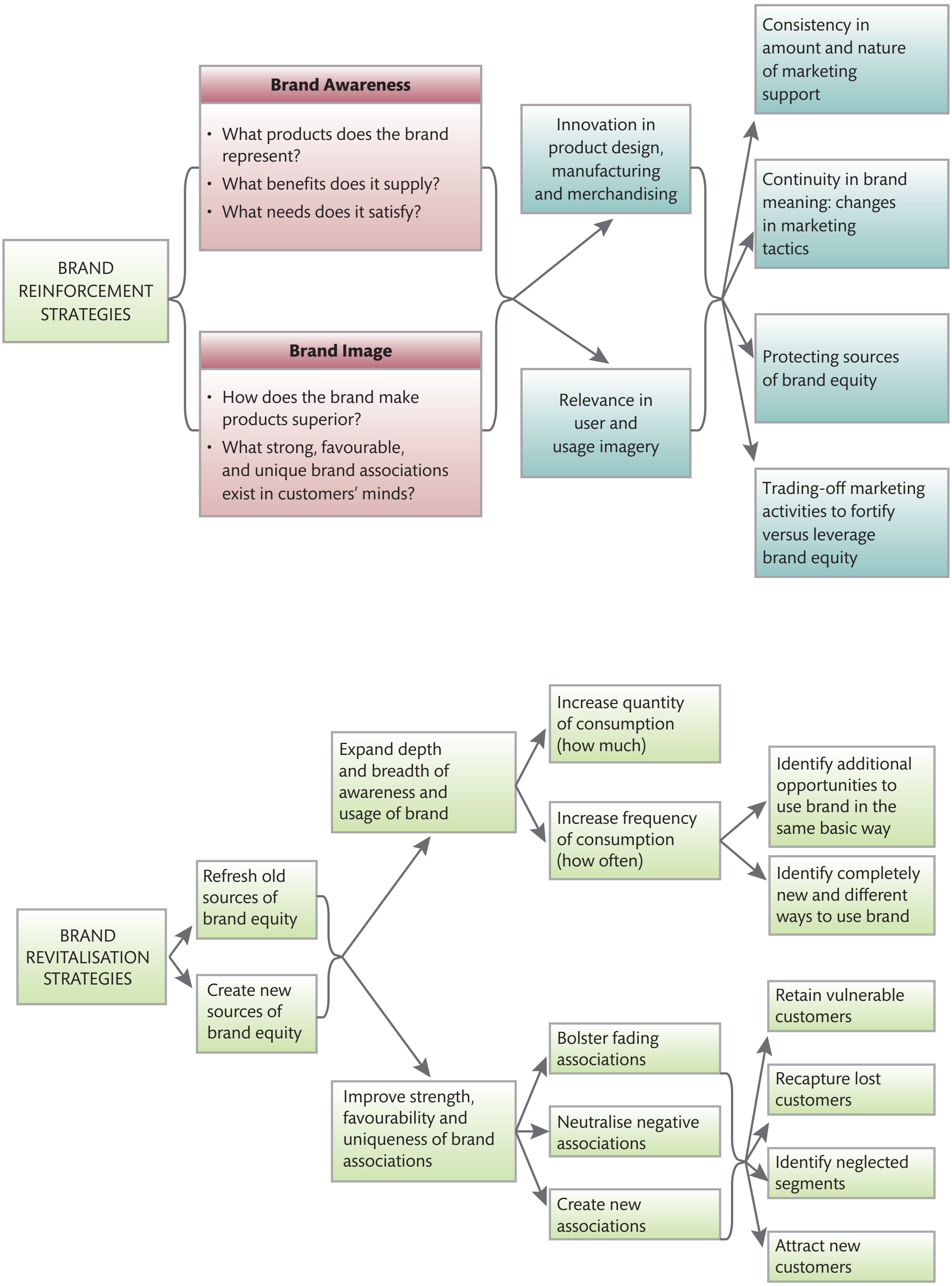


Figure 12.2 Brand reinforcement and brand revitalisation strategies

Source: K. Keller (2008) *Strategic Brand Management*. Copyright © 2008. Printed and electronically reproduced by permission of Pearson Education, Inc., Upper Saddle River, NJ.

Growing, sustaining and managing brand equity

Brand equity is the added value endowed on products and services through the brand. It is sometimes understood from the perspective of the tangible financial assets of a firm but also has a strong intangible or goodwill value to companies. However, brand equity is often viewed conceptually – as a framework for understanding the power of the intellectual and emotional associations consumers have with a particular named brand.[72]

Brand equity plays a major role in enhancing the financial value of companies, and thus the ability to value them or understand that their brand equity is critical. To companies, brands represent enormously valuable pieces of legal property that can influence consumer behaviour, be bought and sold, and provide the security of sustained future revenues.

Companies have paid large sums of money for brands in mergers and acquisitions, often justifying the price premium on the basis of the extra profits to be extracted and sustained from the brands, as well as the tremendous difficulty and expense of creating similar brands from scratch. When Facebook bought WhatsApp for €15 billion – a five-year-old company with 55 employees – it was buying brand values of multiples of that worth through the consumer numbers and brand awareness of the company. Following the Microsoft purchase of Skype for €6 billion, Steve Ballmer made much of Skype's brand strength, noting that Skype has become synonymous with voice calling, to the extent that 'Skype' is now widely used as a verb – to skype.[73]

A strong brand is a valuable asset – see Table 12.3, which highlights brand values for the top five brands in Europe. Rita Clifton, the author of *Brands and Branding*, notes that, 'Well-managed brands have extraordinary economic value and are the most effective and efficient creators of sustainable wealth'.[74] Stephen Forbes described them as 'one of the best investments a company can make'.[75] Brand value is typically over half the total company market capitalisation and so the importance of the brand to the company is clear. Brand value is increasingly included on balance sheets in countries such as the UK, Hong Kong and Australia. A PWC report revealed that 74 per cent of the average purchase prices of acquired companies was made up of intangible assets and goodwill – what is called **brand value**.[76]

Brand valuation

The **brand value chain** is a structured approach to assessing the sources and outcomes of brand equity (**brand valuation**) and the manner in which marketing activities create brand value – see the 'Marketing insight' box. Beyond the financial value, companies also manage and monitor digital presence through likes and mentions, so that brand values now extend to mentions on social media, beyond the traditional brand values – see Table 12.4. [77]

Table 12.3 The top five European brands by monetary value

Ranking 2018	Brand	Industry	Country of ownership	Brand value (€ m)	(% change)
1	Mercedes-Benz	Automotive	Germany	34	+18
2	Louis Vuitton	Luxury	France	33	+17
3	BMW	Automotive	Germany	31	+9
4	Sap	Software	Germany	26	+1
5	L'Oréal	Beauty	France	17	+10

Source: Adapted from Forbes (2018) The World's Most Valuable Brands, https://www.forbes.com/powerful-brandslist/#tab:rank.

Table 12.4 The top 10 loved brands by social media mentions

Rank	Company	Industry	Social Media Mentions
1	Apple	Technology	15,29,800
2	Google	Technology	10,37,550
3	Lego	Consumer Goods	1,99,146
4	BMW	Automotive	1,85,727
5	Adidas	Consumer Goods	1,84,544
6	Porsche	Automotive	1,48,361
7	Audi	Automotive	1,47,852
8	Tesco	Retail	1,22,826
9	Gucci	Consumer Goods	1,02,042
10	Christian Dior S.A.	Consumer Goods	74,536

Source: (2017) Top 10 Loved Brands in Europe, NetBase Brand Passion Report, https://www.rankingthebrands.com/PDF/Top%2050%20European%20Brand%20Love%20List%202017,%20NetBase.pdf.

For brand equity to perform a useful strategic function and guide marketing decisions, marketers need to understand fully: (1) the sources of brand equity and how they affect outcomes of interest; (2) how these sources and outcomes change, if at all, over time. Brand audits are important for the former; brand tracking for the latter.

A **brand audit** is a consumer-focused procedure to assess the health of the brand, uncover its sources of brand equity and suggest ways to improve and leverage its equity. Conducting brand audits on a regular basis, such as annually, allows marketers to keep their fingers on the pulse of their brands so they can manage them more proactively and responsively. Brand audits are particularly useful background information for marketing managers as they set up their marketing plans and select marketing mix variables, and when they are considering making changes.

Brand tracking studies collect quantitative data from consumers on a routine basis over time to provide marketers with consistent, baseline information about how their brands and marketing programmes are performing on key dimensions. **Tracking studies** are a means of understanding where, how much, and in what ways brand value is being created, to facilitate day-to-day decision making. Much of brand tracking is technology based, tracking online brand sentiment, with online social media tracking social media brand sentiment. Research studies confirm the validity of **online brand sentiment tracking**, but point out that challenges exist in relation to where they 'listen'

Marketing insight

The brand value chain

First, brand value creation begins when the company targets actual or potential customers by investing in a marketing programme to develop the brand, including marketing communications, trade or intermediary support, and product/service research, development and design. This marketing activity will change customers' mind-sets – what customers think and feel and everything that becomes linked to the brand. Next, these customers' mind-sets will affect buying behaviour and the way consumers respond to all subsequent marketing activity – pricing, channels, communications and the product/service itself – and the resulting market share and profitability of the brand. Finally, the investment community will consider this market performance of the brand to assess shareholder value in general and the value of the brand in particular.

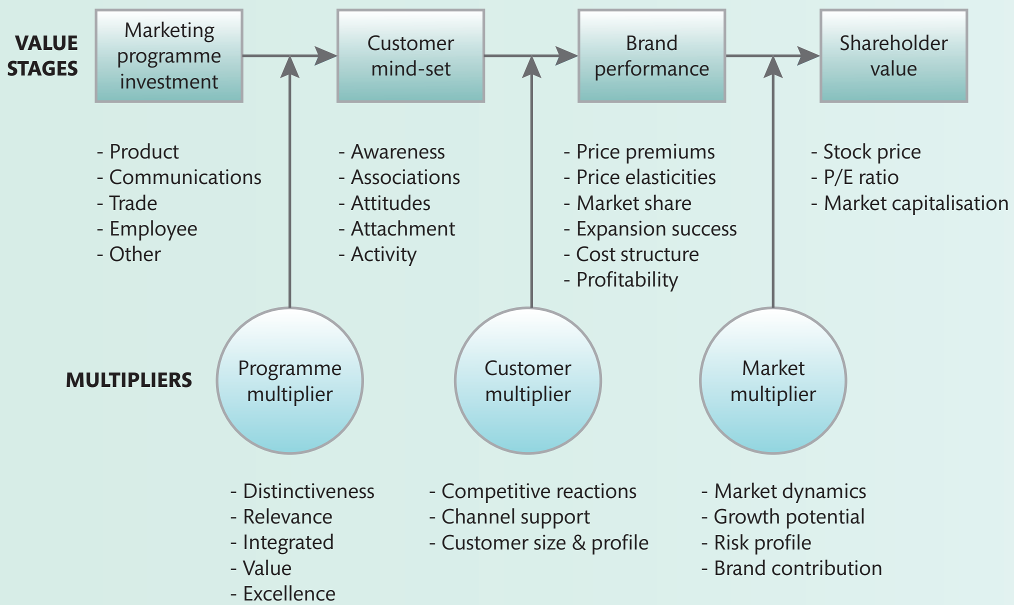


Figure 12.3 The brand value chain

Sources: K. L. Keller (2013) *Strategic Brand Management Global Edition*, 4th edn, Upper Saddle River, NJ: Pearson; K. L. Keller and D. Lehmann (2003) How do brands create value?, *Marketing Management*, May–June, 27–31; see also M. J. Epstein and R. A. Westbrook (2001) Linking actions to profits in strategic decision making, *MIT Sloan Management Review*, Spring, 39–49; and R. K. Srivastava, T. A. Shervani and L. Fahey (1998) Market-based assets and shareholder value, *Journal of Marketing*, 62(1), January, 2–18; K. Keller (2009) *Brand Planning*, Shoulders of Giants, http://www.marksherrington.com/wp-content/uploads/2015/11/ebook-brand-planning.pdf.

The model in Figure 12.3 assumes that three multipliers increase or decrease the value that can flow from one stage to another.

- The *programme multiplier* determines the marketing programme's ability to affect the customer mind-set and is a function of the quality of the programme investment.
- The *customer multiplier* determines the extent to which value created in the minds and hearts of customers affects market performance. This result depends on competitive superiority (how effective the quantity and quality of the marketing investment of other competing brands are), channel and other intermediary support (how much brand reinforcement and selling effort various marketing partners are putting forth) and customer size and profile (how many and what types of customers, profitable or not, are attracted to the brand).
- The *market multiplier* determines the extent to which the value shown by the market performance of a brand is manifested in shareholder value. It depends, in part, on the actions of financial analysts and investors.

Sources: S. Fournier and S. Srinivasan (2018) Branding and the risk management imperative, *GfK Marketing Intelligence Review*, 10(1), 10–17; J. Anselmsson, N. Bondesson (2015) Brand value chain in practise; The relationship between mindset and market performance metrics, A study of the Swedish market for FMCG, *Journal of Retailing and Consumer Services*, 25, 58–70; K. Lane Keller and D. Lehmann (2003) How do brands create value?, *Marketing Management*, May–June, 27–31; S. Srinivasan, M. Vanheule and K. Pauwels (2010) Mindset metrics in market response models: An integrative approach, *Journal of Marketing Research*, 47(August), 672–84.

and how many sites they monitor, both of which can affect the validity of their brand sentiment metrics.[78]

The brand resonance model

The brand resonance model views brand building as an ascending series of steps, from bottom to top: (1) ensuring customers identify the brand and associate it with a specific product class or need; (2) firmly establishing the brand meaning in customers' minds by strategically linking a host of tangible and intangible brand associations; (3) eliciting the proper customer responses in terms of brand-related judgement and feelings; and (4) converting customers' brand responses to intense, active loyalty. According to this model, enacting the four steps means establishing a pyramid of six 'brand building blocks', as illustrated in Figure 12.4. The model emphasises the duality of brands – the rational route to brand building is on the left side of the pyramid, and the emotional route is on the right side.[79] One brand that has found much success going up both sides of the pyramid is MasterCard, with its' Priceless' ad campaign stressing both the emotional and the rational payoff for using its card.[80]

Creating significant brand equity requires reaching the top of the brand pyramid, which occurs only if the right building blocks are put into place.

- Brand salience is how often and how easily customers think of the brand under various purchase or consumption situations – the depth and breadth of brand awareness.
- Brand performance is how well the product or service meets customers' functional needs.
- Brand imagery describes the extrinsic properties of the product or service, including the ways in which the brand attempts to meet customers' psychological or social needs.
- Brand judgements focus on customers' personal opinions and evaluations.
- Brand feelings are customers' emotional responses and reactions with respect to the brand.
- Brand resonance describes the relationship customers have with the brand and the extent to which they feel they are 'in sync' with it. Resonance is the intensity of customers' psychological bond with the brand and the level of activity it engenders.[81] Brands with high resonance include Spotify, Pandora, LEGO, and MAC.[82]

Contemporary branding challenges

Branding developments over the last 50 years have moved from the age of identity, to the age of value, the age of experience and now the age of you – see 'Marketing in action'.

The basic brand building blocks are the same for this new era, but the 'Marketing in practice' box highlights the top 10 traits of the world's strongest brands using a **brand report card** – which is a method to grade the brand's own performance and that of its competitors.

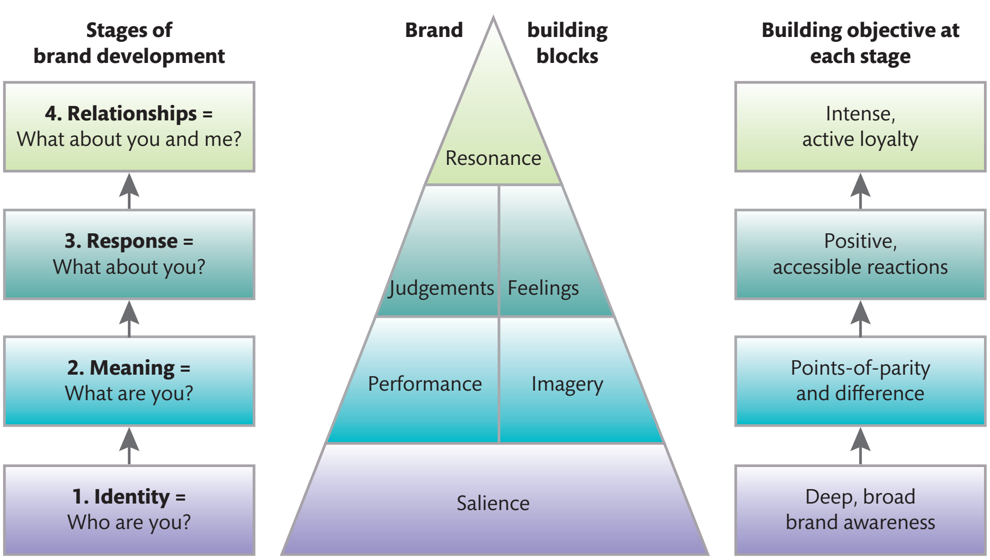


Figure 12.4 Brand resonance pyramid

Marketing in action

The four ages of branding

1. The Age of Identity

Branding began as a mark of ownership, trust and quality, and evolved into a more sophisticated symbol of differentiation and identification in the post-Second World War era. In the Age of Identity, the purpose of a brand was to serve as a market positioning identifier, setting businesses and individual products and services apart from the crowd, both visually and verbally. These foundational characteristics of a great brand are still valid today.

2. The Age of Value

In the late 1980s, brand valuation became critical and the Age of Value was born. Companies began to view brands as valuable business assets that contribute significantly to financial performance – driving choice, securing loyalty and affording the owner a premium. Slowly, the language of 'cost' relating to marketing expenditure became the language of 'investment'. No longer an afterthought or a responsibility relegated to the marketing department, brand strategy became not only intertwined with business strategy – it became business strategy brought to life.

3. The Age of Experience

With the recognition of brands as valuable, strategic assets, came a deeper appreciation of the role brands play in delivering satisfying and differentiated experiences to consumers. Benefiting immensely from the rise of digital and mobile technology, category-killing brands such as Google, Amazon, Facebook and Apple have reset customer expectations and significantly raised the bar for brand experiences. Interactions are seamless, contextually relevant and increasingly based around creating an ecosystem of integrated products, services, information and entertainment: both physical and digital. In this information-saturated age, two-way conversations, advocacy, influence and engagement are the new rules for brand building.

4. The Age of You

As digital technology continues to weave its way into every aspect of our lives, and more of who we are is captured on servers and hard drives, the Age of Experience is giving way to a new era – one of ubiquitous computing. When ecosystems are fully integrated and sensors (on our bodies, in our homes and in our devices) can talk to each other in new ways, supply chains will reorganise around individuals and ecosystems. From the way we manage our personal brands and share pieces of ourselves through various social media platforms, to the increasingly personalised world of commerce – which uses purchase histories and **location-based services** to tailor products, events, services and offers to whoever we are, wherever we are – our data selves are known, communicating and growing every day. Brands that seek to lead in the Age of You will have to recognise the human in the data, uncover genuine insights and create a truly personalised and curated experience.

Source: D. Rangarajan, B. D. Gelb, A. Vandaveer, (2017) Strategic personal branding – and how it pays off, *Business Horizons*, 60(5), 657–666; Interbrand (2014) The four ages of branding, *Interbrand*, www.bestglobalbrands.com/2014/featured/the-four-ages-of-branding/; R. Belk (2013) Extended self in a digital world, *Journal of Consumer Research*, 40, October, 478–550.

Marketing in practice

21st-century branding

An early pioneer in the study of branding, and still active as a brand strategist, David Aaker has much experience with what makes brands successful. Here are his top 10 'to do tasks' for marketers – what you need to know to excel at brand building.

1 **Treat brands as assets.** Brand strategy needs to be developed in tandem with business strategy.

2 **Show the strategic pay off of brand building.** Show how the success of a business strategy depended on brand assets.

3 **Recognise the richness of brands.** Go beyond the three-word phrase. Although two to four associations are often the most important, understand the full range of associations that are cued by the brand.

4 **Get beyond functional benefits.** Emotional and self-expressive benefits and brand personality can provide a basis for sustainable differentiation and a deep customer relationship.

5 **Consider organisational associations.** Think of the people, programmes, values, strategies and heritage that are unique to the company and meaningful to customers.

6 **Look to role models.** What other companies have been successful with similar branding efforts? Are there any

people or programmes internal to the company that exemplify desired characteristics for the brand?

7 **Understand the brand relationship spectrum.** Consider the right degree of separation for new offerings.

8 **Look for branded differentiators.** Even functional benefits, if copied, can remain distinctive if given a strong brand identity initially.

9 **Use branded energisers.** Think of a branded person or programme you can associate with your brand.

10 **Win the brand relevance battle.** Make your competitors seem irrelevant.

Sources: D. Aaker (2016) Top Posts from Aaker on Brands in 2016, https://www.prophet.com/2016/12/top-posts-aaker-on-brands-2016/; D. Aaker (2012) David Aaker's top 10 brand precepts, White Paper, www.prophet.com; for more insights into branding best practices, see A. Adamson (2013) *The Edge: 50 Tips from Brands That Lead*, New York: Palgrave Macmillan.

Marketing must ensure that the 'making of promises' (brand image) is aligned with the 'delivery of promises' (employee trust and company trust) in creating customer value, customer loyalty and brand value. Great brands must:

- offer and communicate a clear, relevant customer promise;
- build trust by delivering on that promise;
- drive the market by continually improving the promise; and
- seek further advantage by innovating beyond the familiar.

Great companies ensure that the brand is core. Take companies such as Pinterest, LEGO and Mini Cooper– all are businesses with a clear brand proposition that informs how they operate, which decisions they make and how. Brands are used symbolically in two different directions: outwardly to communicate to others the kind of brand or company you are, and inwardly to bolster the sense of *company* from within.[83] Marketers must ensure consistency internally and externally to ensure employees and all network partners, and also their digital presence or online touchpoints, appreciate and understand the brand values, and how all actions can help – or hurt – brand equity.[84]

SUMMARY

1 A brand is a name, term, sign, symbol or design, or some combination of these elements, intended to identify the products and services of one company and to differentiate them from those of competitors. The different components of a brand – brand names, logos, symbols, package designs and so on – are brand elements.

2 The key to branding is that consumers perceive differences among brands in a product or service category. Brands offer a number of benefits to customers and companies.

3 A branding strategy for a company identifies which brand elements a company chooses to apply across its various offerings.

4 In a brand extension, the marketing manager uses an established brand name to introduce a new offering. There are two types of brand extension – line or category. Potential extensions must be judged by how effectively they leverage existing brand equity as well as how effectively the extension, in turn, contributes to the equity of the existing parent brand.

5 Brands can play a number of different roles within the brand portfolio. Brands can be flankers, cash cows, low-entry level and high-end prestige.

6 Brands need to be managed to stay contemporary and many have to undergo reinforcement – reiterating the brand message, or revitalisation – understanding new developments in the market and how the brand must be repositioned to maintain relevance and market share.

7 Brand equity should be defined in terms of how the marketing effects uniquely affect the brand value. The brand value chain is one method for measuring brand equity.

8 Brand equity needs to be measured in order to be managed well. Brand audits measure 'where the brand has been', and tracking studies measure 'where the brand is now' and whether marketing programmes are having the intended effects.

9 Marketing must ensure that the 'making of promises' (brand image) is aligned with the 'delivery of promises' (employee trust and company trust) in creating customer value, customer loyalty and brand value.

APPLICATIONS

Marketing debate

Are brand extensions good or bad? Some critics vigorously denounce the practice of brand extensions, as they feel that too often companies lose focus and consumers become confused. Other experts maintain that brand extensions are a critical growth strategy and source of revenue for a company.

Take a position: brand extensions can endanger brands *versus* brand extensions are an important brand-growth strategy.

Marketing discussion

A brand strategy has six main decision components. Discuss the six components, showing how each helps to create the brand identity in the mind of the consumer.

FURTHER READING

B. Krings, J. Küpper, M. Schmid and A. Thiel (2016) Western Europe's consumer-goods industry in 2030, *McKinsey & Company*, https://www.mckinsey.com/industries/consumer-packaged-goods/our-insights/western-europes-consumer-goods-industry-in-2030.

The top 10 trends focus on changes in consumer behaviour (stagnating markets and digitalisation), industry dynamics (including cost leadership and consolidation and new business models) and external influences – such as increased regulations and fragile global supply changes and new norms of working and living. This paper provides four operation models that they suggest will open up opportunites for future growth, including no-frills players, private-label specialists, niche-market multipliers and direct-to-consumer players. They suggest that some companies may already have flexible and decentralised structures that could enable them to operate three, or even all four, of these operating models under one roof by 2030. Others will choose to focus on only one or two. But they suggest that one thing is certain: in the saturated markets of Western Europe, supplementing a company's core business with one or more of these models won't be optional. The magnitude and pace of change will undermine traditional growth models and now, more than ever, companies will need to focus on brand values and to be agile in the face of challenging and changing market dynamics.

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CHAPTER 13

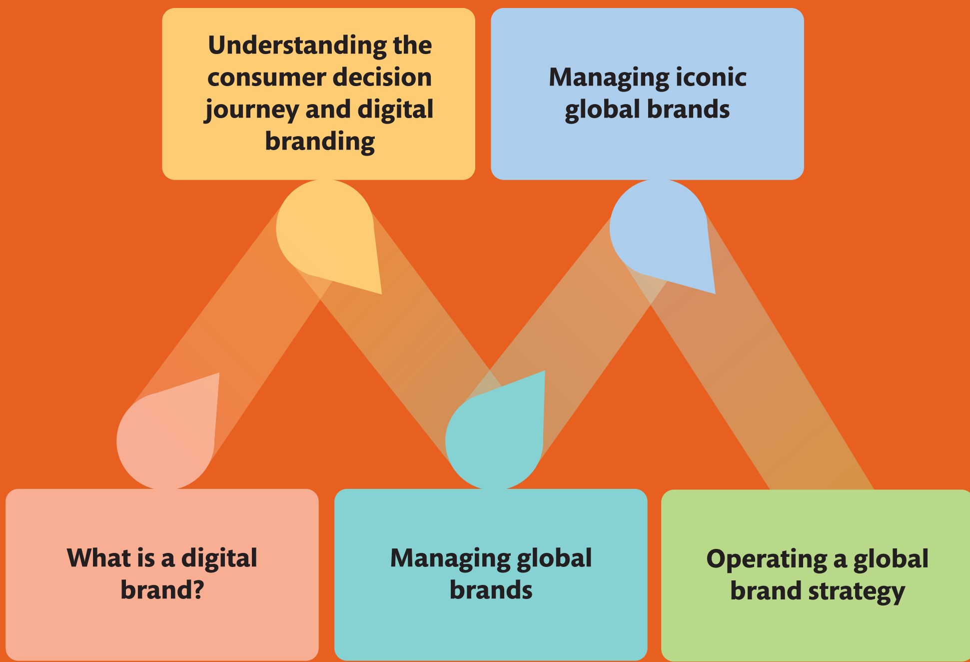
Digital and global brand management strategies

In this chapter, you will learn about the following topics:

1. The management issues for digital branding
2. How to manage online brand communities
3. How to align the consumer decision journey with digital branding
4. Iconic brand management challenges
5. The core requirements for global brand management strategy

Global brands dominant the business landscape, many with millions of customers, with global marketing management challenges of simultaneously managing across markets, timescales, geographies and cultures
Source: imageBROKER / Alamy Stock Photo

Chapter Journey



Digital technology and globalisation have both transformed how consumers engage with brands and, in turn, how marketing managers manage brands nationally, internationally and globally. Both demand a new understanding of consumer behaviour and what consumers want, whether online in the digital arena or offline in the physical world, and the blurred world between these two. Think about your day and you will begin to see to what extent global brands and technology are core elements of all you do. Your Samsung mobile phone alarm goes off. You put on a pair of Levi jeans, a top from Zara, Adidas trainers and not forgetting your Apple iPod, which is already in your H&M jacket pocket. For breakfast, you drink your Nespresso and eat a Danone Actimel yogurt before you open your Sony laptop to check updates on Facebook, Snapchat and your email on Google. On-screen information is available at the bus stop and you pay and wave using your RFID-enabled card on a scanner from Paragon-ID. On the bus, manufactured by Mercedes, you think about going for a drink of Guinness or a Heineken with friends and you can use Google Latitude to check where they are. You stop at Starbucks or Café Java to surf the net and chat to your friends through WhatsApp, Facebook and use Snapchat to upload a photo. These consumer and business-to-business established global and digital brands hail from countries around the globe including Germany, Finland, Switzerland, Belgium, Japan, Spain, the US, Italy, France, the UK, the Netherlands and Ireland.

Global brands are worth billions of euros – with technology brands now dominating. Top European global brands include German car manufacturers Mercedes Benz, BMW and Volkswagen at numbers 15, 17 and 22 respectively, while Deutsche Telecom (Germany) is valued at €44 billion, Shell (UK) valued at €39 billion and IKEA, at number 32 with revenues of €24 billion. The world's most valuable brands are the four technology companies Apple, Google, Microsoft and Facebook, with a combined brand value of nearly €500 billion.[1] Branding in a globalised, technology-dominated world poses managerial challenges of speed, communication and, critically, of connection to create a truly branded experience, which capitalises on the benefits of brand, people and technology.

What is a digital brand?

Digital branding is the creation and management of brands and the totality of the consumer digital experience through all forms of digital technologies, including the internet, mobile or smartphones, social networking sites, apps, self-service technologies, biometrics, virtual and augmented reality, artificial intelligences, robotics and any other form of digital technology or platform. The core feature of any digital environment is that it is electronic. The concept relates to customer engagement with the brand, which can occur offline or online (digitally) or a mixture of both, or what could be referred to as the 'place and space' dimension.[2] It is almost impossible to separate traditional and online, as most businesses and consumers operate freely within the two methods or worlds.

- **Offline, or traditional.** The traditional form of brand engagement and interaction was mainly human, interpersonal, physical engagement between the brand (company) and the customer, though promotion via TV, radio and so on did have a distance dimension.
- **Online, or digital.** Digital or virtual world interactions and engagements take place through a variety of technologies and use data to engage, understand and target. Though often used to refer to the internet, online or digital includes any digital technology used, such as mobile, automation, augmented reality and wearable technologies.

Digital branding creates countless new opportunities for brand building. By design or default, most brands have a digital experience. In today's world, a company's digital presence could become the *only* experience that potential customers have with a company, particularly prior to and post purchase.[3] The availability of new technologies, increasingly digital-savvy consumers and the success of online-only brands have made it imperative for companies to evolve their digital marketing into 24/7 dynamic brand experiences across many technologies. Brands such as KLM, Apple, IKEA, Audi and Nike are often praised as best-in-class brands because of their ability to create effective and inspiring digital experiences.[4] They share a common trait – a strong brand promise that provides meaningful differentiation, creates preference and offers relevance to their audiences in both the digital (online) and offline environments. Pete Blackshaw, Nestlé's global head of digital marketing and social media, notes that the biggest difference today is 'there is so much more agility and flexibility in the system. The costs of content, the platforms that we operate on, are often much lower than they were at the onset of the web. You can learn very, very quickly and adapt with high levels of precision . . . Another difference is the sheer numbers. I mean, 1.2 billion consumers on Facebook alone? How can anyone ignore that?'[5]

The human and physical relationships (offline) must be aligned with the digital (online) world. This convergence of the digital and the traditional leads to innovations for companies. Take interactive (digital) billboards (traditional). French brand Danone uses customised digitalised roadside billboard yogurt messages aligned with the speed of the car. So if the car is travelling fast the message is 'just one more day to the weekend'; but if the car is stuck in traffic the message is 'there is no fast way home, stay strong'.

A **brand promise** embodies a clear idea and value proposition, and it connects with people on functional and emotional levels.[6] Consider KLM, which delivers on its brand promise through a mix of digital and traditional.

KLM

KLM is a pioneer in digital branding and specialises in using a heady mix of digital and traditional to stay close to its customers. KLM invests heavily in its digital branding with a dedicated team of 250 social media service agents personally engaging in 30,000 conversations weekly and outperforming other airlines.[7]

Some examples are KLM using live streaming kiosks on the streets in Amsterdam and New York to connect hundreds of people in both cities through playing a 'high five' game, creating spontaneous interactions to win free tickets. KLM was the first airline to use WhatsApp as a service channel and now receives over 130,000 mentions. Another digital innovation is artificial intelligence (AI) supporting the customer experience through a hybrid of digital and personal, with the automation of standard questions through chatbots. These chatbots have improved customer service by 40 per cent. According to Pieter Groeneveld, senior vice president digital at KLM, customers want a mix of automation and personalisation:

> By using artificial intelligence, KLM makes conversations with our customers even more timely, correct, and personal. This is what characterises KLM. (When) heavy snowfall in the Netherlands caused a significant increase in the number of questions on social media, passengers obviously expect a timely answer. With the use of AI we support our service agents with technology that should be able to answer many more questions in a shorter period of time.[8]

KLM is also innovating with virtual reality inflight for Movies and showcasing the KLM upgrade experience. Its digital strategy has four aspects: service, brand, reputation and commerce.[9]

KLM is using virtual reality on flights as a digital brand-building application
Source: Alexey Boldin/Shutterstock

Digital branding as a core management requirement

The speed of growth in digital branding, moving from an add-on to a core feature of marketing, has been phenomenal. BMW Films, developed in the early 2000s, was one of the first examples of a company that took digital branding seriously and made an investment in it. BMW designed 'The Hire' – a series of eight short ten-minute films.[10] As a form of branded content, all eight films featured popular film makers and starred Clive Owen as the 'Driver'. The films highlighted the performance aspects of various BMW cars. The end results were staggering – the films were viewed over 100 million times and they changed the way many products were branded.

A compelling digital experience requires that brands and technology are integrated by design. It is not just about using the latest technology or a new media or channel technology, but about creating connections with people in a branded way. With an ever growing choice of technologies and applications, it is about using the technology to deliver the functional, emotional and experiential promise of a brand.

Creating a compelling, relevant digital brand in today's climate requires going beyond a corporate website. As technologies evolve and new ones burst forth, establishing credibility in the digital environment is a lot more challenging. The big changes are social and mobile, with technologies such as YouTube, Twitter, Flickr and RSS, and the flood of apps for smartphones can add depth and dimension to a brand. At the same time, digital also exposes brand behaviour to absolute scrutiny, requiring 100 per cent clarity, transparency and commitment to core values. Success in the digital realm hinges on creating the right digital experiences with the right technologies to reinforce the brand strategy.[11] What is needed is an in-depth, insight-driven look at how a brand interacts with customers at various stages – from initial awareness, through trial and purchase, to loyalty and advocacy – and this is crucial to building an effective digital brand strategy.

This collaborative revolution impacts on brands and brand management; it changes the way that companies do business. Don Tapscott and Anthony Williams write in their best-selling book, *Wikinomics: How Mass Collaboration Changes Everything*, that the traditional 'plan and push' mentality is being replaced by an 'engage and co-create' economy.[12] See the 'Marketing in practice' box, which discusses how to influence the brand experience in the digital environment.

Marketing in practice

Understanding the digital experience

Brand-builders need to care about consumers' technological and online experiences because all of them – good, bad or indifferent – influence consumer perceptions of a company's brand. Technology-based initiatives can build on the following brand promises:[13]

- **The promise of convenience**: making a purchase experience more convenient than the real world. Tesco online shopping and home delivery offers convenience and support to many customers, some of whom cannot go to the shops, whether through illness or old age, and to others who just like the convenience of home shopping.
- **The promise of achievement**: to assist consumers in achieving their goals. Online booking and seat selection on airlines allows the brand to co-create experiences with the customer that align with their goal of less queueing and more comfort in travel.
- **The promise of fun and adventure**: creating a brand experience for the consumer that brings excitement and fun. The LEGO site allows customers to design and build Lego online and then order the bricks to recreate it offline.
- **The promise of self-expression and recognition**: provided by personalisation services such as Pinterest, where consumers can build their own website and express their own views through blogs. Nike's website encourages customers to design their own running shoes, which is fun, enjoyable and engages the customer.
- **The promise of belonging**: this is provided by online communities and explains why social networking sites such as Facebook, Snapchat and WhatsApp are so popular. Brand communities online can be very powerful and are ignored at the company's peril.

Understanding the digital brand experience

A brand comes to life in the digital environment through design, content, technology platform, functionality and navigation. Savvy brands use all of these to create a compelling digital experience.

Does your website's functionality (i.e. checkout, registration) enhance or detract from your brand's positioning? A defining feature of online versus other branding channels is this functionality. Digital branding enables the customer to self-direct and customise their relationship with a brand.

Is navigation well designed for the customer? Can the customer navigate around the site easily and quickly? Customers expect speed and ease of use and will leave websites or other technology platforms that do not provide the speed and ease of use required. A brand positioned as easy to use or intuitive is behaving off-brand when its online checkout process is clunky or complicated. It is not enough to promise 'easy to use'; the brand experience has to demonstrate it. For example, Amazon successfully translates its brand promise of great service by using navigation, functionality and content to create a service-driven digital experience that makes it fast and easy to buy products online. Consider Net-a-Porter.

Net-a-Porter

The brand strategy of Net-a-Porter is a great mix of website design, content, functionality and excellent navigation. The website has won plaudits for revolutionising high-end shopping presented in the style of a magazine, allowing customers from over 170 countries to see, review and buy the latest look. Around 2.5 million customers, mainly affluent women, log on to Net-a-Porter every month to browse from over 300 top global designers, such as Jimmy Choo, Alexander McQueen, Stella McCartney and Givenchy.[14] A decade ago women bought clothes they had seen, touched and tried on. Now millions buy their designer labels online at Net-a-Porter – a company that has been called the one-click wonder. Natalie Massenet, former fashion editor at *Tatler*, who created Net-a-Porter, is one of the leading success stories of the digital era. She launched it from a tiny artist's studio in Chelsea, London a decade ago. The company has a turnover of about €120 million, 2,600 employees and, following a merger, is now part of the Italian online retailer Yoox Net-a-Porter Group.

The thousands of photos uploaded to its social media site Net Set, provide the company with a live global feed of what 100,000 women are loving, sharing and buying. With more than 1 million interactions in its first six months, this social network enabled Net-a-Porter to keep abreast of current and pending trends and to tailor its marketing strategies. According to Sarah Watson, the vice-president of social commerce at the Net-a-Porter Group, 'this real-time insight into explosive micro-trends just wouldn't be possible with traditional retail tools. The Net Set has allowed us to quantify the theory of the trans-seasonal customer by serving as the ultimate social-listening tool.'

Understanding the consumer decision journey and digital branding

The main difference with digital branding is who controls the information and communication, with much of this now outside the control of marketing managers. This means that traditional strategies have to be redesigned to cater for the digital age.

Over ten years ago, scholars found evidence of a new consumer decision journey that was a major change in thinking and showed that consumers trusted other consumers above companies and also had moved from a narrow linear path to a more complex, multidimensional reality of digital power, multiple choices, decision criteria and triggers not previously expected.[15] The **consumer decision journey** takes into account digital technology and the consumer-to-consumer engagement within a more detailed decision process that continues after purchase.[16] Marketers are now managing these journeys as central to the customer experience and a provider of competitive advantage.[17] At the start of the purchasing process, the customer adds and subtracts brands from a group and has an extended evaluation period. After purchase, they continue to engage with the brand, often sharing their experience with other consumers (see Figure 13.1). Take the purchase of a television. Before purchase, the customer searches for information online, and after purchase they often continue to interact with other consumers through a variety of sites where they discuss their purchase. The changes from the funnel 'to buy' orientation to a loop that includes consider, evaluate, purchase and advocate is shown in Figure 13.1. There are four stages to the consumer decision journey:

1 **Consider.** Customers will consider within their **evoked set**, which is a limited set of brands – normally three or four – that the consumer will consider from the range of brands in the product or service category. Due to the amount of choice available, these 'top of mind' products and services are critical for marketers to understand. Digital platforms such as TripAdvisor can play a role in whether a brand is in that set, as they review and suggest hotels and restaurants. Consumers will find information from a variety of sources to compile their evoked set.
2 **Evaluate.** Consumers start to study their evoked set brands and include and exclude brands following some level of both offline and online information search aligned to their selection criteria. Again, sites like TripAdvisor can support the customer decision making here with support or detractions from other customers.
3 **Purchase.** Consumers then purchase either offline or online. Consumers can be encouraged or dissuaded from their choice at this stage too. This can occur offline if they experience poor service, such as having to wait, and decide to leave, or online when the waiting time for the website is too long and they opt-out of the purchase and leave the website. This is called a bounced customer. The **bounce rate** is the percentage of visits in which the person left the website after they arrived on the entrance (landing) page. It is the rate at which they bounced out of proceeding through to purchase.
4 **Enjoy–advocate–bond.** After purchase, a deeper connection can be developed. Many customers go online after purchase. This aspect was not a feature of the traditional funnel. When customers are pleased they may advocate the brand online, adding to the sources for evaluation for others. TripAdvisor now dominates the hotel business, with social media word of mouth driving hotel, restaurant and even tourist attraction success.

If the bond is strong, a customer may skip the evaluate stage and go to the enjoy–advocate–bond stage. Brand advocates are an important aspect of the digital world as they can have huge impacts on other customers and on the brand. A **brand advocate** is a powerful consumer who is willing to recommend a brand to their friends or advocate for the brand – they are also called Super Users. They can also be negative toward the brand and provide catalysts for complaints and issues. Think of the United Airways passenger who compiled and posted a song to YouTube complaining about the service and it was viewed over 5 million times online – a powerful voice for change?

The two main implications of the consumer decision journey perspective are:

1 Marketers should target different stages in the consumer decision journey rather than simply allocate spending to one. This is important at each stage, but particularly during the after-purchase engagement of enjoy–advocate–bond stages. Spending on driving brand advocacy can improve reviews and encourage discussion, which can in turn drive more reviews and discussion.
2 Marketers must study *owned media* – that is, the channels a brand controls or owns such as its website or company-sponsored social networking site, called firm hosted sites – and *earned*

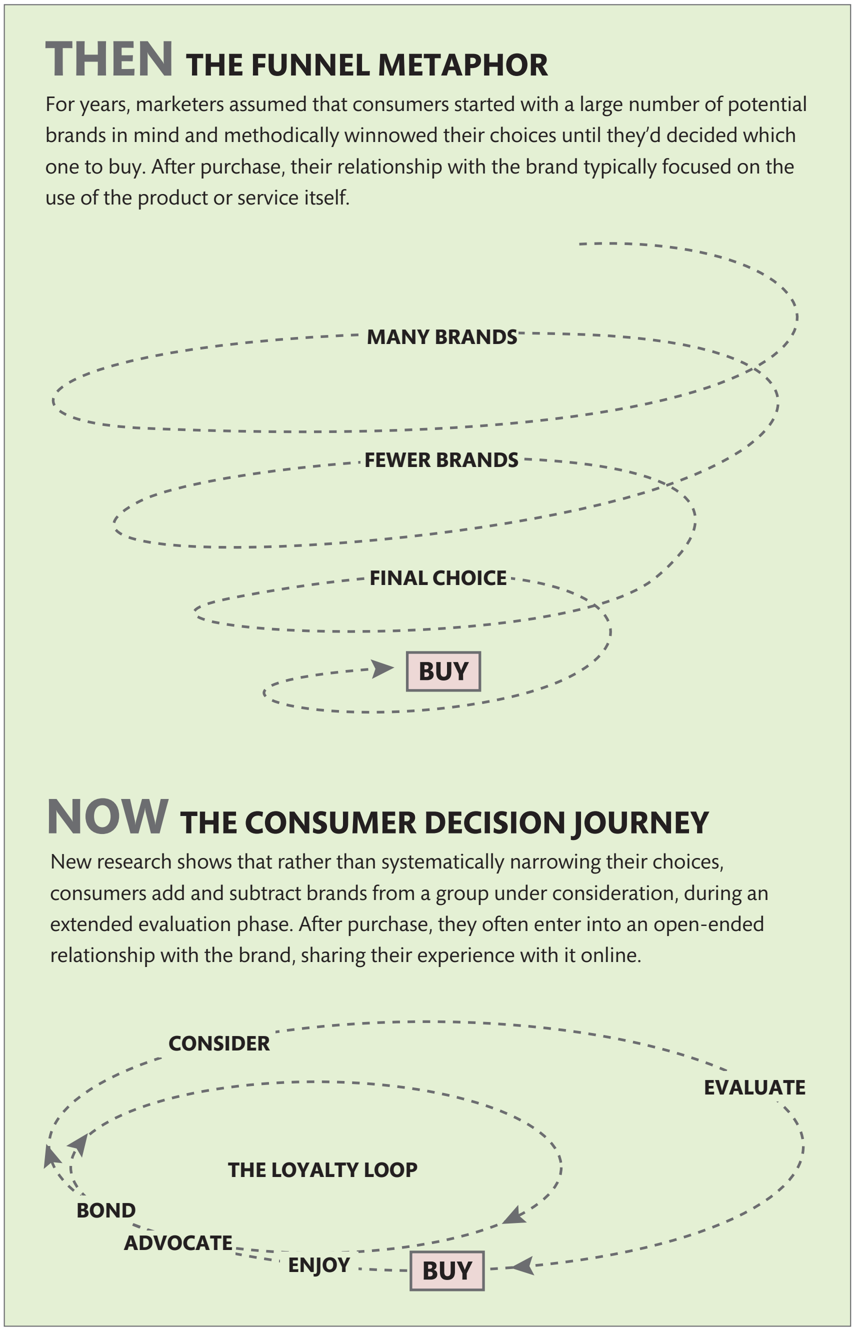


Figure 13.1 The consumer decision journey
Source: Reprinted by permission of *Harvard Business Review*, From D. Edelman (2010) Branding in the digital era, December.

media – customer-created channels such as brand communities where companies have to earn positive comments rather than being able to pay for them. They must also study their *supportive spend* – which is where staff and technology are resourced to create and manage content – mostly firm generated, and to monitor the chatter and comments – mostly user generated, across a variety of channels.[18]

Customers need to be reached at the moment they are going to make their decision. This involves monitoring what customers do, what customers see and what customers say; and then taking action.[19]

Brands are now managed within these user-managed environments.[20] Some 25 per cent of search results for the world's twenty largest brands are linked to user-generated content. According to a recent Nielsen report, users now spend 22 per cent of their time online (or one in every four-and-a-half minutes) on social networking sites such as Facebook, Snapchat, YouTube and Wikipedia. Nielsen also reports that 'for the first time ever, social network or blog sites are visited by three quarters of global consumers who go online'.[21]

Social media provide rich customer insights faster than ever before. They provide marketers with powerful new ways to explore consumer lives; to study new product and service developments; to build brand awareness; and to trial and sell products and services.[22] Using social media to support the brand is a challenge for marketers in knowing what to use and when to use it – particularly as they must be sensitive to this customer-controlled world. It is important to manage from a customer support perspective and to integrate with the brand promise. This aligns with four key capabilities, designed to bring and keep consumers within the decision journey, and demands 'creative design thinking and novel managerial approaches':

1. **Automation:** Customer processes are being reviewed for automation. What complex systems can be automated to become customer-focusing, front-end experiences? Music apps are a good example, with immediate streaming and downloading from sites such as Spotify replacing finding the CD, putting it into the player and searching for the required track.
2. **Proactive personalisation**: Building on automation, the process of personalisation can be seamless for the customer and provide more focused relevant information and support. Through continuous tracking and monitoring behaviour, sites such as Amazon remember your book purchases and recommend something similar. There are also sites that blend information from multiple sources to provide real-time insights and hopefully support – such as Skyscanner for flight information.
3. **Contextual interaction**: Wouldn't it be nice to be texted your room number as you arrive at a hotel? Well that is what Starwood Hotels do as experts at contextualising the information along the customer decision journey. More and more companies are managing customers digitally to enhance their brand values and to create frictionless experiences.
4. **Journey innovation**: Marketing managers must be intelligence leaders and focus on experimentation and actively searching for innovative ideas to develop relationships with their customers. Kraft has a recipe app that is a fridge and food management system to recommend what can be cooked from the contents of your fridge, and the company also works with food supplier Peapod to deliver the extras the customer might need.

The aim is to provide the perfect cross channel experience for customers. Consider L'Oréal.

L'Oréal

Beauty is becoming digitalised along the consumer journey. Think of a sensor in your hair brush that provides ongoing information in relation to dryness and damage – amazing product connectivity to support contextualised personalisation.

L'Oréal is an expert at competing along the consumer decision journey and is digitally building on the Makeup Genius app – for virtual testing of make-up. This hugely successful app has had over 20 million downloads, resulting in more than 300 million virtual product trials. Understanding that it is critical to make the consumer journey from information search to advocating after purchase seamless, fun and digital is a digital brand focus for L'Oréal.

L'Oréal is investing in digital brand management and expanded its digital branding expertise with the purchase of the Modiface company – a leader in beauty augmented reality and artificial intelligence. Modiface has had great augmented and app success working with companies such as Estée Lauder, Sephora Smashbox and Allergan. L'Oreal also developed Clairol's 3-D hair-colour simulator app.

'This really marks the second phase of our digital acceleration', says L'Oréal chief digital officer Lubomira Rochet. 'It's the first time L'Oréal acquired a tech company, a non-beauty brand. So it's really very significant from a strategic standpoint. And what we have in mind with Modiface is to create the heart of our digital development.' ModiFace is part of L'Oréal's Digital Services Factory – a network that designs and develops new digital services for the company's brands.[23]

The Makeup Genius app expands the digital brand along the consumer decision journey – at pre-purchase, purchase and post purchase
Source: L'Oréal.

Linking social networking and the consumer decision journey

Social networking is used throughout the stages of the consumer decision journey, from the initial consideration to the post-purchase experience, with much of the changes to the consumer decision journey driven by social media developments (see Figure 13.2).

- **Initial consideration.** Something has triggered a need for the customer to start thinking about making a purchase. The consumer considers an initial set of brands based on brand perceptions and exposure to recent touchpoints.
  How can social networking be used? According to McKinsey, people are three times more likely to purchase a brand that was in the initial stages of their purchasing journey in comparison with those that were added later. Social networking can play a part in this early stage by positioning a brand in the forefront of consumers' minds at all times. This might happen by stumbling across a brand on a Facebook page, reading a Tweet about a good experience someone has had with a brand or reading a blog post. Not only does this help spread word of mouth, but the brand that a consumer is most likely to recall is one that has a constant place in their mind.[24]
- **Active evaluation.** The consumer is actively seeking more information about the products or services they have in mind. Consumers add or subtract brands as they evaluate what they want and don't want.
  How can social networking be used? Two-thirds of the touchpoints during the active evaluation phase involve consumer-driven marketing initiatives – something at which social media excel. Reviews and recommendations from 'people like me' play an integral part in the customer decision-making process. A good review by an influential blogger, or a comment by a social networking influencer, which appeals to the consumer audience, can be more valuable than thousands of euros' worth of advertising. By interacting and engaging with influencers, brands can build up their presence, content and appeal to their target audience, though they must be aware of the need to deal with negative as well as positive content.
- **Post-purchase experience.** After purchasing a product or service, the consumer builds expectations based on their previous experience, as well as hands-on experience of it themselves, to inform the rest of their journey.

  How can social networking be used? Post-purchase relations are very important. According to McKinsey, more than 60 per cent of consumers (of facial skin care products) go online to conduct further

Figure 13.2 Aligning social networking and the consumer decision journey
Source: Rawpixel.com/Shutterstock.

research after purchase. If a product is promoted effectively online, or has been reviewed or discussed in social media, its most useful functions and features can be discovered at this touchpoint.

- **Loyalty loop.** This is where a consumer moves from making a one-off purchase to developing loyalty with a brand.

  How can social media be used? Social media can be the glue that keeps customers loyal to a brand. A customer who has liked your Facebook page, follows you on Twitter and contributes to your company blog is half way to becoming brand loyal. A careful balance of interaction with consumers through social media and a great product or service could be the extra step needed to maintain loyalty, turning impulse one-off purchasers into loyal customers. Happy customers can also turn into brand advocates, and focusing on retaining repeat consumers can help attract new or prospective customers.[25]

Marketers can overemphasise the 'consider' and 'buy' stages when the 'evaluate' and 'enjoy–advocate–bond' stages have become so critical.

Digital brand communities

A **brand community** is a group of people who share an interest in a specific brand and create a parallel social universe with its own values, rituals, vocabulary and hierarchy.[26] A **digital brand community**, also called an online or **virtual brand community**, is a social network of individuals who interact through specific technologies, potentially crossing geographical and political boundaries in order to pursue a mutual interest in a specific brand. It is a non-geographical, digitally supported community. The 2.5 million people on the SAP online global brand community stem from the technology company's organisation-wide commitment to providing a platform for social engagement. CMO Jonathan Becher spoke of the company's philosophy, in which social is seen to benefit every department, from sales, to development and support.[27]

While brand communities are found both online and offline, only online/digital/virtual communities allow consumers to 'gather' independently of geographical location and time zones.[28]

Nevertheless, brand communities may also meet outside the virtual world to enjoy their brands together in real life – be it cars, motorbikes, toys, books, games based on movies or even food products or cooking. The online gaming world with multiplayer gamers meeting at conferences such as Play Expo Manchester or Insomnia in London is a good offline and online example.

So communities exist that are vocation (LinkedIn), task (fixing or help with something – Wikipedia) or interest (music – LastFM). Three kinds of brand community can be formed with firm or customer or both inputs:

1. **Consumer hosted –** exclusively consumer driven with no accepted interference from companies (e.g. fan clubs such as Star Trek).
2. **Company driven –** with input from consumers or customers (e.g. 'The Art of the Trench' from Burberry).
3. **Firm hosted sites (firm-generated content, or FGC) –** customer–company 'joint ventures' (e.g. the Beauty Talk site hosted by Sephora).[29]

Sustaining brand communities depends on people visiting the site, facilitating social interaction among community members and, most significantly, enhancing the loyalty of community members.[30] They are often a core aspect of brand management, though often misunderstood. Harvard professors Susan Fournier and Lara Lee suggest that:

> **In today's turbulent world, people are hungry for a sense of connection . . . Unfortunately, although many firms aspire to the customer loyalty, marketing efficiency, and brand authenticity that strong communities deliver, few understand what it takes to achieve such benefits. Worse, most subscribe to serious misconceptions about what brand communities are and how they work.**[31,32]

Studies of offline and online brand communities reveal that much of the value gained by community members stems not from the brand itself, but from the social links formed as a result of using the brand.[33] Following an in-depth study of a luxury virtual brand community, the authors developed an eight-component typology that refines Schau et al.'s (2009) four-component model of brand community engagement practices (social networking, impression management, community engagement and brand use). The model comprises 'greeting', 'regulating', 'assisting', 'celebrating', 'appreciating', 'empathising', 'mingling' and 'ranking'. These practices contribute to and maintain the community's vision and identity, and strengthen shared community consciousness.[34]

Online brand communities can create a wider, more complex relationship and value beyond the customer and the company to include a wider ecosystem – financial, ethical, service, reputational and platform. Users engage with the online communities in many ways, including as lurkers, creators and consumers.[35] Firms hosting these sites need to be aware of the need to design the sites to facilitate knowledge sharing, provide social support, deliver an enjoyable and useful experience and engage consumers to co-create value through emotional empathy.[36] Consider Sephora.

Sephora – online brand community

Sephora, the French chain of cosmetics stores owned by luxury conglomerate LVMH, has built an online brand community Beauty Talk, which it hosts on its own site. It has over 1 million online users and is a network of mostly female cosmetics enthusiasts who maintain a seemingly endless supply of forum discussions on beauty, confidence and self-image, along with stories and advice for navigating all three.

Of the roughly 40,000 to 70,000 people logged in at any one time, only a fraction are actually active contributors – while most are lurkers, reading but not uploading.

'To be honest, Beauty Talk has become somewhat of a daily ritual for me. I check it at least once a day (if not double-digit times a day, let's be real)', says Willa, 36, who posted her first product review in 2009 on Sephora's site but only became active on Beauty Talk in 2015. There is a sense of purchase support from the community. When a visitor arrives on Beauty Talk, they find a like-minded tribe of makeup experts, and newbies, looking to discover the best makeup, hair, fragrance or skincare products that are a match for them. And they do find them – all in close proximity to the Sephora shopping cart. Community members discuss, debate and compare results. They post photos and links to videos. They list favourites and ask other members to join the discussion. All the things that brand marketers dreamed would happen on Facebook, but didn't. Beauty products can be purchased in many places online, but by ensuring that the purchase comes with some great advice, too, the click-to-buy becomes far easier. Indeed, on Sephora's Beauty Talk site community, members spend two times as much, and the 'superfan' community members spend ten times as much as non-community members.[37]

Marketing professor Suzanne C. Beckmann from Copenhagen Business School, Denmark, and Martin Gjerløff from DDB Needham, Denmark suggest that companies seeking to manage global online brand communities may do so by following one or more of five approaches:

1 **Fight.** Many communities are positioning themselves as an opposition to another group: what would life be like as a Real Madrid fan without FC Barcelona to compete against? The sense of 'us versus them' influences how community members think, feel and act.
2 **Role models.** The main function for role models is to be both a catalyst and a backbone for a community: somebody to identify with, to be inspired by and to aspire to be. Role models can therefore be used to create unified feelings among community members. A typical example is communities based on information exchange, brought together by a prominent person such as Jamie Oliver, who promoted the idea of healthy food in UK schools with the 'Feed Me Better' campaign.[38]
3 **Exchange.** Exchange ranges from gift giving and knowledge sharing to strategic networks and alliances. Exchange, as a central driver of brand communities, is found in both consumer- and company-driven communities, and quite often results in a 'joint venture' between the two parties. The International Lego Users Group Network 'Lugnet' (www.lugnet.biz), where members support and help each other, have fun and provide advice, is an example.
4 **Manifestation.** Manifestation builds on the human need for the traditions, rituals, symbols and icons around which groups gather. Basically, there are four types of communities of manifestation: (1) enactment of a specific activity (Lego); (2) expression of political interests such as environmental issues, animal welfare, world poverty and hunger; (3) anti-brand and advertising communities (targeting companies with the tagline 'I hate'); and (4) based on demographic segmentation variables such as age, gender and ethnicity (Facebook or Snapchat).
5 **Progression.** Progression means looking forward, constantly striving for development and innovation and ways to link to the customer creatively. Consider LEGO.

LEGO

LEGO grew its online community, which has a player base of over 400 million people, through message boards and a social media website called My LEGO Network. LEGO has over 260 independent-fan social media sites and a crowdsourcing platform Cuusoo, a community amplification platform ReBrick and LEGO Idea, all of which it manages. This community represented a whole new competence base for creative engagement with employees and customers of LEGO. Product design from customers is encouraged through the internet site, with customers voting for their favourite designs. When a design gets 10,000 customer votes, the customer who designed it receives €10,000 and, if manufactured and released, 1 per cent of sales revenue.

Peter Espersen, head of community co-creation at the LEGO Group, revealed that annually the company receives 20,000 unsolicited ideas for LEGO models. 'We tend to let the users do the heavy lifting. So we need to get signification traction on a conversation before we enter it. We've said to our fans, if you have a good idea, you need to write something about it, you need to create a prototype or take a picture, put it on the platform, campaign for it and get 10,000 other people who think it's a good idea. When that happens, then we review it and we might do it.'[39]

Online brand communities' member characteristics

Within online brand communities, some members engage in a lot of work. They write new text, design and rework products and services, create original artwork and music, disseminate podcasts, upload video content, sell and rate products and services, write reviews, programme and debug software, offer advice, edit photographs and set up specialist blogs, to name but a few tasks.[40]

Figure 13.3 describes a typology of the different ways in which consumers behave as participatory, creative collectives in online communities and provides examples of each:

- *Crowds* are large, organised groups that gather together for a specific competition or project.
- *Hives* refers to members of a specialised community who have expert knowledge on a certain issue or interest.
- *Mobs* are innovative and playful communities that have a specialist interest.
- *Swarms* are when large groups of members individually contribute something small to the community.

In general, the following features characterise an online brand community:[41]

- **Consciousness of kind.** A characteristic of a community is consciousness of kind, which refers to the feelings that bind individuals to the other community members and the community

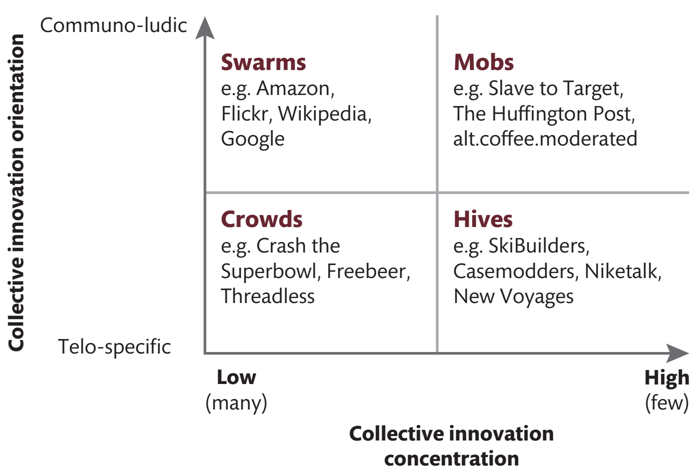


Figure 13.3 A typology of the different ways consumers behave as participatory, creative collectives in online communities

Source: R. V. Kozinets, A. Hemetsberger and H. J. Schau (2008) The wisdom of consumer crowds: Collective innovation in the age of networked marketing, *Journal of Macromarketing*, 28(4). Copyright © 2008 Sage Publications, Inc. Reprinted with permission.

brand (e.g. a love of fashion or a passion for beer or red wine such as with Untapped, for beer lovers). Two factors determine consciousness of kind: legitimisation (distinguishing between true and false members) and opposition to other brands – BMW versus Mercedes; Apple versus Microsoft.

- **Rituals and traditions.** There is evidence of rituals and traditions that surround the brand. These characteristics reproduce and transmit the community meaning in and out of the community. Members relate to each other with the memory of major events in the history of the brand.
- **A sense of moral responsibility.** The members have an obligation to the brand community. There is a sense of obligation to the community and its members that is often, but not always, shared by members of the group (e.g. in regard to product repairs or personal services). PlayStation gamers give online tips about different games. Other communities may share bad experiences suffered by individuals who have chosen different brands (TripAdvisor). Building a positive productive digital brand and online brand community requires careful thought and implementation.

Managing global brands

More and more brands are now global, from fast food to cars, from fashion to music, from banking to biking. A **global brand** is one that is available in many nations and, though it may differ from country to country, the brand has a common goal and similar identity. Global brands are brands that customers can find – often under the same name – in multiple countries with generally similar and centrally coordinated marketing strategies. Global brands may make slight alterations to their logo or image, depending on the market they are in, but ultimately the brand image and values are consistent in all markets.

For a brand to be judged as global it must achieve more than one-third of its sales from outside its home country and have a visible external marketing presence.[42] Alternatively, the brands must be available in all four of the main regions of the world: Europe/the Middle East and Africa (EMEA), North America, Latin America and Asia.

Certain consumer segments buy global brands as a sign of excellence, as badges of membership to a 'global mall', and to reflect a cosmopolitan consumer culture.[43] Global branding is about ensuring that people from different cultures, speaking different languages, recognise and want to purchase the brand.[44]

The revenue successes of global brands are of epic proportion. Royal Dutch Shell has revenues ahead of the economies of Mexico and Sweden, while well-known German car brand Volkswagen has revenues larger than India's state revenue.[45]

As Oxford Professor of Marketing Douglas Holt notes:

> **Many consumers are awed by the political power of companies that have sales greater than the GDP of small nations and that have a powerful impact on people's lives as well as the welfare of communities, nations and the planet itself.**[46]

To build a global brand is to build a brand that has a 'voice'. Brands talk. Global brands talk a lot. They talk to millions of people and are talked about by millions of people. Companies contemplating a global branding strategy need to be clear in their motives and ambitions and should have a clear idea of why and what they are trying to achieve. MasterCard – the global credit card company – has a vision 'to advance commerce globally'. Google's mission is 'to organise the world's information and make it universally accessible and useful'. Both of these companies have global visions.

The longevity of these brands can also be admired. Cadbury was introduced in 1905 and today sells more than 250 million chocolate bars annually. BT is the world's oldest communications company, established in 1846, and Lyle's Golden Syrup is in the *Guinness Book of Records* as the world's oldest brand – founded in 1885. Surviving and reinventing themselves is a core challenge for these global brands. Consider KitKat.

KitKat

KitKat, the British-developed chocolate-covered wafer bar, has become one of the world's favourite snacks through innovations both digitally and offline. KitKat is also the number one best-selling chocolate in Japan, and the only non-American brand in America's list of top five chocolate favourites

While popular the world over, the chocolatey wafer from Nestlé is especially adored in Japan, where it has become one of its top-selling chocolate brands since it was introduced in the country in 1973. Nestlé Japan's marketing manager for KitKat, Ryoji Maki, had to overcome some brand challenges and has focused on relentless innovation to drive growth. He notes that: 'We had to differentiate the brand from the start when we realised that the global slogan, "Have a break, have a KitKat", does not have the same meaning to the Japanese.' Luckily for Nestlé, it is very similar to the Japanese phrase *kitto katsu*, which means 'you will surely win', so it worked with that. Nestlé partnered with Japan Post and designed a postable KitKat. This was a massive hit, resulting in an annual tradition of people sending KitKats to almost half of the country's 600,000 annual exam-taking students to wish them good luck.

In the UK, innovations such as personalised wrappers and new flavours are used to keep the brand relevant. Digitally, it also engages with its fans regularly and often in real time. When avid chocolate fan Laura Ellen Tweeted her love for both KitKat and Oreo, KitKat responded with a fun challenge of an online Tic Tac Toe game between the two brands. These examples are reflective of the numerous innovations that keep the brand differentiated and on top globally.[47]

KitKat maintains its global brand dominance through brand innovations including personalised packaging in the UK market and country specific flavours like green tea flavour -see image above.
Source: Richard Watkins / Alamy Stock Photo

A **global community** is where people around the world view themselves as potential partners or even family members in a vast, increasingly interconnected human global family.[48] Global communities are not easy to form due to cultural differences around the globe. **Culture** is defined as the set of basic values, perceptions, wants and behaviours in a society. Each country has its own traditions, norms of behaviour and taboos. For example, German and French people eat more packaged, branded spaghetti than do Italians, who prefer homemade spaghetti. Italian children like to eat chocolate bars between slices of bread as a snack. In Belgium, baby clothes for girls are trimmed with blue, while baby clothes for boys are trimmed with pink, which is contrary to the traditions in most other cultures of pink for a girl and blue for a boy. Marketers must understand how culture affects consumer reactions in markets and is particularly critical for a brand to be successful in new markets. Building cultural empathy helps companies avoid embarrassing mistakes and optimises their chances of being successful on a global scale. See the 'Marketing insight' box.

Marketing insight

Global consumer segments and characteristics of global brands

Status and prestige are often associated with global brands, with research showing that global brands have more cachet.[49] Recent research found that global brands tend to have an 'esteem' dividend. This esteem is associated with familiarity that leads to comfort and feelings of prestige when buying or using the brand.[50]

In a European and Asian survey, consumers were grouped into four segments:

1 **Global citizens:** 55 per cent of respondents rely on global brands' success as a signal of quality and innovation. They

also have some concerns for corporate socially responsible behaviour by global companies.

2 **Global dreamers:** 23 per cent of respondents consisted of consumers who are less discerning and really embrace the global brand images as portrayed by the companies.

3 **Anti-globals:** 13 per cent of respondents are sceptical about claims of higher quality and dislike brands that preach more global or, in many cases, US values. They do not trust global brands and try to avoid purchasing them.

4 **Global agnostics:** 8 per cent of respondents evaluate the global product or service by the same criteria as the local brand.

Consumers worldwide are seen to associate global brands with three main characteristics, which account for 64 per cent of global brand preference:

1 **Quality signal (44 per cent).** Most consumers equate global with quality and use the globalness of the brand rather than the country of origin as evidence of quality. For example, consumers will pay a higher premium for a BMW due to its global brand equity.

2 **Global myths (12 per cent).** Some consumers use global brands to create an imagined global identity that they share with like-minded people, reflecting an attitude that 'local brands show what we are; global brands show what we want to be'. For example, in Japan over 80 per cent of Japanese women between the ages of 18 and 24 own a piece of Louis Vuitton luggage.

3 **Social responsibility (8 per cent).** Only a small number of customers expect companies they buy from to address social problems. This group dislikes the low levels of corporate social responsibility. Many consumers still remember Nestlé's baby formula sales in Africa or Shell's use of resources in Nigeria.

Certain consumers use global brands to develop 'an imagined global identity that [is] shared with like-minded people'.[51] There is often conflict between supporting local brands and the desire for the global brand. Despite the advent of a global culture, there is often still a desire for local culture. Studies have shown that many consumers like to support local products and services. By adapting and using brands to appeal to local consumers' appetite for imported or Western products or services, a multinational can distinguish its products or services and avoid competing directly with local groups that know the market better.

By aligning brand image to the cultural ideals of a market, companies can capture market share. For example, L'Oréal has developed a formula for global success by conveying its understanding of different cultures through product design, communication strategy and targeting. Whether L'Oréal advertisements are evoking French beauty, Italian style or Oriental elegance, the brand attracts consumers across borders and cultures.

More and more global brands try to have a 'think local, act local' strategy to make their brands more locally orientated in foreign markets. Most brands are adapted to some extent to reflect significant country differences in consumer behaviour, brand development, competitive forces, legal, societal, environmental and political environments. Even global brands undergo some changes in product features, service design, packaging, channels, pricing or communications in different global markets.[52] Barbie has a doll dressed in Muslim attire; Fanta offers country-specific flavours – Chinese consumers enjoy green apple Fanta, while customers in Portugal and Spain have watermelon Fanta, and Fanta Shokata – an elderflower cordial – is available in Romania.

Taking a brand global is a difficult step to reverse, and marketing or brand managers run the risk of damaging the brand's domestic image if they are unsuccessful in creating a global branding strategy. The risks of taking a brand into international markets are as follows:

- Foreign markets can have different operating *environments*.
- Foreign markets can have different cultural *histories and social institutions*.
- Brands designed for global markets may not be very *customer orientated* and thus they may not outclass other products or services to the extent they did in the home market.[53]

Factors leading to increased global branding

Many factors have encouraged the phenomenal growth in global brands, including increased communication, travel, technology and marketing skill. Some more specific factors are as follows:

- Digital globalisation means that economically and culturally consumers have started to think more alike. Meaningful segments are developing around the world of consumers with similar needs and tastes.

- For decades media communications circulated within national boundaries, but now this is global, with consumers influenced by worldwide trends and broad cultural movements fuelled by exposure to social media, TV, movies, apps, smartphones and the internet. A Parisian teenager may have more in common with a teenager in London or Sydney than with their own parents.
- Similarly, though supply networks have been in operation for centuries, technological advances and increased agility means that products and services move all over the world at phenomenal speed.
- Many products and services face saturation in the markets in which they operate. With over-saturated markets in Europe, marketers need to look abroad for growth. Shareholder desire for growth can encourage global marketing deployment.
- The fall of communism meant that previously inaccessible markets in Russia and Eastern Europe are now more available to marketers.
- India, China and growing consumer societies all over the world are hungry for global brands and have the disposable income to buy them. The French luxury giant Hermès has boutiques in Shanghai for its new Chinese brand, Shang Xai. The Chinese already buy more cars and televisions than anyone else, and they are number two when it comes to PC sales and huge for luxury goods.
- There is a global dissemination of popular culture. The increasing popularity of Western culture fuels demand for brands from the West.
- The competitive environment means that if competitors are global then a business may need to be global too.[54]
- The world's population has increased significantly in the last 50 years, mainly due to medical advances and substantial increases in agricultural productivity. The world population is over 7.2. billion, up from 1.5 billion in 1900.[55] Europe's 743 million people make up 10 per cent of the world's population.

The world has grown accustomed to the omnipresence of global brands such as the BBC, Volkswagen, Puma and Adidas, and service brands such as HSBC in banking, Hilton and Radisson in hotels and Air France and British Airways in travel. More recently, retailers are also becoming global brands, with companies such as Tesco (UK), Carrefour (France), Ahold (the Netherlands), Lidl and Aldi (Germany) all pursuing global strategies with greater and lesser success rates. Consider Tesco, who struggled in the US market.

Tesco

Tesco is a good example of a service company going global and encountering major cultural challenges. When it decided to pursue a global strategy that included entering the US market, it opened a chain of over 200 grocery convenience stores on the West Coast called Fresh & Easy. It experienced consumer and culture needs in the US that differed from those in its successful UK market. UK consumers preferred a small local store model rather than the US car-dominant buy-in-bulk model. Professor Anthony Dukes, at the USC Marshall School of Business, said: 'My sense is that what they tried to do was make a European model fit. Europeans tend to make more frequent trips to grocery stores, maybe every day, whereas Americans are used to going for bigger trips less frequently.' Another error was the focus on ready meals, so popular in the UK but almost unheard of in the US. The total cost of its failed US venture was nearly €2bn and Tesco left the US market five years after it first entered it.

Source: R. Morris (2013) Fresh & Easy failure: Can UK firms make it in the US?, BBC News (17 April), https://www.bbc.com/news/business-22168463.

Tesco's venture into America with the Fresh & Easy brand was not a success
Source: Nigel Howard/Alamy.

Managing iconic global brands

Many of the major global brands are also iconic brands. **Iconic brands** are those brands that customers 'regard with awe'. They are the brands that have conquered the world. Examples of European brand icons are Zara, IKEA, Mercedes, Cartier, Rolex, Gucci and Hermès, with Apple, Coca-Cola, Google and Nike as US examples. The marketing managers of these companies understand and have a deep connection with their customers and deliver on their brand promise. The companies are totally focused on preserving and promoting their brands. When companies change these iconic brands, customers can be very upset. British Airways found this out to its cost when it removed the British flag from its planes in an attempt to both modernise the brand and move to a more ethnic image. Customers were angry and confused, sales fell and British Airways had to replace the flags on its planes.

Creating a brand icon is not something a marketing manager can prescribe – it requires *outperforming* everyone else to have the best brand and marketing around. Five considerations that can help create an iconic status are:[56]

1 Target national contradictions – iconic brands often speak to mass society by *challenging* anxieties and needs in society. They can tap into the sense of desire, like the L'Oréal slogan – 'Because you're worth it'.
2 Create *myths* that lead culture – icons lead popular culture; this sets them apart from conventional branders, which tend to mimic it. Ben and Jerry's tapped into social causes and the back-to-nature and home-grown desires of customers with their ice cream brand.
3 Speak with a *rebel's voice* – iconic brands don't try to mimic their customers' tastes and feelings; instead they challenge them. The most successful icons rely on an intimate and credible relationship with a rebel world, such as the 'Wicked Vodka' campaign from Smirnoff.
4 Draw on *political authority* to rebuild the myth – icons must be revitalised when ideology shatters; they can draw on the goodwill of the brand to rejuvenate ideas. After the Body Shop was sold to L'Oréal, the brand popularity stumbled as the brand values of the natural Body Shop were threatened by the perceived mismatch with the L'Oréal brand. The brand has since been bought by Natura, which would appear to be a better environmental fit.
5 Draw on *cultural knowledge*, which is vital for building icons – understanding what is happening in a culture and responding to that, learning to anticipate new contradictions and to select the one that best aligns with the brand's identity is a challenge. Bulmers Cider placed an advertisement over the river Liffey in Dublin that read 'North Cider or South Cider?'.[57] This slogan only has cultural significance in Dublin, where the city is divided into north and south siders. Often, national cultures can be marketed to attract investment, tourism and brand cachet on the world stage – see the 'Marketing insight' box.

Marketing insight

Nation brands

Many countries have strong associations, such as Scotland with whisky, Germany with cars, Italy with fashion, France with cosmetics and perfumery, Switzerland with banking, the Czech Republic with beer, Germany with sausages and Russia with vodka. Places, too, can have strong associations, such as Cambridge for its university, Evian for water and Parma for ham.

For effective country brand management, there must be agreement on what the country stands for, ensuring consistency of communication in delivering the brand message and planning for the long term. A country's image impacts on people's decisions in relation to purchasing products or services from that country, whether investment will occur and also tourism. Take the unrest in the Middle East that affected tourist travel there, benefiting regions such as Spain and Portugal.

The Anholt-GfK Roper Nation Brands Index measures the power and quality of each country's 'brand image' by combining the following six dimensions:

1 Exports
2 Governance
3 Culture and heritage
4 People
5 Tourism
6 Investment and immigration.

A Nation's Brand Hexagon provides a nation's brand scores at a glance. The Nation Brand Hexagon scores each country across the six dimensions and then provides a visual rendering of the total index score. Together with the index analysis, the Nation Brand Hexagon provides a thorough assessment of a country's standing, making it one of the most effective tools available for managing a country's brand.

Marketing insight

The costs and benefits of fast fashion

In the fashion industry, styles and tastes can change quickly, and some savvy businesses and retailers are developing business models to allow them to quickly capitalize. Notable among them are Sweden's Hennes & Mauritz, or H&M, and Spain's Inditext with its Zara brand. These firms can take a new garment or accessory from design to store in a mere two weeks. Their success is forcing established luxury brands like Burberry, Chanel, and Saint Tropez to speed up and increase the frequency of their new product introductions beyond the traditional fashion-week-driven autumn and spring collections.

By sourcing more than half its products from Spain, Portugal, and Morocco, Indetix pays more in production, but thanks to its tightly integrated supply chain, the company can quickly stock and supply what is selling and avoid having to discount what is not. Because there is almost always something new at appealing price points, shoppers always have a reason to stop by and check out what has just arrived. H&M has adopted a similar fast-fashion model that allows it to closely follow and respond to what is selling in the marketplace.

Both firms generate most of their sales in Europe—four-fifths for H&M and two-thirds for Zara—so they are furiously moving into China, Russia, and elsewhere and opening up hundreds of new stores. But this rapid growth and continual replenishment has both an environmental and social cost that fast-fashion companies are trying to address.

The social cost came to light when a tragic 2012 fire in a subcontracted Bangladesh garment factory killed 111 workers. Competition in the $18 billion fashion industry is fierce, and with a focus on lean production costs, safety concerns took a backseat. Prodded by labour rights activists, Western firms finally signed a building and fire safety agreement that provided greater regulation to improve worker safety.

How companies behave in one country can impact their brand image in another country.
Source: A.M. Ahad/AP Images.

Another negative by-product of the fast-fashion business model is the environmental cost of making and disposing of clothing with a limited shelf life. To deflect some of the criticism, H&M adopted a series of "Recycle, Resell, or Reuse" programs and activities.

Sources: William Mauldin and Suzanne Kapner, "Wal-Mart and Other U.S. Retailers Commit to Factory Safety in Bangladesh," *Wall Street Journal*, July 10, 2013; Katarina Gustafsson, "H&M's New Love for Old Clothes," *Bloomberg Businessweek*, July 1, 2013; Kyle Stock, "H&M Has Been Slower than Its Fast-Fashion Rival in Escaping Europe," *Bloomberg Businessweek*, June 13, 2013; Calum Macleod, "H&M, Zara to Sign Bangladesh Factory Safety Accord," *USA Today*, May 13, 2013; Oliver Balch, "H&M: Can Fast Fashion and Sustainability Ever Really Mix?," *The Guardian*. May 3, 2013; Renee Dudley, Arun Devanth, and Matt Townsend, "The Hidden Cost of Fast Fashion: Worker Safety," *Bloomberg Businessweek*, February 7, 2013; Lucy Siegle, "Is H&M the New Home of Ethical Fashion?," *The Guardian*, April 7, 2012; "Fashion Forward," *The Economist*, March 24, 2012; Gerard Cachon and Robert Swinney, "The Value of Fast Fashion: Quick Response, Enhanced Design, and Strategic Consumer Behavior," *Management Science* 57 (April 2011); Andrew Roberts, "H&M, Zara Fast Fashion Pressures Luxury to Speed Up," www.bloomberg.com, September 30, 2010.

Some brands are seen as global icons as well as strong national brands, while others are strong locally but not globally. Take the Dutch drinks company Heineken. Heineken is both a strong local and a strong global brand. There are, however, other strong Dutch brands that do not have a strong global appeal – such as the Dutch iconic peanut butter brand Calve. Alternatively, Sony is seen as a global brand but is not an icon of Japanese culture. To achieve iconic global status, brands must stay close to the customer but explore and understand culture now and into the future. Consider Red Bull.

Red Bull

The energy drink Red Bull is a showcase of how to become an iconic brand using identity and subculture and embedding itself in its customers' lives. This global brand inspires people to pursue their dreams and links to a strong brand identity with the 'Red Bull gives you wings' universal slogan. Created in 1987 in Austria, Red Bull has the highest market share of any energy drink in the world, with more than five billion cans sold annually. It markets freedom and gives people what they want. It uses social media and user-generated content to leverage influencer marketing, both online and offline. It takes digital seriously and has its own Red Bull media house to capitalise on the creative and media needs of its market, making world-class video content for sharing. Over 48 million people have liked the Red Bull Facebook page and Red Bull prides itself on responding quickly to each personalised message. It also has over 6 million subscribers to its YouTube channel. In terms of social media, Red Bull is *the* brand, having 43 million 'Likes' on Facebook, 1.99 million followers on Twitter, 3 million followers on Instagram and 4.7 million followers on Google+ – all creating content worth sharing.[58]

Red Bull is a global, iconic lifestyle brand
Source: Hemis / Alamy Stock Photo

Operating a global brand strategy

Increasingly, marketers must properly define and implement a global branding strategy. In designing and implementing a marketing programme to create a strong global brand, marketers want to realise the advantages of a global marketing programme while suffering as few of its disadvantages as possible.[59] The ten steps below are the guidelines that a company should follow when taking a brand global:

1. Understand the similarities and differences in the global branding landscape.
2. Don't take short cuts in brand building.
3. Use all elements of the marketing mix.
4. Embrace integrated marketing communications.
5. Cultivate brand partnerships and establish interfaces.
6. Balance standardisation and customisation needs.
7. Balance global and local management control.
8. Establish operable guidelines.
9. Implement a global brand equity measurement system.
10. Leverage brand elements.

We will consider each of these in turn.

Understand the similarities and differences in the global branding landscape

The first – and most fundamental – guideline is to recognise that international markets can vary in terms of brand development, consumer behaviour, marketing infrastructure, competitive activity, legal restrictions and so on. Virtually every top global brand and company adjusts its marketing activities programme in some way across some markets, but holds the parameters fixed in other markets. Not understanding and reacting to the desires of the local market can have huge consequences. When Vodafone entered Japan, it offered the same limited product range that worked in other countries. This failed to reflect the Japanese desire for many different models with fancy features, and Vodafone failed to capture the expected share of that market.

The best global brands often retain thematic consistency and alter specific elements of the marketing mix in accordance with consumer behaviour and the competitive situation in each country. Snuggle fabric softener changed its name to Cajoline in France, Coccolino in Italy and Mimosin in Spain – all names meaning softness in each language – to reflect the national language and to maintain the same brand positioning around the world.

Don't take short cuts in brand building

One of the major pitfalls that global marketers can fall into is a mistaken belief that their strong position in a domestic market can easily – and even automatically – translate into a strong position in a foreign market, especially with respect to the brand associations held by consumers. Marketers must create brand awareness and a positive brand image in each country in which the brand is sold. The means may differ from country to country, or the actual sources of brand equity themselves may vary. Nevertheless, it is critically important to have sufficient levels of brand awareness and strong, favourable and unique brand associations within each country. There is a danger that the company might take short cuts and fail to build the brand sufficiently in each country. This often happens through inappropriately exporting marketing programmes from other countries. The way a brand is built in one market with distribution, communications and pricing strategies may not be appropriate in another market, even if the same overall brand image is desired. Take the Vauxhall Nova car, which was marketed all across Europe. The term 'nova' means 'don't go' in Spanish.

Being on the ground helps to understand the market and this is particularly true in emerging markets – see the 'Marketing memo' box.

Marketing memo

Global branding and emerging markets

A report titled 'Playing to Win in Emerging Markets', by the Boston Consulting Group (BCG), researched over 150 executives from the world's biggest global companies and found that about 28 per cent of their revenues come from emerging markets. Their research showed that these global firms are finding local competitors increasingly tough in emerging markets. They also found that despite their volatility and differing economic fortunes, emerging markets are critical to the growth of global companies.

Local competition is critical as domestic firms can often focus better on their home market, adapt more swiftly to changing conditions, are often prepared to take more risks and have staff on the ground. And nowadays they can tap the global market for the same people, capital and technology deployed by multinationals and attract talented local managers. Many multinationals base their entire senior management team at home, where they are too remote to tackle the challenges involved in conquering new territories. Those firms that have moved at least two of their top twenty executives to the emerging market have outperformed their rivals, according to the report.

The common factors that distinguish winning MNCs are:

- smart market entry and expansion;
- innovative products/services and pricing;
- an intimate understanding of consumers and how to meet their needs;
- fast and widespread delivery of offerings;
- a focus on tackling the talent agenda;
- strong stakeholder engagement.

Another risk, as discovered last year by the (now retired) boss of Procter & Gamble, is that by devoting too much attention to emerging markets a company can lose focus on the developed countries that still, for now, provide the bulk of its profits.

Source: Adapted from N. Lang, D. Khanna, A. Bhattacharya and A. Chraïti (2018) Why MNCs are still winning big in emerging markets, BCG, 15 March, https://www.bcg.com/publications/2018/mncs-still-winning-big-emerging-markets.aspx.

Use all elements of the marketing mix

All aspects of marketing mix activities must align with the brand promise. Marketers must consider the full range of marketing mix variables to see where adaptation is required, whether to the product or service, the pricing, the promotion, the service process, and so on. Any aspect of the mix activities could be crucial for the brand promise in different markets. McDonald's has beer in its product range in Germany, wine in France, mutton pies in Australia and McSpaghetti in the Philippines.

Embrace integrated marketing communications

Top global companies use an extensive integrated marketing communications programme. **Integrated marketing communications** (IMC) is the coordination and integration of all marketing communication tools, avenues, functions and sources into a seamless programme that maximises the impact on consumers and other end users. Countries can have their own unique marketing communication challenges. In India, only about half of the population have television sets. So, although the brand positioning may be the same across countries, creative strategies in promotions may have to differ as different countries can be more or less receptive to different creative styles. For example, humour is more common in the UK than in Germany, while France and Italy are more tolerant of sex appeal and nudity in advertising. A French ad for Camay soap, showing a husband talking to his wife while she was in the bath, was considered in bad taste in the Japanese market.

Cultivate brand partnerships and establish interfaces

As discussed in Chapter 2, most global brands have marketing partners of some form in their international markets, ranging from joint-venture partners, licensees/franchisees to distributors. One common reason for establishing brand partnerships is to gain access to distribution. Traditionally, Guinness used partnerships very strategically to develop markets or provide the international distribution it lacked through its historic joint-venture partners hip with Moët Hennessy, which provided access to distribution abroad that otherwise would have been hard to achieve within the same time constraints.

A critical success factor for many global brands has been their manufacturing, distribution and logistical advantages.

There are three alternative ways to enter a new global market:

1. exporting existing brands into the new market (geographic extension);
2. acquiring existing brands already sold in the new market but not owned by the firm (brand acquisition); and
3. creating some form of brand alliance with another firm (joint venture, partnership or licensing agreement).

Three key criteria – speed, control and investment – are aligned to these alternatives in order to judge the suitability of the different entry strategies (see Figure 13.4). The choice among these different entry strategies depends in part on how the resources and objectives of the firm match up with each strategy's cost and benefits. Consider Heineken.

Heineken

Heineken, the global brand Dutch beer, uses a sequential entry strategy. It first enters a new market by geographic extension – exporting to build brand awareness and image. If the market response is deemed satisfactory, the company will then form an alliance by licensing its brands to a local brewery in the hope of expanding volume. If that relationship is successful, Heineken may then take an equity stake or forge a joint venture with the local brewery, buying into an existing brand. In doing so, Heineken piggybacks sales of its high-priced Heineken brand with an established local brand. As a result, Heineken now sells in more than 170 countries with a product portfolio of over 80 brands. With more than 110 breweries in over 50 countries and global export activities, Heineken is considered the most international brewery group in the world.

	Criteria for evaluation		
Strategy	**Speed**	**Control**	**Investment**
Geographic extension	Slow	High	Medium
Brand acquisition	Fast	Medium	High
Brand alliance	Moderate	Low	Low

Figure 13.4 Trade-offs in market entry strategies

Source: K. Keller (2008) *Strategic Brand Management*, 3rd edn. Copyright © 2008. Printed and electronically produced by permission of Pearson Education, Inc., Upper Saddle River, New Jersey.

Balance standardisation and customisation needs

A key issue to be considered when devising a global branding strategy is how the core values of the brand are to be represented in different markets.[60] Quite often what works in one country won't work in another. Many global brands need simultaneously to project a global image and create localised empathy in their target markets. The challenge, of course, is to get the right balance – to know which elements to customise or adapt and which to standardise.[61]

Standardisation means 'one size fits all' and helps keep the costs low by using the same activities and reaching out to as many people as possible with the same marketing. While the theory of standardisation of marketing activities can work on a strategic level, it is often not suitable for the richness of detail needed on operative and tactical levels.

Customisation or adaptation suggests that marketing activities will be more successful when customised or adapted to local conditions and circumstances in the marketplace. It suggests that a standardised marketing strategy is not ideal as it does not take locally related issues into account.[62] Recent research indicates that adaptation is greatest for distribution, followed by price, promotion and product.[63] The weakness of standardised global marketing is that it does not allow for differences in:

- consumer needs and wants;
- consumer values, attitudes and behaviour;
- economies, politics and cultures; and
- consumer responses to marketing mix elements.

Marketers are often required to harmonise centralised global branding strategies to local market conditions.[64] Take the example of the BBC.

The BBC

For decades, BBC TV, radio and, importantly, the BBC World Service have been broadcast around the globe, and the BBC (a major global brand) is seen by many as an important brand to Britain. Started in 1920, no other broadcasting company has such a diverse, exciting and long history. The BBC invokes a sense that is very British – or the positive stereotypes of what Britishness symbolises.[65] The brand's primary success lies in consistency of message. All markets experience Britishness, but it has been adapted to local market expectations. In India, the BBC has an Indian *Mastermind* presenter, rather than John Humphrys, and in Argentina the news is presented by a Latin American, but in English. Adapting its brand to digital content has been challenging, but CBBC and CBeebies, the BBC's digital channels for children, were both nominated for British Academy Children's Awards along with Amazon, Netflix, TrueTubes and Sky Kids. The BBC brand continues to have relevance, despite increased competition, and can manage to stay British – locally and globally.[66]

There are, however, aspects of a company and its culture that cannot be transferred from the home country to the new market. Examples can include symbols, corporate culture, rituals, routines and control systems. Are there any aspects of the brand that would be offensive, not suitable or irrelevant to the target market's culture? Think of Mukk yogurt from Italy and Zit lemonade from Germany. Another classic example is Gerber Baby Food – gerber means 'to throw up' in colloquial French; and Nintendo's 'Wii' raised a few eyebrows in England and Ireland. There have been many classic global blunders in marketing – see Table 13.1.

A glocal strategy standardises certain core elements and localises other elements. It is a compromise between global and local marketing strategies.[67] **Glocal marketing** reflects both the ideal of a pure global marketing strategy and the recognition that locally related issues need to be considered. In other words, this concept prescribes that in order to be successful globally, marketing managers must act both globally and locally in the different markets they choose to enter. In a glocal strategy, the corporate level gives strategic direction while local units focus on the local consumer differences. Glocal marketing allows for local and global marketing activities to be optimised simultaneously.

The advantages of glocal marketing are as follows:

- Consumers feel that the brand is relevant to them and is tailored to their needs and wants.
- There is harmony and balance between the different levels of marketing activity: strategic, tactical and operative.
- Brands gain greater market share.

Table 13.1 Classic blunders in global branding

- Coca-Cola withdrew its big two-litre bottle in Spain after discovering that few Spaniards owned refrigerators that could accommodate bottles that size.
- Johnson's wax floor polish initially failed in Japan as it made floors too slippery for a culture where people do not wear shoes at home.
- Hallmark cards failed in France, where consumers dislike syrupy sentiment and prefer writing their own cards.
- Philips became profitable in Japan only after reducing the size of its coffeemakers to fit smaller kitchens and its shavers to fit smaller hands.
- Tang initially failed in France when positioned as a substitute for orange juice at breakfast as the French drink very little orange juice and almost never at breakfast.
- Kellogg's Pop-Tarts initially failed in Britain because the product was too sweet for British tastes.

Glocal marketing managers have the task of balancing demands from headquarters with those of local branches while also taking full advantage of local expertise, knowledge and information.[68] There are four levels of adaptation:

1. The branding strategy can be tailored to suit a *region*. In Asia, Nivea adapted its product to cater for pale skin.
2. The branding strategy can be tailored to suit a *country*. In Russia, L'Oréal targets mothers and daughters with red hair colouring – the most popular hair colour in Russia.
3. The branding strategy can be tailored to suit a *city*. Germany's largest pharmaceutical manufacturer took a successful campaign from German cities to Middle East cities and failed. They advertised a headache pill on billboards throughout the Middle East showing three photos: on the left, a picture of a grim-looking man with a bad headache; in the middle, a photo of the man taking a pill; on the right, a photo of the man smiling, looking relieved and happy. The campaign failed miserably because Arabic is read from right to left, not left to right. So the message was reversed. Feeling good? Take our pills and get a really bad headache!
4. The branding strategy can be tailored to suit a *retailer*. For example, the Stella McCartney fashion label adjusted its luxury fashion brand to suit the pockets of H&M's customers.

Balance global and local management control

Building brands in a global context must be a carefully designed and implemented process. A key decision in developing a global marketing programme is choosing the most appropriate organisation structure or control for managing the global brands. In general, there are three main approaches to organisation for a global marketing effort:

1. centralisation at home office or headquarters;
2. decentralisation of decision making to foreign markets; and
3. some combination of centralisation and decentralisation.

Firms tend to adopt a combination of centralisation and decentralisation to better balance local adaption and global standardisation.

Establish operable guidelines

Brand definitions and guidelines must be established, communicated and properly enforced so that marketers in different regions have a good understanding of what they are and are not expected to do. The goal is for everyone within the organisation to understand the brand's meaning and be able to translate it to satisfy local consumer preferences. First, a document such as a **brand charter** should detail what the brand is, what it stands for and how it should be operationalised. Second, all marketing mix activities should reflect only those aspects that are consistent with the brand charter. Operation guidelines allow headquarters to control many aspects of the brand and to ensure that the brand image is clear, consistent and understood throughout the organisation.

Implement a global brand equity measurement system

A **global brand equity measurement system** is a set of measurement procedures designed to provide timely, accurate and actionable information for marketers on how the brand is performing in each market. The measurement system should provide information to assist in measurement; a sophisticated IT system is often put in place to support the brand. The system is used to facilitate the local manager's ability to tap into what is happening and then communicate this to headquarters.

Leverage brand elements

Proper design and implementation of brand elements (the brand name and all related trademarked brand identifiers) can often be critical to the successful building of global brand equity. In general, non-verbal brand elements such as logos, symbols and characters are more likely to directly transfer effectively – at least as long as the meaning is clear – than the verbal brand elements, which may need to be translated into another language. If the meaning of a brand element is visually clear, it can be an invaluable source of brand equity worldwide. Take the MasterCard symbol, the Mercedes star or the M&M characters – they need no translation and are accepted globally.

The 'Marketing in practice' box summarises the ten steps just covered, calling them the ten commandments of global branding, to help guide effective global brand management.

Marketing in practice

The ten commandments of global branding

A global branding programme can lower marketing costs, realise greater economies of scale in production and other variables, and provide a long-term source of growth. If not designed and implemented properly, however, it may ignore important differences in consumer behaviour and/or the competitive environment in individual countries. The following ten suggestions can help a company retain the advantages of global branding while minimising potential disadvantages:

1. **Understand the similarities and differences in the global branding landscape.** International markets can vary in terms of brand development, consumer behaviour, consumer culture, competitive activity, legal restrictions and so on.
2. **Don't take short cuts in brand building.** Build a brand in new markets from the 'bottom up', both strategically (building awareness before brand image) and tactically (creating sources of brand equity in new markets).
3. **Use all elements of the marketing mix.** Marketers must consider the full range of marketing mix variables to see where adaptations to any mix activity, such as the product, the services, the pricing, the promotion, the distribution, the process, the people or the physical evidence, may be needed.
4. **Embrace integrated marketing communications.** This means coordinating and integrating all marketing communication tools, functions and sources into a seamless programme that maximises the impact.
5. **Cultivate brand partnerships and establish interfaces.** Most global brands have partners in their international markets that help companies achieve advantages in distribution, profitability and added value.
6. **Balance standardisation and customisation.** Some elements of a marketing programme can be standardised while others typically require greater customisation or adaption.
7. **Balance global and local management control.** Companies must balance global and local control within the organisation and distribute decision making between global and local managers.
8. **Establish global brand operable guidelines.** Brand definition and guidelines must be established, communicated and properly enforced so everyone who is connected with the brand everywhere knows what they are expected to do and not to do. The goal is to set rules for how the brand should be positioned and marketed.
9. **Implement a global brand equity measurement system.** A global brand equity measurement system is a set of measurement and tracking procedures designed to provide timely, accurate and actionable information for marketers so they can make the best possible short-run tactical decisions and long-run strategic decisions in relation to the brand equity.
10. **Leverage brand elements.** Proper design and implementation of brand elements (brand name and trademarked brand identifiers) can be an invaluable source of brand equity worldwide.

Source: Adapted from K. Keller (2012) *Strategic Brand Management: Global Edition*, 4th edn, Upper Saddle River, NJ: Pearson.

SUMMARY

1 Digital branding is the creation and management of brands through the use of all forms of digital technologies.
2 The phenomenal reach, speed and interactivity of digital technology mean that there are more touchpoints than ever from the internet (websites and social networking), mobile and self-service technologies. Close attention to the integration of online (digital) and offline (human/physical) brand experience is essential, and marketing needs to understand, monitor and manage this 24/7.
3 Social networking puts the power into consumers' hands, where user-generated content – content that the consumer develops and posts on the web themselves – has introduced a shift to consumer influence along the consumer decision journey never witnessed before.
4 Social networking is used to post, discuss, share and evaluate brands through each stage of the consumer decision journey, from initial consideration to moment of purchase and beyond.
5 The consumer decision journey includes consider, evaluate and buy – but also a loyalty loop of bond, advocate and enjoy, changing how brands need to be managed.
6 A brand community refers to a group of people who share an interest in a specific brand and create a parallel social universe with its own values, rituals, hierarchy and vocabulary. Many of these are now digital brand communities, of three types: exclusively consumer driven, firm hosted or a mix of both.
7 Glocal strategies require changing some aspects of the brand to reflect the local market in which it is operating while maintaining many of the global brand aspects, with a 'think global but act local' orientation.
8 A global brand is a brand that in most countries shares the same strategic principles, even though some of the marketing mix activities might be adapted. There are ten global commandments for marketing managers to follow when taking a brand global.

FURTHER READING

E. Claffey and M. Brady (2017) Examining consumers' motivations to engage in firm-hosted virtual communities, *Psychology and Marketing*, 34(4), 356–375.

Consumer engagement is a complex phenomenon, and understanding the underlying dynamics that facilitate its development, particularly in the virtual environment, is an important contemporary research priority due to its ability to influence value creation for customers and organisations, and because it introduces ongoing and multifaceted challenges to marketers. This research empirically tests hypotheses regarding the motivational drivers of consumer engagement in firm-hosted virtual communities. The results suggest that markets need a multidimensional lens to identify, understand and manage consumers' distinctive cognitive and affective states within this environment. Firm-hosted virtual communities need to be carefully designed to facilitate knowledge sharing, provide social support, deliver an enjoyable and useful experience and engage consumers to co-create value through emotional empathy. This paper provides critical managerial input into how best to monitor, understand, support and ultimately leverage firm-hosted virtual communities aligned to the emotional valence of the consumer.

APPLICATIONS

Marketing debate

The digital era has changed the way marketers manage their brands.

Take a position: digital branding makes it easier to manage global brands *versus* digital branding has made it more challenging to manage global brands.

Marketing discussion

Explore the ten global branding strategies that must be followed to ensure success in global branding.

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Part 3 Case study

The quintessentially Italian mineral water brand has held true to its stylish consumer principles for more than a century
Source: Home Bird/Alamy.

San Pellegrino: delighting mineral water consumers

Acqua Panna

The town of San Pellegrino in the mountains north of Milan was first made famous by quenching the thirst of Leonardo da Vinci. Today, the Fonte Termale in San Pellegrino is an opulent marbled drinking hall and a monument to the tradition of 'taking the waters'. The quintessentially Italian mineral water brand has held true to its stylish consumer principles for more than a century. Known for its remarkable freshness, with subtle but very pleasant flavours, Acqua Panna natural mineral water flows from the Apennine Mountains in the heart of the picturesque Tuscan landscape. Here, sheltered by uncontaminated nature since Renaissance times, it continues to surface in all its purity, as it has done for centuries. Bottled at the source, it reaches tables around the world as pure as it came from its springs. The water has been flowing through fissures in the mountains for centuries, absorbing magnesium and calcium carbonate en route, before arriving at a vertical clay fault that forces it quickly upwards to the spring. The only problem was that, like many substances considered to have health-giving properties, it was not to everyone's taste. The extra fizz changed that. The key technical development was the addition of carbon dioxide, which, as well as providing the fizz, helped disguise the aftertaste of Acqua Panna.

Founded in 1899, when the rights to the spring were bought by Societa Anonima delle Terme di San Pellegrino, the company was immediately listed on the Milan Stock Exchange, and by 1901 the town of San Pellegrino had opened spa facilities to enable visitors to sample its waters. The Grand Hotel and Casino – monuments to art deco grandeur – followed five years later. The town and brand have scarcely looked back since.

The parent brand, its familiar green bottle bearing a blue label and red star, has become synonymous with the white linen of the fine dining experience. As well as emphasising its connections to Italy, San Pellegrino has long sought to stress such upmarket associations. 'Lingering at table for over 100 years' was the typically idiosyncratic strapline it chose to celebrate its centenary. It has been similarly discerning in its choice of business collaborations. In 2010 it brought out a special edition to mark an association with fashion house Missoni, and followed this in 2012 with a tasteful golden label in tribute to the 125th anniversary of Italian jeweller Bulgari. To emphasise its connections to upmarket dining, San Pellegrino sponsors The World's 50 Best Restaurants list, which is currently topped by Italian Osteria Francescana (Modena, Italy), followed by Spain's El Celler de Can Roca.

Sanpellegrino flavoured waters

The first product extension, launched in 1932, was branded Sanpellegrino Aranciata, which was rooted in the all-Italian tradition of preparing a blend of the juice of freshly squeezed citrus fruits (oranges and lemons) with sparkling mineral water and sugar. This was followed by Chinotto, named after an orangey citrus fruit that grows on the slopes of Mount Etna in Sicily. In more recent years, cans of Sanpellegrino grapefruit (Pompelmo to aficionados) and lemonade, and further extensions of the Aranciata sodas (Aranciata Rossa and Aranciata Amara) with their distinctive foil topping, have become more widespread at the premium end of the fizzy-drinks market.

The appeal of Sanpellegrino sparkling fruit beverages has always been ensured by its exclusive use of high-quality citrus and by sophisticated technological innovations that translate the high quality of raw materials into equally first-rate finished market offerings, ensuring nutritional properties remain unaltered and thus avoiding the addition of preservatives. This is achieved by pasteurisation and a unique flavouring process. In 1932, Sanpellegrino was one of the first companies to turn to pasteurisation, considered a revolutionary technological innovation at the time. Pasteurisation, combined with the Italian tradition of 'spremuta' (literally, squeezed juice), created an exclusive product with a unique taste.

The production process is exclusive to the San Pellegrino company and respects the old Italian traditional recipe. Once concentrated, the juice is kept at low temperature and then the orange paste is kneaded with concentrated orange oil. The only additional ingredients are essential oils, which are strictly natural and extracted from fruit: these add a unique fragrance that recreates for the consumer the sensory experience of holding a ripe, freshly picked piece of fruit. The full product line includes:

- Aranciata – the Italian orangeade par excellence created in 1932.
- Limonata – made with the finest lemons, sun-ripened in the south of Italy, a real thirst-quenching beverage rich in juice.
- Chinotto – created in the early 1950s, made from Sicilian high-quality Chinotto oranges, grown at the foot of the Etna volcano; a real 'cult drink'.
- Aranciata Rossa –intense fragrance of Sicilian blonde and sanguinello oranges (blood oranges).
- Aranciata Amara – a sparkling orange beverage with a slightly bitter tang.
- Pompelmo – an amazingly zesty and tasty sparkling grapefruit beverage.
- Mandarino Sanpellegrino – made from blending selected mandarin juice, a kind of citrus fruit sweeter than oranges.

From the beginning, Aranciata was sold in a highly distinctive club-shaped glass bottle, known as 'clavetta'– with a surface resembling the peel of citrus fruit. Over time, this small bottle, synonymous with preciousness, has become an authentic icon for the brand. The 'Sparkling Fruit Beverages' paper label reflects the naturalness of the product. It's a fresh and trendy package, featuring the image of a citrus fruit while bearing a strong resemblance to the San Pellegrino brand label, with its famous belle époque charm and flair, cyan colour and – most of all – its central red star. The sparkling fruit beverages cans bear marks of the same visual identity, and with their eco-cap – the separate foil-cover lid that acts as a dust cover – are 100 per cent recyclable.

Brand personality

Since 1899, the San Pellegrino Group has been a well-established name throughout the world, synonymous with the highest quality. Distributed in over 120 countries in all five continents, all its products – from non-alcoholic aperitifs to soft drinks – represent quality excellence, especially its extraordinary mineral waters. By virtue of their origins, a strong relationship with Italy, its culture and its traditions, Acqua Panna and S.Pellegrino perfectly interpret Italian style as a synthesis of conviviality, well-being and fine dining. Sommeliers, chefs and connoisseurs worldwide concur that these two premium waters are the quintessence of Italian lifestyle and good taste, thus gracing the world's finest dining tables.

San Pellegrino

San Pellegrino's stylish mineral water and sparkling fruit beverages convey a sense of joy, spontaneity and colour that whisks you outdoors to sunny southern Italy and the shade of orange groves. The sparkling fruit beverages, with their strong feel of genuineness, belong to a lively atmosphere, imbued with a passionate Italian mood. Here, the sense of community and the lovely ritual of meeting friends or enjoying a special authentic moment all create the perfect setting to sip a S.Pellegrino mineral water or a Sanpellegrino sparkling fruit beverage.

The premium price, stylish logo and brand associations with upmarket dining have not prevented S.Pellegrino, known as 'the Champagne of mineral water', from selling in high volumes, which it has achieved without diluting its brand values. Today, San Pellegrino has sales of more than $500 million worldwide.

Questions

1. Explain how San Pellegrino has managed to develop and sustain a competitive business in an industry that some might regard as a commodity market.
2. Analyse the company's segmentation, targeting and positioning strategy and recommend how San Pellegrino could further develop its business.
3. What relevant meaning do the brand semiotics of the blue watermarked label provide?
4. Explain how San Pellegrino cultivates strong customer relationships and keeps aspiring competitors at bay.
5. Research the other mineral water brands that Nestlé owns and explain why S.Pellegrino has become a global brand in its mineral water brand portfolio.

Sources: The World's 50 Best Restaurants (2018) https://www.theworlds50best.com/; www.sanpellegrino.com/; www.finewaters.com/Bottled_Water/Italy/San_Pellegrino.asp; www.youtube.com/watch?v=4OMNA50L5co; www.youtube.com/watch?v=frqBqzcXmxw.

PART 4
Shaping and pricing the market offering

Essentially, there are two key components in a market offering – a package that is offered for sale, which is made available at a stated price.

Part 4: Shaping and pricing the market offering explores three important themes:

1. **Managing products and services.**
2. **Creating new products.**
3. **Developing pricing strategies.**

In competitive markets, customers exert considerable influence on the packages that companies bring to market. The modern concept of customer-perceived value (CPV) dictates that customers expect their purchases to contain both product (tangible) and service (intangible) attributes and benefits.

Developing new products or CPV packages is an ongoing process in modern markets. Each company acknowledges that attention should be paid to current and anticipated changes in the market and in the responses of the competition.

Pricing is a sensitive concern that, in the customer's eyes, reflects perceived CPV in the offering and that must deliver a long-term sustainable competitive advantage to the supplier.

Many would agree that the way to communicate value is word of mouth, with its implied third-party recommendation. The emergence and ready adoption of the internet and social media is revolutionising marketing.

CHAPTER 14

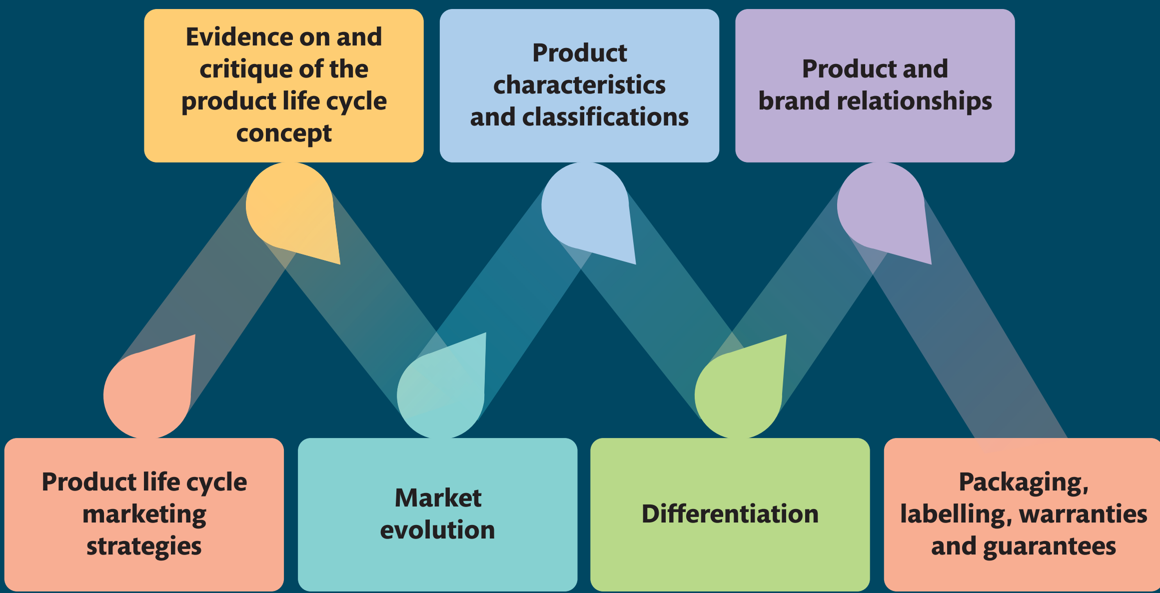
Designing, developing and managing market offerings

In this chapter, you will learn about the following topics:

1. Which marketing strategies are appropriate at each stage of the product life cycle
2. The implications of market evolution for marketing strategies
3. The characteristics of market products and how marketers classify products
4. How companies differentiate products and manage their product mix and product lines
5. How companies use packaging, labelling, warranties and guarantees as marketing tools

High-performance equipment backed by superior sales and service functions is at the heart of Caterpillar's successful product strategy
Source: Anna50/Shutterstock

Chapter Journey



Marketing begins with formulating a customer-perceived value (CPV) market offering to meet target customers' needs or wants. The offer will be judged in terms of the relative degree of customer satisfaction that the offering delivers. This chapter examines how successful companies design, develop and manage their CPV portfolio offerings.

Caterpillar has become a leading firm by maximising total CPV in the construction equipment industry, despite challenges from a number of able competitors such as JCB, Komatsu, Volvo and Hitachi. First, Caterpillar produces high-performance equipment known for its reliability and durability – key purchase considerations in the choice of heavy industrial equipment. The firm also makes it easy for customers to find the right product by providing a full line of construction equipment and offering a wide range of financial terms. Caterpillar maintains the largest number of independent construction equipment dealers in the industry. These dealers all carry a complete line of Caterpillar products and are typically better trained and perform more reliably than competitors' dealers. Caterpillar has also built an impressive worldwide parts and service system. As the company offers CPV packages, it is able to command a premium price in the marketplace.[1]

As markets become increasingly competitive, product life cycles shorten dramatically.

Product life cycle marketing strategies

The traditional term **product** can lead to confusion, as buyers' market conditions normally require companies to offer a package of tangible (traditional product attributes and benefits) and supportive intangible (traditional service attributes and benefits) to meet CPV requirements and expectations. This is why the text frequently uses the term **market offering**, which embodies the tangible and intangible components of this newly defined 'product'. Thus, the terms 'product' and 'market offering' are interchangeable. A company's positioning and differentiation strategy must change as the product/market offering, market and competitors change over the *product life cycle* (PLC). To say that a product (market offering) has a life cycle is to assert four things:

1. Products (market offerings) have a limited life.
2. Sales pass through distinct stages, each posing different challenges, opportunities and problems to the seller.
3. Profits rise and fall at different stages of the PLC.
4. Market offerings require different marketing, financial, manufacturing, purchasing and human resource strategies in each life cycle stage.

Product life cycles

Classic PLC curves are bell-shaped (see Figure 14.1). The curve is typically divided into four stages: introduction, growth, maturity and decline.

1. **Introduction:** a period of slow sales growth as the product (market offering) is introduced into the market. Profits are low or absent because of heavy expenses associated with market introduction.
2. **Growth:** a period of rapid market acceptance and substantial profit improvement.
3. **Maturity:** a slowdown in sales growth because the product (market offering) has achieved acceptance by most potential buyers. Profits stabilise or decline because of increased competition.
4. **Decline:** sales show a downward drift and profits decline.

The PLC concept can be applied to analyse a product category (alcohol), a product form (white alcohol), a product (vodka) or a brand (Absolut). Not all products exhibit a bell-shaped PLC. Three common alternative patterns are shown in Figure 14.2.

Figure 14.2(a) shows a *growth–slump–maturity pattern*, often characteristic of small kitchen appliances, such as handheld mixers and bread-makers. Sales grow rapidly when the item is first introduced and then fall to a residual level that is sustained by late adopters buying for the first time and early adopters replacing it.

The *cycle–recycle pattern* in Figure 14.2(b) often describes the sales of new drugs. The pharmaceutical company aggressively promotes its new drug, and this produces the first cycle. Later, sales start declining and the company responds by triggering another marketing communication push, which produces a second cycle (usually of smaller magnitude and duration).

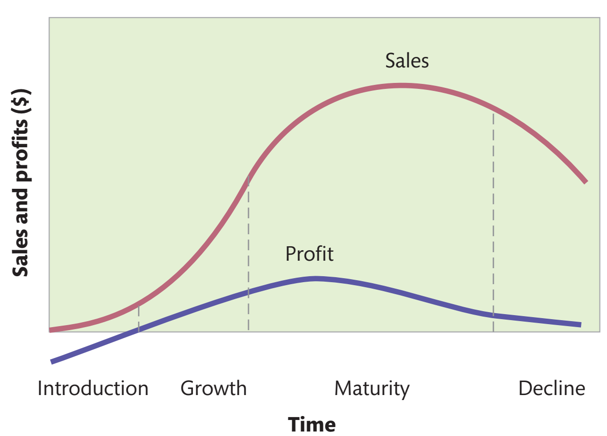


Figure 14.1 Long-range product market expansion strategy

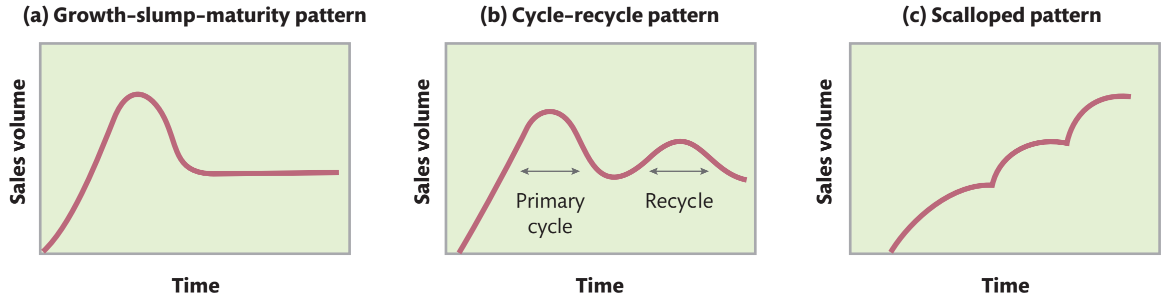


Figure 14.2 Common product life cycle patterns

Another common pattern is the *scalloped PLC* in Figure 14.2(c). Here, sales pass through a succession of life cycles based on the discovery of new market offering characteristics, uses or users. The sale of nylon, for example, shows a scalloped pattern because of the many new uses – parachutes, hosiery, shirts, carpeting, boat sails, car tyres – that continue to be discovered over time.

Style, fashion and fad life cycles

Three special categories of PLC – styles, fashions and fads – can be distinguished (see Figure 14.3). A *style* is a basic and distinctive mode of expression. Styles appear in homes (French, Italian, Scandinavian and Spanish), clothing (formal, casual) and art (realist, surrealist, abstract). A style can last for generations and go in and out of vogue. A *fashion* is a currently accepted or popular style in a given field. Fashions pass through four stages: distinctiveness, emulation, mass fashion and decline.[2]

The length of a fashion cycle is hard to predict. One point of view is that fashions end because they represent a purchase compromise, and consumers start looking for the missing attributes and benefits. Another explanation is that too many consumers adopt a fashion – for example, as catwalk designs reach the fast-fashion stores such as Primark and Zara – causing others to seek the next fashion release. Still another is that the length of a particular fashion cycle depends on the extent to which the fashion meets a genuine need, is consistent with other trends in the society and satisfies societal norms and values.

Fads are fashions that come quickly into public view, are adopted with great zeal, peak early, and decline quickly. Every Christmas in the United Kingdom certain toys are popular: Lego Star Wars Turbo Tank and even Rubik's Cube have all been at the top of children's wish lists in recent years. Generally speaking, fads are characterised by a short life cycle and tend to attract only a limited following – those who want to be seen as first adopters. Fads fail to survive because they do not normally satisfy a strong need. The marketing winners are those who recognise fads early and leverage them into market offerings with staying power: for example, successful bands such as Abba, The Beatles and The Rolling Stones.

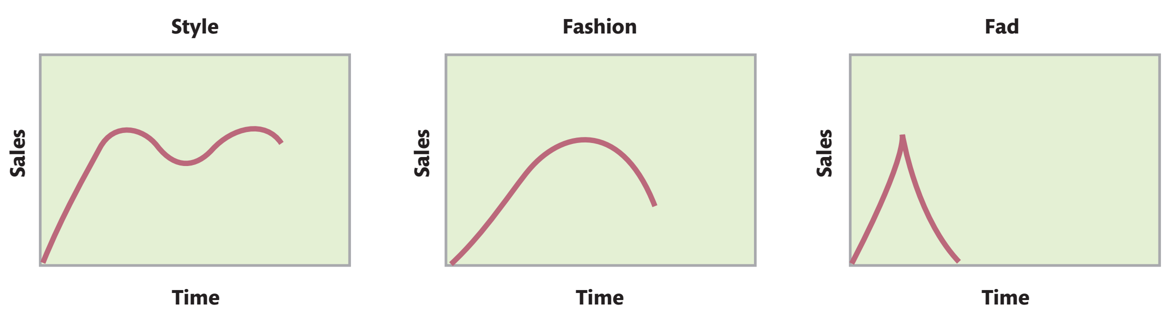


Figure 14.3 Style, fashion and fad life cycles

Marketing strategies: the introduction stage and the pioneer advantage

Because it takes time to roll out a new market offering, work out the technical problems, fill dealer channels and gain consumer acceptance, sales growth tends to be slow in the introduction stage. Profits are negative or low, while promotional marketing communications expenditures are at their highest ratio to sales because of the need to: (1) inform potential consumers; (2) induce customers to trial the market offering; and (3) secure distribution in retail outlets.[3] Firms focus on those buyers who are ready to purchase. Prices tend to be high because costs are high.

Companies that plan to introduce a new market offering must learn from previous experiences and exercise sound judgement as to when to enter the market. To be first can be rewarding, but also risky and expensive. Entering later makes sense if the firm can bring superior technology, quality or brand strength. Speeding up innovation time is essential in an age of shortening PLCs. Being early has been shown to pay. Nokia was a good illustration of a fast-track innovator (acquired by Microsoft in 2014). In many cases, the market pioneer gains the greatest advantage. Companies such as IKEA and Swatch developed sustained market dominance.

What are the sources of the pioneer's advantage? Early users will recall the pioneer's brand name (as in the case of Hoover, whose brand name became the generic term for vacuum cleaners for several years in the United Kingdom) if the product satisfies them. The pioneer's brand also establishes the attributes the product class should possess. The pioneer's brand normally aims at the middle of the market and so captures more users. Customer inertia also plays a role; and there are producer advantages: economies of scale, technological leadership, patents, ownership of scarce assets and other barriers to entry. Furthermore, pioneers can benefit from effective marketing communications and enjoy higher rates of consumer repeat purchases.

However, pioneer advantage is not inevitable. First movers, such as Dyson in the cordless vacuum market, have to watch out for what some have called the 'second mover advantage'.

If a company wants to win, it needs to be the first, surely? The first mover advantage theory states that the first company entering a certain market will gain massive market share due to the competitive advantages developed and will also be able to defend its leadership position from new entrants. Andrew Grove, Intel's ex-CEO, defended that 'the first mover and only the first mover, the company that acts while others dither, has a true opportunity to gain time over its competitors; and time advantage, in this business, is the surest way to gain market share'.[4]

There is a lot of theoretical evidence supporting the model, but does this evidence emerge empirically as well? Not quite. Consider the markets for safety razors, disposable nappies, photographic film, laser printers, games consoles, energy drinks, personal computers, internet browsers, operating systems, search engines, online bookstores, online auctions – and the list goes on. In each and every one of these markets, the leader position is held by a company that was a late entrant.

The question then becomes: why, despite the lack of empirical evidence, do people still embrace the idea that being the first to enter a market is extremely important? There are three main reasons: the industrial age environment, natural monopolies and the bias towards winners.

Industrial age environment

During the era of sellers' markets, up until the 1980s, the pace of change in many industries was slower. Being the first to enter a market characterised by stability and predictable incremental changes could actually yield significant advantages. In the information age, however, discontinuities and market innovations are becoming the norm. As a consequence, success often comes no longer from being the first to market but from rapidly evolving the product to become the dominant design.

Natural monopolies

Some markets present high capital costs and infrastructure constraints, meaning that the first mover can actually build a strong competitive position by merely entering the market before other players. This is the case for oil and gas distribution, water services and electricity. Natural monopolies represent exceptions in most countries. In modern economies, being able to understand customers, manage innovation and adapt quickly to market discontinuities is far more important than being the first to enter a market. The most evident example is the internet. Google was not the first search engine. Amazon was not the first online bookstore. eBay was not the first online auction site. All these companies were focused on understanding their customers, innovating and adapting their strategies to reflect market changes, thus enabling them to build strong leadership positions.

Bias towards winners

Over the long term, there is a natural tendency to forget failures and to over-celebrate successes. It is not surprising, therefore, that people wrongly associate long-term market leaders with the first to enter a certain segment. Entering a new market too early can prove to be disappointing. Many companies have found that it pays to learn from the experience of first movers and then enter the market before a dominant branded design emerges.

Schnaars studied 28 industries where the imitators surpassed the innovators.[5] He found several weaknesses among the failing pioneers, including: new products that were too crude, were improperly positioned or appeared before there was strong demand; product development costs that exhausted the innovator's resources; a lack of resources to compete against entering larger firms; and managerial incompetence or unhealthy complacency. Successful imitators thrived by offering lower prices, improving the product more continuously or using hard market power to overtake the pioneer. None of the companies that now dominate in the manufacture of personal computers were first movers.[6]

Golder and Tellis raise further doubts about the pioneer advantage.[7] They distinguish between an *inventor,* first to develop patents in a new product category; a *product pioneer,* first to develop a working model; and a *market pioneer,* first to sell in the new product category. They also include non-surviving pioneers in their sample. They conclude that although pioneers may still have an advantage, a larger number of market pioneers fail than has been reported, and a larger number of early market leaders (though not pioneers) succeed.

In a more recent study, Tellis and Golder identify the following five factors as underpinning long-term market leadership:

- vision of a mass market;
- persistence;
- relentless innovation;
- financial commitment;
- asset leverage.[8]

Other research has highlighted the importance of the novelty of product innovation.[9] When a pioneer starts a market with a breakthrough, as was the case with the Dyson Cyclone vacuum cleaner, survival can be very challenging. In contrast, when the market is started by an incremental innovation, as was the case with MP3 players with video capabilities, pioneers' survival rates are much higher.

The pioneer should visualise the various product markets it could initially enter, knowing it cannot enter all of them at once. Suppose market-segmentation analysis reveals the product market segments shown in Figure 14.4. The pioneer should analyse the profit potential of each product market singly and in combination and decide on a market expansion path. Thus, the pioneer in Figure 14.4 plans first to enter product market P_1M_1, then move the product into a second market (P_1M_2), then surprise the competition by developing a second product for the second market (P_2M_2), then take the second product back into the first market (P_2M_1), and then launch a third product for the first market (P_3M_1). If this game plan works, the pioneer firm will own a good part of the first two segments and serve it with two or three profitable product/service market offerings.

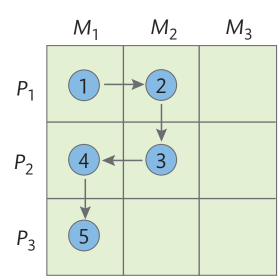


Figure 14.4 Long-range product market expansion strategy

Marketing strategies: the growth stage

The growth stage is marked by a rapid climb in sales. Early adopters like the market offering, and new consumers start purchasing from the firm. New competitors enter, attracted by the opportunities. They introduce new features (market offering value attributes) and expand distribution.

Prices remain where they are or fall slightly, depending on how quickly demand increases. Companies maintain their promotional communication expenditures at the same or at a slightly increased level to meet competition and to continue to educate the market. Sales rise much faster than expenditures, causing a welcome decline in the promotion–sales ratio. Profits increase during this stage as marketing communications costs are spread over a larger volume and unit manufacturing costs fall faster than price declines, owing to the producer learning or experience curve effect. Firms have to watch for a change from an accelerating to a decelerating rate of growth in order to prepare new strategies. For instance, the European internet service provider market has grown rapidly in the last two decades and is now in the mature stage.

During the growth stage, the firm uses several strategies to sustain rapid market growth:

- it improves product quality and adds new product features and improved styling;
- it adds new models, accessory items and personalising options (i.e. market offerings of different sizes, flavours and so forth that protect the main product/service CPV offerings);
- it enters new market segments;
- it increases its distribution coverage and enters new distribution channels;
- it shifts from product-awareness advertising to product-preference advertising;
- it lowers prices to attract the next layer of price-sensitive buyers.

These market expansion strategies strengthen the firm's competitive position. Consider how Google has fuelled growth.

Google . . . staying ahead of the game

Since 1998, Google has grown by leaps and bounds. From offering search in a single language, it now offers dozens of products and services – including various forms of advertising and web applications for all kinds of tasks – in scores of languages. Having rapidly become the market leader, Google has had to face stiff challenges from competitors such as Apple and Microsoft's Bing, and is continually updating its algorithms and being accused of abusing its dominant search position.

To boost its growth, Google invests heavily in innovation. In 2013 it released Chromecast, a piece of hardware that looks like a USB stick or dongle and enables internet streaming to people's TVs. With the pace accelerating in wearable tech, Google Glass was introduced to the UK market in 2014 but withdrawn in 2015 for further development. In 2017, the updated Google Glass Enterprise Edition was launched. The company's driverless car project has taken ten years of development and is scheduled for commercialisation in 2019.

Sources: D. Goldman, (2014) Google owns search – to the point that its name has even become synonymous with the verb 'search', CNN Business, https://money.cnn.com/2014/08/20/technology/innovationnation/google-search/index.html; Gadgets Now, Googleinnovations, slideshow, https://www.gadgetsnow.com/slideshows/googleinnovations/Googles-10-recent-innovations/photolist/23164615.cms.

A firm in the growth stage faces a trade-off between high market share and high current profit. By spending money on product improvement, a strong marketing communications programme and distribution, it can capture a dominant position. It forgoes maximum current profit in the hope of making even greater profits in the next stage.

Marketing strategies: the maturity stage

At some point the rate of sales growth will slow, and the product (market offering) will enter a stage of relative maturity. This stage normally lasts longer than the previous stages and poses big challenges to marketing management. Most market offerings are in the maturity stage of the life cycle.

The maturity stage divides into three phases:

- growth;
- stable;
- decaying maturity.

In the first phase, the sales growth rate starts to decline. There are no new distribution channels to fill and new competitive forces emerge.

In the second phase, sales flatten on a per capita basis because of market saturation. Most potential consumers have tried the market offering, and future sales are governed by population growth and replacement demand.

In the third phase, decaying maturity, the absolute level of sales starts to decline, and customers begin switching to other market offerings.

The third phase of maturity poses the most challenges. The sales slowdown creates overcapacity in the industry, which leads to intensified competition. Competitors scramble to find niches. They engage in frequent price reductions and sales promotions. They increase advertising and trade and consumer promotion. They increase R&D budgets to develop product (market offering) improvements and line extensions. They make deals to supply private brands and weaker competitors withdraw. The industry eventually consists of well-entrenched competitors whose basic drive is to gain or maintain market share to build a sustainable competitive advantage in the market.

Dominating the industry are a few giant firms – perhaps a quality leader, a service leader and a cost leader – that serve the whole market and make their profits mainly through high volume and lower costs. Surrounding these dominant firms is a multitude of market nichers, including market specialists, product specialists and customising firms. The issue facing a firm in a mature market is whether to struggle to become one of the 'big three' and achieve profits through high volume and low cost, or to pursue a niching strategy and achieve profits through low volume and a high margin. Sometimes, however, the market becomes polarised between low- and high-end segments and the firms in the middle see their market share steadily erode. Here is how Swedish appliance manufacturer, Electrolux, has coped with this situation.

Electrolux AB

In 2002 Electrolux began facing a rapidly polarising appliance market. At one end, low-cost Asian companies such as Haier, LG and Samsung were applying downward price pressure. At the other end, premium competitors such as Bosch, Sub-Zero and Viking were continuing to grow at the expense of the middle-of-the-road brands. Electrolux's CEO Hans Stråberg, who took over the reins just as the middle was dropping out of the market, decided to escape the middle by rethinking Electrolux's customers' wants and needs. For instance, rather than accept the stratification between low and high, Stråberg segmented the market according to the lifestyle and purchasing patterns of about 20 different types of consumer – '20 product positions', as he calls them. Electrolux now successfully markets its steam ovens to health-orientated consumers, for example, and its compact dishwashers, originally developed for smaller kitchens, to a broader consumer segment interested in washing dishes more often. To companies finding themselves stuck in the middle of a mature market, Stråberg offers these words of advice:

> Start with consumers and understand what their latent needs are and what problems they experience . . . then put the puzzle together yourself to discover what people really want to have. Henry Ford is supposed to have said, 'If I had asked people what they really wanted, I would have made faster horses' or something like that. You have to figure out what people really want, although they can't express it.[10]

Some companies abandon weaker products to concentrate on more profitable and new products. Yet they may be ignoring the high potential many mature markets and old products still have. Industries widely thought to be mature – cars, motorcycles, televisions, watches, cameras – were proved otherwise by the Japanese, who found ways to offer new value to customers. The seemingly moribund brand Lucozade has achieved a sales revival by repositioning as an isotonic sports drink aimed at young people.

Three potentially useful ways to change the course for a brand are:

- market;
- product;
- marketing programme modifications.

Market modification

A company might try to expand the market for its mature brand by working with the two factors that make up sales volume: volume = number of brand users × usage rate per user, as in Table 14.1.

Table 14.1 Alternative ways to increase sales volume

Expand the number of brand users	Increase the usage rates among users
• Convert non-users. The key to the growth of air freight service is the constant search for new users to whom air carriers can demonstrate the benefits of using air freight rather than ground transportation.	• Have consumers use the product on more occasions. Serve yogurt for a snack.
• Enter new market segments. The major supermarket chains across Europe are increasingly placing more and higher-value non-food lines on their shelves.	• Have consumers use more of the product on each occasion. Drink a larger glass of orange juice.
• Attract competitors' customers. Shops on garage forecourts generate profitable sales in food and non-food items as drivers pay for their petrol.	• Have consumers use the product in new ways. Use washing-up liquid to clean windows.

Product (market offering) modification

Managers also try to stimulate sales by modifying the market offering attributes and benefits through quality improvement, feature improvement or style improvement.

Quality improvement aims at increasing functional performance. A manufacturer can often overtake its competition by launching a 'new and improved' CPV package. Grocery manufacturers call this a 'plus launch' and promote a new additive or advertise something as 'stronger', 'bigger' or 'better'. This strategy is effective to the extent that the quality is improved, buyers accept the claim, and a sufficient number will pay for it. In the case of the coffee industry, manufacturers are using 'freshness' to better position their brands in the face of fierce competition from premium rivals, such as store brands that let customers grind their own beans in the store. Coffee brands are increasingly becoming available in 'seal-easy' packaging to keep the beans fresh.

Feature improvement aims at adding new features (attributes and benefits), such as size, weight, materials, additives and accessories that expand the product use performance, versatility, safety or convenience. This strategy has several advantages. New features build the company's image as an innovator and win the loyalty of market segments that value these features. They provide an opportunity for free publicity and they generate sales force and distributor enthusiasm. The chief disadvantage is that feature improvements are easily imitated; unless the marketer realises a permanent gain from being first, the feature improvement might not succeed in the long run.

Style improvement aims at increasing aesthetic appeal. The periodic introduction of new car models is largely about style competition, as is the introduction of new packaging for consumer goods. A style strategy might give the market offering a unique market identity. Yet style competition has its problems. First, it is difficult to predict whether people – and which people – will like a new style. Second, a style change usually requires discontinuing the old style, and the company risks losing customers.

Regardless of the type of improvement, marketers must beware of a possible backlash. Customers are not always willing to accept an 'improved' product, as the now-classic tale of New Coke illustrates.

Coca-Cola

Battered by competition from the sweeter Pepsi-Cola, Coca-Cola decided in 1985 to replace its old formula with a sweeter variation, dubbed New Coke. Coca-Cola spent US$4 million on market research. Blind taste tests showed that Coke drinkers preferred the new, sweeter formula, but the launch of New Coke provoked a national uproar. Market researchers had measured the taste but had failed to measure the emotional attachment consumers had to the original Coca-Cola. There were angry letters, formal protests and even lawsuit threats, to force the retention of 'The Real Thing'. Ten weeks later, the company withdrew New Coke and reintroduced its century-old formula as 'Classic Coke', giving the old formula even stronger status in the marketplace.

Source: Coca-Cola Journey (2012) The real story of New Coke, https://www.coca-colacompany.com/stories/coke-lore-new-coke.

Marketing programme modification

Marketing managers might also try to stimulate sales by modifying other marketing programme elements. They should ask the following questions:

- **Prices.** Would a price cut attract new buyers? If so, should the list price be lowered, or should prices be lowered through price specials, volume or early purchase discounts, freight cost absorption or easier credit terms? Or would it be better to *raise* the price, to signal higher quality?
- **Distribution.** Can the company obtain more product support and display in existing outlets? Can it penetrate more outlets? Can the company introduce the product into new distribution channels?
- **Advertising.** Should advertising expenditure be increased? Should the message or advertising copy be improved? Or the media mix? Or the timing, frequency or size of advertisements?
- **Sales promotion.** Should the company step up sales promotion – trade deals, money-off coupons, rebates, warranties, gifts and contests?
- **Personal selling.** Should the number or quality of salespeople be increased? Should sales force duties be changed? Or sales territories and sales force incentives be revised? Can sales-call planning be improved?
- **Services.** Can the company speed up delivery? Can more technical assistance or better credit deals be given to customers?

Marketing strategies: the decline stage

Sales decline for a number of reasons, including technological advances, shifts in consumer tastes and increased domestic and foreign competition. All can lead to overcapacity, increased price cutting and profit erosion. The decline might be slow, as in the case of sewing machines; or rapid, as in the case of DVDs. Sales may plunge to zero, or they may stagnate at a low level. As sales and profits decline, some firms withdraw from the market. Those remaining may reduce the number of items they offer. They may withdraw from smaller market segments and weaker trade channels, and they may cut their promotion budgets and reduce prices further. Unfortunately, most companies have not developed a policy for handling ageing products.

Unless strong reasons for retention exist, carrying a weak product is very costly to the firm – and not just from the amount of uncovered overheads and profit: there are many hidden costs. Weak products often consume a disproportionate amount of management's time; require frequent price and inventory adjustments; incur expensive set-up for short production runs; draw both advertising and sales force attention that might be better used to make healthy products more profitable; and cast a shadow on the company's image. The biggest cost might well lie in the future. Failing to eliminate weak market offerings delays the aggressive search for replacements.

In handling ageing market offerings, a company faces a number of tasks and decisions. The first is to establish a system for identifying them. Many companies appoint a review committee with representatives from marketing, R&D, manufacturing and finance who, based on all available information, make a recommendation for each item in the firm's portfolio – leave it alone, modify its marketing strategy or drop it.[11]

Some firms abandon declining markets earlier than others. Much depends on the height and extent of exit barriers in the industry.[12] The lower the exit barriers, the easier it is for firms to leave the industry, and the more tempting it is for the remaining ones to stay and attract the withdrawing firms' customers. The appropriate strategy also depends on the industry's relative attractiveness and the company's competitive strength in that industry. A company that is in an unattractive industry but possesses competitive strength should consider shrinking selectively. A company that is in an attractive industry but has competitive strength should consider strengthening its investment. Companies that successfully reposition or rejuvenate a mature product often do so by adding customer-perceived value to the original offering.

If the company were choosing between harvesting and divesting, its strategies would be quite different. **Harvesting** calls for gradually reducing a product or business's costs while trying to maintain sales. The first step is to cut R&D costs and plant and equipment investment. The company might also reduce product quality, sales force size, marginal services and advertising expenditure.

It would try to cut these costs without letting customers, competitors and employees know what is happening. Harvesting is difficult to execute. Yet many mature products warrant this strategy and it can substantially increase the company's cash flow.[13]

When a company decides to drop a market offering, it faces further decisions. If it has strong distribution and residual goodwill, the company can probably sell it to another firm. If the company cannot find any buyers, it must decide whether to liquidate the brand quickly or slowly. It must also decide on how much inventory and after-sales service support to maintain for past customers.

Evidence on and critique of the product life cycle concept

Based on the above discussion, Table 14.2 summarises the characteristics, marketing objectives and marketing strategies of the four stages of the PLC. The concept helps marketers interpret product and market offering dynamics, conduct planning and control, and perform forecasting.

Golder and Tellis researched 30 product categories and found a number of interesting findings concerning the PLC:[14]

- New consumer durables show a distinct take-off, after which sales increase by roughly 45 per cent a year, but also show a distinct slow-down, when sales decline by roughly 15 per cent a year.
- Slow-down occurs at 34 per cent penetration on average, well before the majority of households own a new product.
- The growth stage lasts a little over eight years and does not seem to shorten over time.

Table 14.2 Summary of product life cycle characteristics, objectives and strategies

	Introduction	Growth	Maturity	Decline
Characteristics				
Sales	Low sales	Rapidly rising sales	Peak sales	Declining sales
Costs	High cost per customer	Average cost per customer	Low cost per customer	Low cost per customer
Profits	Negative	Rising profits	High profits	Declining profits
Customers	Innovators	Early adopters	Middle majority	Laggards
Competitors	Few	Growing number	Stable number beginning to decline	Declining number
Marketing objectives				
Strategies	Create product awareness and trial	Maximise market share	Maximise profit while defending market share	Reduce expenditure and milk the brand
Product	Offer a basic product	Offer product extensions, service, warranty	Diversify brands and items models	Phase-out weak products
Price	Charge cost-plus	Price to penetrate market	Price to match or best competitors'	Cut price
Distribution	Build selective distribution	Build intensive distribution	Build more intensive distribution	Go selective: phase-out unprofitable outlets
Advertising	Build product awareness among early adopters and dealers	Build awareness and interest in the mass and dealers markets	Stress brand differences and benefits	Reduce to level needed to retain hard-core loyals
Sales promotion	Use heavy sales promotion to entice trial	Reduce to take advantage of heavy consumer demand	Increase to encourage brand switching	Reduce to minimal level

Sources: C. R. Wasson (1978) *Dynamic Competitive Strategy and Product Life Cycles*, Austin, TX: Austin Press; J. A. Weber (1976) Planning corporate growth with inverted product life cycles, *Long Range Planning*, October, 12–29; P. Doyle (1976) The realities of the product life cycle, *Quarterly Review of Marketing*, Summer.

- Informational cascades exist, meaning that people are more likely to adopt over time if others have bought, instead of by making careful product evaluations. One implication, however, is that product categories with large sales increases at take-off tend to have larger sales decline at slow-down.

Critique of the product life cycle concept

PLC theory has its share of critics. Crawford argued that what had traditionally been recognised as the PLC was actually a special case of the new, broader product evolutionary cycle.[15] The evolutionary concept borrowed from biology is useful in solving problems in the fixed cycle sequence, but still no simple solutions exist. Although the life cycle pattern has its own flaw of nature, the benefits of helping managers to plan strategies are also significant, especially when using the model in the right method and with reasonable purpose. In many of today's markets, according to Downes and Nunes, the product life cycle has shifted from a gentle sloping bell curve to a 'shark fin' big bang disruption.[16]

The critics claim that life cycle patterns are too variable in shape and duration to be generalised, and that marketers can seldom tell what stage their offering is in. An offer may appear to be mature when actually it has reached a plateau prior to another upsurge. They also argue that, rather than an inevitable course that sales must follow, the PLC pattern is the self-fulfilling result of marketing strategies, and that skilled marketing can lead to continued growth. The 'Marketing in practice' box provides ten rules for long-term marketing success.

Marketing in practice

How to build a breakaway brand

Marketing experts Kelly and Silverstein define a *breakaway brand* as one that stands out, not just in its own product category but from all other brands, and that achieves significant results in the marketplace. Here is a summary of their ten tips for building a breakaway brand:

1. **Make a commitment.** The entire organisation, from the top down, needs to make a commitment to build and support a breakaway brand and to develop new products that have breakaway attributes.
2. **Get a 'chief' behind it.** Few breakaway branding initiatives have a chance of success without the enthusiastic support of the company's CEO, chief operations officer (COO) or chief marketing officer (CMO). A senior executive must play the role of brand visionary, brand champion and brand architect.
3. **Find your brand truth.** Ultimately, the DNA of a breakaway brand is its brand truth; it is what defines and differentiates every breakaway brand. It is the single most important weapon a brand will ever have in the battle for increased awareness, profitability, market share and even share price.
4. **Target a winning mind-set.** The winning mind-set is the potent, aspirational, shared 'view of life' among all core audience segments. It should inspire all of the company's advertising and promotional activities.
5. **Create a category of one.** To be a breakaway brand, your brand needs not only to stand apart from others in its own category but also to transcend categories and open a defining gap between itself and its competitors. Then it becomes a category of one.
6. **Demand a great campaign.** Great campaigns are a team sport – they require a partnership between the company and its agencies to create a campaign that breaks away. Never compromise on a campaign, because without a great campaign, the potential breakaway brand is likely to fail to take off.
7. **Tirelessly integrate.** Integration is the name of the game. Depending on the audience a company is trying to reach, the campaign might feature an integrated marketing communication with both network and cable TV, print and online advertising, direct mail, email, radio and non-traditional media – from street marketing to publicity stunts to contests.
8. **Take risks.** Today, 80 per cent of brands are just about holding their own. Only 20 per cent are doing well.
9. **Accelerate new product development.** Nothing is more important than differentiating a product in the marketplace – but the only way to rise above me-too branding is to innovate and do something different and unique with the product. It may mean throwing away an old brand and reinventing it. Or it may mean introducing a new branded product.
10. **Invest as if the brand depends on it.** Building a breakaway brand is serious business, so it takes a serious business investment. Invest in the product, of course – but also in the packaging and a smart, integrated marketing campaign. Invest wisely . . . as the brand depends on it.

Source: Adapted from F. J. Kelly III and B. Silverstein (2005) *The Breakaway Brand*, New York: McGraw-Hill. Copyright © 2005 The McGraw-Hill Companies.

Market evolution

Because the PLC focuses on what is happening to a particular market offering or brand rather than on what is happening to the overall market, it yields a product-orientated picture rather than a market-orientated picture. Firms also need to visualise a *market*'s evolutionary path as it is affected by new needs, competitors, technology, channels and other developments.[17] In the course of a market offering's or brand's existence, its positioning must change to keep pace with market developments. Markets evolve through four stages:

- emergence;
- growth;
- maturity;
- decline.

Emergence

Before a market materialises, it exists as a latent market. For example, for centuries people have wanted faster means of calculation. The market satisfied this need with abacuses, slide rules and large adding machines. Suppose an entrepreneur recognises this need and imagines a technological solution in the form of a small, handheld electronic calculator. He/she now has to determine the product attributes, including physical size and number of mathematical functions. Because he/she is market orientated, he/she interviews potential buyers and finds that target customers vary greatly in their preferences. Some want a four-function calculator (adding, subtracting, multiplying and dividing) and others want more functions (calculating percentages, square roots and logarithms). Some want a small handheld calculator and others want a large one. This type of market, in which buyer preferences scatter evenly, is called a **diffused preference** market.

The entrepreneur's problem is to design an optimal package for this market. He/she has three options:

1. Design the new market offering to meet the preferences of one of the corners of the market – a *single-niche strategy*.
2. Launch two or more market offerings simultaneously to capture two or more parts of the market – a *multiple-niche strategy*.
3. Design the new market offering for the middle of the market – a *mass-market strategy*.

A small firm does not have the resources for capturing and holding the mass market, so a single-niche market strategy makes the most sense. A large firm might aim for the mass market by designing an item that is medium in size and number of functions. Assume a pioneer firm is large and designs for the mass market. Once it has launched the market offering, the emergence stage begins.

Growth

If the new offering sells well, new firms will enter the market, ushering in a *market-growth stage*. Where will a second firm enter the market, assuming the first firm established itself in the centre? If the second firm is small, it is likely to avoid head-on competition with the pioneer and will launch its brand in one of the market corners. If the second firm is large, it might launch its brand in the centre against the pioneer. The two firms can easily end up sharing the mass market. Or a large second firm can implement a multiple-niche strategy and surround and box-in the pioneer.

Maturity

Eventually, the competitors cover and serve all the major segments and the market enters the *maturity stage*. In fact, the competitors go further and invade each other's segments, reducing everyone's profits in the process. As market growth slows down, the market splits into finer segments and high *market fragmentation* occurs. This situation is illustrated in Figure 14.5(a), where the letters represent different companies supplying various segments. Note that two segments are unserved because they are too small to yield a profit.

Market fragmentation is often followed by a *market consolidation*, caused by the emergence of a new customer-perceived value attribute that has strong appeal. This situation is illustrated in

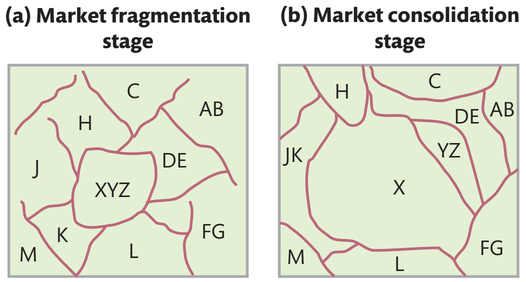


Figure 14.5 Market fragmentation and market consolidation strategies

Figure 14.5(b) by the expansive size of the X territory. However, even a consolidated market condition will not last. Other companies will copy a successful brand, and the market will eventually splinter again. Mature markets swing between fragmentation brought about by competition, and consolidation brought about by innovation. Consider the evolution of the paper towel market.

Paper towels

Originally, homemakers used cotton and linen dishcloths and towels in their kitchens. A paper company, looking for new markets, developed paper towels. This development crystallised a latent market, and other manufacturers entered. The number of brands grew and created market fragmentation. Industry overcapacity led manufacturers to search for new features. One manufacturer, hearing consumers complain that paper towels were not absorbent, introduced 'absorbent' towels and increased its market share. This market consolidation did not last long because competitors came out with their own versions of absorbent paper towels. The market fragmented again. Then another manufacturer introduced a 'super strength' towel. It was soon copied. Another manufacturer introduced a 'lint-free' paper towel, which was subsequently copied. Thus paper towels evolved from a single product to one with various absorbencies, strengths and applications. Market evolution was driven by the forces of innovation and competition.

Decline

Eventually, demand for the current portfolio of offerings will begin to decrease, and the market will enter the *decline stage*. Either society's total need level declines, or a new technology replaces the old.

Product characteristics and classifications

The traditional term **product** is a confusing one in today's highly competitive global markets. Many people think a product is a single, tangible offering – but it is more than that. Broadly, a product is anything that can be offered to a market to satisfy a want or need, and consists of a set of attributes, including physical goods, services, experiences, events, persons, places, properties, organisations, information and ideas (see Figure 14.6) that can deliver the desired CPV. In current buyers' markets, where customers have a wide choice of suppliers, it is usually insufficient to provide tangible goods alone. As most markets are fiercely competitive, firms have to surround their core product with a set of carefully selected additional attributes and benefits, both tangible (e.g. attractive design, packaging) and intangible (e.g. prompt, polite and efficient service). This mix of attributes and benefits makes up the desirable market offering.

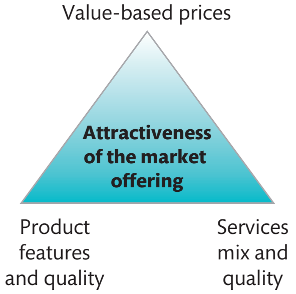


Figure 14.6 Components of the market offering

Product levels: the customer-perceived value hierarchy

When planning a market offering, the marketer needs to address five benefit levels (see Figure 14.7).[18] Each level adds more customer-perceived value:

1 The fundamental level is the **core benefit**: the benefit the customer is really buying. A hotel guest is buying 'rest and sleep'. The purchaser of a drill is buying 'holes'. Marketers must see themselves as benefit providers.
2 At the second level, the marketer must turn the core benefit into a **basic product**. Thus a hotel room includes a bed, bathroom, towels, desk and wardrobe.
3 At the third level, the marketer prepares an **expected product**, a set of attributes and conditions that buyers normally expect when they purchase this product. Hotel guests expect a clean bed, fresh towels, working lamps and a relative degree of quiet.
4 At the fourth level, the marketer prepares an **augmented product** that exceeds customer expectations. A hotel may provide a wi-fi connection and a flat-screen TV.
5 At the fifth level stands the **potential product**, which encompasses all the possible augmentations and transformations that the product or offering might undergo in the future. Here is where companies search for new ways to satisfy customers and distinguish their offering. The hotel staff could provide a free fruit bowl and petit four tray every night.

Differentiation arises and competition increasingly occurs on the basis of the additional augmented and potential benefit attributes that comprise market offerings. This stimulates marketers to look at the user's total **consumption system**: the way the end customer obtains and uses such CPV offerings. Each augmentation and potential additional benefit attribute raises the supplier's cost. As customers strive to increase the perceived value for their money, augmented and potential benefits soon become expected necessary points-of-parity. Today's hotel guests expect cable or satellite television with a remote control, and high-speed internet access. This means competitors must search continually for still other features and benefits in order to gain a market edge.

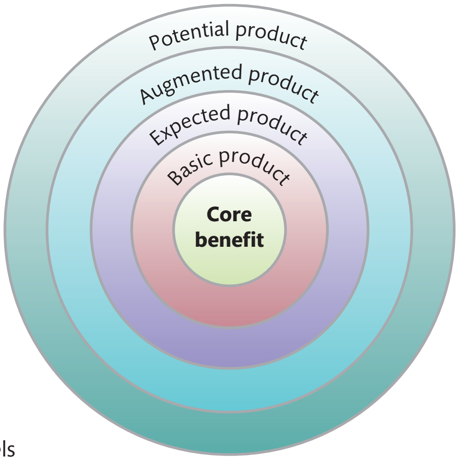


Figure 14.7 Five product levels

Marketing insight

Metamarkets and metamediaries

There are some products whose purchase necessitates other product purchases.

The wedding market is a **metamarket**. The bride and groom need a bridal gown and suit respectively, a venue for the marriage and wedding reception, a caterer and possibly a wedding consultant. Here, the wedding dress seller or the wedding consultant could well act as a wedding metamediary.

Metamarkets are the result of marketers observing the total consumption system and 'packaging' a collection of

CPV offerings that simplifies the purchase process. A metamarket has been defined as 'a set of products and services that consumers need to perform as a *cognitively related* set of activities'. Other metamarkets that are organised around major assets or major life events include:

- buying a home;
- giving birth to a child;
- getting a divorce;
- planning a holiday;
- planning funeral arrangements.

Metamediaries are specialists who offer bespoke services in addition to the offers of numerous suppliers and products on a market. Examples are a holiday trip adviser or a wedding consultant.

See : M. N. Shah (2005) To market or to metamarket – doing business in the convergence era, https://www.researchgate.net/profile/Mona_Shah8/publication/316284158_To_Market_or_to_Metamarket_-Doing_Business_in_the_Convergence_Era/links/58f99fcd0f7e9ba3ba4e18b3/To-Market-or-to-Metamarket-Doing-Business-in-the-Convergence-Era.pdf.

As some companies raise the price of their augmented and potential market offerings, others offer a less-expensive version. Thus, alongside the growth of five-star hotels there is a demand in many locations for budget hotels, such as Novotel.

Sulzer Pumps

Sulzer, the Swiss engineering group, founded in 1834 and one of the world's leading pump manufacturers, is globally recognised for excellent product quality, performance reliability and technical innovation. The company provides a full line of pumps, equipment and related technologies to the oil and gas, hydrocarbon processing, power generation, pulp and paper industries, and water industries individually designed to meet the needs of customers operating in adverse environments. 'We offer differentiation – highly engineered products. We focus on engineered solutions and on demonstrating that they will work in arduous conditions', says the company's managing director.[19]

Product/market offering classifications

Marketers have traditionally classified products (market offerings) on the basis of durability, tangibility and use (consumer or industrial). Each type of offering has an appropriate marketing mix strategy.

Durability and tangibility

Marketers traditionally classify market offerings in three categories on the basis of durability and tangibility:

1. **Non-durable goods**: offerings, usually termed *fast-moving consumer goods* (**fmcgs**), that are normally consumed in one or a few uses. They include offerings such as beer and soap. Because these offerings are purchased frequently, the appropriate strategy is to make them available in many locations, charge only a small mark-up, and advertise heavily to induce trial and build preference.
2. **Durable goods**: market offerings that have a longer use lifetime, such as refrigerators, machine tools and clothing. These require more personal selling and service, command a higher margin and require more provider guarantees.
3. **Services**: traditionally viewed as intangible, inseparable, variable and perishable offerings. Services normally require more quality control, supplier credibility and adaptability. Examples include haircuts, legal advice and appliance repairs. In reality, service offerings contain both tangible and intangible attributes and benefits, so are best considered as market offerings.

Consumer goods classification

The array of market offerings that consumers buy can be classified on the basis of shopping habits.

Consumers usually purchase **convenience goods** frequently, immediately and with a minimum of effort. Examples include soft drinks, soaps and newspapers. Convenience goods can be further segmented. **Staples** are goods that consumers purchase on a regular basis. A buyer might routinely purchase bread, toothpaste and yogurt. *Impulse goods* are purchased without any planning or search effort. Confectionery and magazines can be impulse goods. *Emergency goods* are purchased when a need is urgent – umbrellas during a rainstorm, boots and shovels during the first winter snow.

Manufacturers of impulse and emergency goods will place them in those outlets (e.g. petrol stations) where consumers are likely to make an impulse purchase.

Shopping goods are goods that customers characteristically evaluate on such criteria as suitability, quality, price and style. Examples include furniture, clothing, used cars and major appliances. *Homogeneous shopping goods* are similar in quality but different enough in price to justify shopping comparisons. *Heterogeneous shopping goods* differ by offering high customer-perceived value and a strong brand association: for example, items stocked by quality department stores. The seller of heterogeneous shopping goods carries a wide assortment to satisfy individual tastes and must have well-trained salespeople to inform and advise customers.

Speciality goods have unique characteristics or brand identification for which a sufficient number of buyers are willing to make a special purchasing effort. Examples include cars, photographic equipment and men's suits. A Bang & Olufsen home cinema system is a speciality item because interested buyers will travel far to acquire it.

Unsought goods are those the customer does not know about or does not normally think of buying. Classic examples of unsought products include life insurance, coffins and gravestones. Unsought goods require advertising and personal selling support.

Industrial goods classification

Industrial offerings can be classified in terms of their relative cost and how they enter the production process: materials and parts, capital items, and supplies and business services.

Marketers rely on well-trained salespeople to help customers compare the quality and features of shopping goods such as home appliances
Source: Allesalltag/Alamy Stock Photo

Materials and parts are goods that become part of a complete manufacturer's market offering. They fall into two classes: raw materials, and manufactured materials and parts. *Raw materials* fall into two major groups: *farm products* (wheat, cotton, livestock, fruit and vegetables) and *natural products* (fish, lumber, crude petroleum, iron ore). Farm products are supplied by many producers, which in turn supply marketing intermediaries, which provide assembly, grading, storage, transportation and selling services. Their perishable and seasonal nature gives rise to special marketing practices, whereas their commodity character results in relatively little advertising and promotional activity, with some exceptions. At times, commodity groups will launch campaigns to promote their product – potatoes, cheese or beef. Some producers such as Chiquita (bananas) and Jaffa (oranges) brand their products.

Natural items are limited in supply. They usually have great bulk and low unit value and must be moved from producer to user. Fewer and larger producers often market them directly to industrial users. Because users depend on these materials, long-term supply contracts are common. The homogeneity of natural materials makes it more difficult for suppliers to raise the value level of their market offerings.

Manufactured materials and parts fall into two categories: component materials (iron, yarn, cement and wire) and component parts (small motors, tyres, castings). *Component materials* are usually fabricated further – pig iron is made into steel, and yarn is woven into cloth. The standardised nature of component materials usually means that price and supplier reliability are key purchase factors. *Component parts* enter the finished market offering with no further change in form, as when small motors are put into vacuum cleaners, and tyres are put on vehicles. Most manufactured materials and parts are sold directly to industrial users. Price and service are major marketing considerations, and branding and advertising tend to be less important.

Capital items are long-lasting goods that facilitate developing or managing the finished CPV offering. They include two groups: installations and equipment. Installations consist of buildings (factories, offices) and heavy equipment (air conditioning, generators, lifts). Installations are major purchases. They are usually bought directly from the producer, whose sales force includes technical personnel, and a long negotiation period precedes the typical sale. Producers must be willing to design to specification and to supply after-sales services. Personal selling is generally more important in these markets than advertising.

Equipment includes portable factory equipment and tools (hand tools, lift trucks) and office equipment (personal computers, desks). These do not become part of a finished offering. They have a shorter life than installations but a longer life than operating supplies. Although some equipment manufacturers sell direct, more often they use intermediaries because the market is geographically dispersed, the buyers are numerous and the orders are small. Quality, price and service standards are usually major considerations. The sales force tends to be more important than advertising, although advertising can be used effectively.

Supplies and business services are short-term goods and services that facilitate developing or managing the finished product. Supplies are of two kinds: *maintenance and repair items* (paint, nails and brooms) and *operating supplies* (lubricants, coal, writing paper, pencils). Supplies are the equivalent of convenience goods; goods that are usually purchased with minimum effort on a straight rebuy basis. They are normally marketed through intermediaries because of their low unit cost and the great number and geographic dispersion of customers. Price and service are important considerations because suppliers are standardised and brand preference is not high.

Business services include *maintenance and repair services* (window cleaning, copier repair) and *business advisory services* (legal, management consulting and advertising). Maintenance and repair services are usually supplied under contract by small producers or are available from the manufacturers of the original equipment. Business advisory services are usually purchased on the basis of the supplier's reputation and staff.

Differentiation

Branding enables market offerings to be positively differentiated. This is possible with every market offering that has a preferred CPV. The humble aspirin can be as positively branded by a generic firm as it can by a strongly branded firm such as Bayer. Firms often offer a portfolio of market offerings to cover many market segments. Unilever offers a variety of detergents, each with a separate brand identity. Some products, such as cars, commercial buildings and furniture, are capable of high differentiation. This is achieved by the seller developing a rich mix of customer-perceived benefit attributes. These can include such attributes and benefits as form, features, customisation, performance quality, conformance quality, durability, reliability, repairability and style. Over the last decade, design has become an increasingly important means of differentiation.

Market offering differentiation

Form

Many market offerings can be differentiated in **form** – the size, shape or physical structure of an offering. Consider the many possible forms taken by items such as aspirin. Although aspirin is essentially a commodity, it can be differentiated by dosage size, shape, colour, coating or action time.

Features

Most market offerings can be marketed with varying **attributes** and **benefits** that supplement their basic function. A company can identify and select appropriate new attributes by surveying recent buyers and then assessing the package of *customer benefits* versus *company cost* for each potential featured value attribute. The company should also consider how many people want each attribute feature, how long it would take to introduce it and whether competitors could easily copy it. To avoid 'feature fatigue' the company must also be careful to prioritise those attributes that are included and find unobtrusive ways to provide information about how consumers can use and benefit from them.[20] Companies must also think in terms of several product bundles or packages. Cosmetics firms such as Estée Lauder offer beauty packs at several CPV price levels. Each company must decide in which market segment to compete, and use market research techniques to discover the appropriate value-offering specifications.

Customisation

Marketers can differentiate by customising. As companies have grown proficient at gathering information about individual customers and business partners (suppliers, distributors, retailers), and as their factories are being designed more flexibly, they have increased their ability to individualise offers, messages and media. For example, publishers of academic texts customise books for selected college and university courses. **Mass customisation** is the ability of a company to meet each customer's requirements – to prepare on a mass basis individually designed products, services, programmes and communications.[21]

Although Levi's and Lands' End were among the first clothing manufacturers to introduce custom jeans, other players have introduced mass customisation into other markets. Honda offers to customise the cars it makes in Europe.[22] LEGO has customised its offering from the beginning.

LEGO

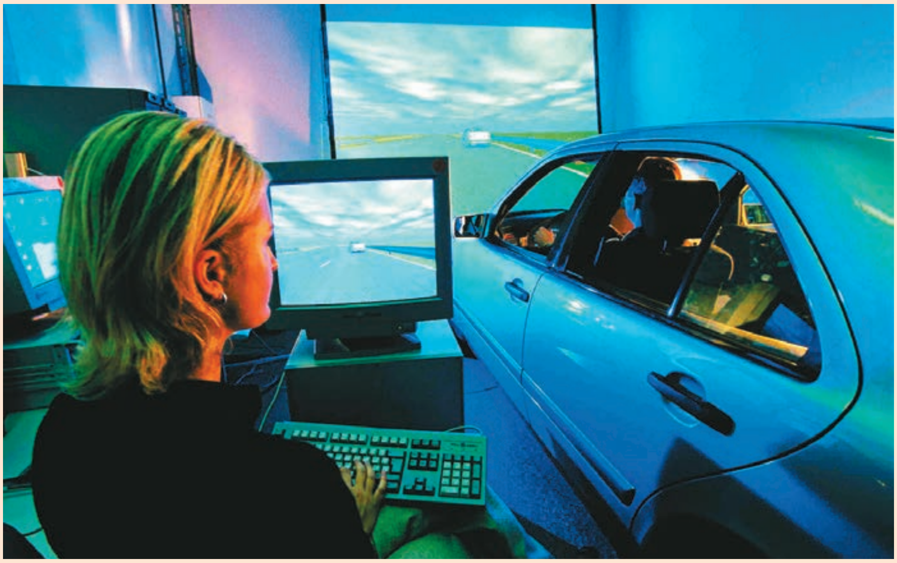
In a sense, LEGO, of Billund, Denmark, has always been mass customised. Every child who has ever had a set of the most basic LEGO has built his or her own unique and amazing creations, brick by plastic brick. Many wrongly believe that the name LEGO stems from the Latin word for 'I put together'. In reality, it comes from *leg godt*, Danish for 'play well'. However, in 2005, LEGO set up The LEGO Factory, which, as it says on the company website, 'lets you design, share, and build your very own custom LEGO products'. Using LEGO's freely downloadable digital designer software, customers can create any structure. The creations can exist – and be shared with other enthusiasts – solely online or, if customers want to build them, the software tabulates the pieces required and sends an order to its nearest LEGO warehouse. The employees there put all the pieces into a box and send it back to the customer. LEGO Factory customers have the pride of building their own creations, but they can also earn royalties if LEGO decides the design is good enough to include in its own catalogue. LEGO therefore crowdsources ideas from its most passionate consumers to develop new products.[23]

Performance quality

Most market offerings are established at one of four performance levels: low, average, high or superior. **Performance value** is the level at which the market offering's primary characteristic attributes operate. Customer-perceived quality is becoming an increasingly important dimension for differentiation, as companies seek to meet and preferably exceed customers' expectations in the marketplace. Continuously improving the market offering can produce high returns and market share; failing to do so can have negative consequences.

Mercedes-Benz

From 2003 to 2006 Mercedes-Benz endured one of the most painful periods in its 127-year history, as its quality reputation took a beating in independent quality reviews. BMW surpassed it in global sales. As a consequence, DaimlerChrysler's chief executive Dieter Zetsche and his new management team initiated a major restructuring, organising the company around functional elements of the car – motors, chassis and electronic systems – instead of by model lines. To improve customer-perceived quality, the company also made a number of changes in product development. Engineers begin testing electronic systems a year earlier than in the past. Laboratory workers put each new model's electronic system through a battery of 10,000 tests that run 24 hours a day for three weeks. Trying to uncover even the most unlikely event, Mercedes found over 1,000 errors in the new S-Class. Mercedes now uses three times as many prototypes of new designs, allowing engineers to drive a new model 3 million miles before it goes into production. As a result of these and other changes, the number of flaws in the cars has dropped 72 per cent from its peak in 2002 and warranty costs have also decreased by 25 per cent. Now the S-Class is widely regarded as the leading quality motor in the luxury car market and seeks to compete with Rolls-Royce super-luxury design. In July 2014, Mercedes announced that it was bringing back the Pullman version that will cost over $1m – twice the price of the most expensive Rolls-Royce.[24]



Performance quality is such a critical part of Mercedes-Benz's product strategy that when its quality ratings slipped, the company undertook a series of sweeping changes in its quality control processes to reduce errors and flaws
Source: Courtesy of Daimler AG.

Conformance quality

Buyers expect products to have a high **conformance quality**, which is the degree to which all market offerings meet the promised specifications. Manufacturers of cordless devices need to be sure that their battery-life claims can be experienced.

Durability

Durability, a measure of the product's expected operating life under natural or stressful conditions, is usually a key value attribute/benefit. Customers will generally pay more for kitchen appliances that have a reputation for being long lasting.

Reliability

Buyers will normally pay a premium for more reliable products. **Reliability** is a measure of the probability that a key benefit or valued attribute will not malfunction or fail within a specified time period. Bosch, Liebherr and Miele, whose portfolios include major home appliances, have achieved an outstanding reputation for creating reliable appliances.

The 'Marketing in action' box describes how a food cooperative is seeking progressively to differentiate its market offerings for its customers, farmers and in production and logistics.

Marketing in action

Arla Foods

Arla Foods is an international cooperative based in Viby, Denmark and is the world's largest producer of organic dairy. The company aims to create innovative products that delight customers and help them to live a balanced and healthier life. Arla has expanded into Europe, with mergers and acquisitions in the UK and Sweden and plans by 2020 to have aligned the different companies into one and to continue expanding its interests out of Northern Europe.

The company has a progressive view of the factors changing the business climate across the globe and has developed a fluid strategy. In the words of its CEO: 'We believe that the best strategies are those that are dynamic and adaptable to change.'

Exercise

Download Arla's 2017 company report and make brief notes on the company's aims for:

- Consumers and customers
- Farmer owners
- Innovation
- Production and logistics
- Value creation.

How would you advise Arla to be bold and continue differentiating?

Source: Arla company report (2017) https://www.arla.com/company/investor/annual-reports/.

Arla foods to follow
Source: Jari J/Shutterstock

Repairability

Repairability is a measure of the ease of correcting a market offering when it malfunctions or fails. Some products include a diagnostic feature that allows service people to correct a problem over the telephone or advise the user how to correct it. Many computer hardware and software companies offer technical support over the phone, or email, or by real-time 'chat' online.

Style

Style describes the market offering's look and feel to the buyer. Clothes buyers, for example, pay a premium for fashionable quality wear. Aesthetics also play a key role in such brands as Absolut Vodka, Apple products, Montblanc pens and Lindt chocolate. Style has the advantage of creating distinctiveness that is difficult to copy. On the negative side, strong style does not always mean high-use performance, as expensive clothes may spend a lot of time in the owner's wardrobe.

Design differentiation

As competition intensifies, design offers a potent way to differentiate and position a company's market offerings to achieve a competitive edge. It comprises a mix of features that affects how a market offering looks, feels and functions in terms of customer requirements.

Design is particularly important in making and marketing retail services, clothes and shoes, packaged goods and durable equipment. The designer decides how much to invest in attributes such as form, feature development, performance, conformance, durability, reliability, repairability and style. To the company, a well-designed market offering is one that is easy to manufacture and distribute. To the customer, a well-designed market offering is one that is pleasant to look at and easy to open, install, use, repair and dispose of. The designer must take all these CPV attribute factors into account.

The arguments for good design are particularly compelling for smaller consumer companies and start-ups operating in markets such as upmarket 'real-wood' furniture – firms such as the UK's Ercol and Parker Knoll.

Certain countries and companies are design leaders: Italian design for clothing and furniture; Scandinavian design for functionality, aesthetics and environmental consciousness. Braun, a German division of Gillette, has elevated design to a high art in its electric shavers, coffee makers, hair dryers and food processors. The company's design department enjoys equal status with engineering and manufacturing. The Danish firm Bang & Olufsen has received considerable recognition for the design of its sound and TV equipment.

Firms should seek new designs to create differentiation and establish a more complete connection with consumers. Holistic marketers recognise the emotional power of design and the importance to consumers of how things look and feel. In visually orientated cultures, translating brand meaning and positioning through design is critical. A bad design can also ruin a product's prospects.

Service differentiation

When a market offering cannot easily be differentiated, the key to competitive success may lie in adding to the service attributes that comprise the CPV package. Rolls-Royce plc ensures that its aircraft engines are in high demand by continuously monitoring the health of its 3,000 engines for 45 airlines through live satellite feeds. Under its TotalCare programme, airlines pay a fee for every hour an engine is in flight, and the company assumes responsibility for downtime and repairs expenses.[25]

The main service benefit/attribute differentiators are: ordering ease, delivery, installation, customer training, customer consulting, and maintenance and repair.

Ordering ease

Ordering ease refers to how straightforward it is for the customer to place an order with the company. Many financial service institutions offer secure online sites to help customers obtain information and complete transactions more efficiently.

Delivery

Delivery refers to how well the market offering is brought to the customer. It includes speed, accuracy and care throughout the process. Today's customers have grown to expect delivery speed: pizza delivered in half an hour, film developed in one hour, spectacles made in one hour, cars washed in 15 minutes. Levi Strauss and Benetton have adopted computerised *quick response systems* (QRS) that link the information systems of their suppliers, manufacturing plants, distribution centres and retailing outlets.

Installation

Installation refers to the service work done to make an offering operational in its planned location. Buyers of heavy equipment expect good installation service. Differentiating at this point in the consumption chain is particularly important for companies with complex offerings. Ease of installation becomes a true selling point, especially when the target market contains many technological novices, as is frequently the case in the home electronic equipment market.

Customer training

Customer training refers to helping the customer's employees to use the vendor's equipment properly and efficiently. One example is McDonald's, which requires its new European franchisees to attend its Hamburger University in the United States for a two-week franchise management training course.

Customer consulting

Customer consulting refers to data, information systems and advice services that sellers offer buyers.

Maintenance and repair

Maintenance and repair describes the service programme for helping customers keep purchases in good working order. Several companies and organisations offer instant internet support to rectify problems with their goods and services.

Returns

Although returns are undoubtedly a nuisance to customers, manufacturers, retailers and distributors alike, they are also an unavoidable reality of doing business, especially with online purchases. Although the average return rate for online sales is relatively small – roughly 5 per cent – return and exchange policies are estimated to serve as a deterrent for one-third to one-half of online customers. The cost of processing a return can be two to three times that of an outbound shipment.

Returned items can be considered in two ways:[26]

- **Controllable returns:** result from problems, difficulties or errors of the seller or customer and can mostly be eliminated with proper strategies and programmes by the company or its value chain partners. Improved handling or storage, better packaging and improved transportation and forward logistics can eliminate problems before they happen.
- **Uncontrollable returns:** cannot be eliminated by the company in the short run through any of these means.

A basic returns strategy that companies can adopt is to attempt to eliminate the root causes of controllable returns, while at the same time developing processes for handling uncontrollable ones. The aim of a product return strategy is to have fewer items returned and a higher percentage of returns that, after fixing, can enter the distribution pipeline to be resold.

Product and brand relationships

Each market offering can be compared to competitive ones to ensure that a firm is performing effectively in the marketplace.

The product/market offering hierarchy

The hierarchy stretches from basic needs to particular value attributes and benefits that satisfy those needs. Six hierarchy levels can be identified, here using life insurance as an example:

1. **Need family:** the core need that underlies the existence of a family policy. Example: security.
2. **Product family:** all the product classes that can satisfy a core need with reasonable effectiveness. Example: savings and income.
3. **Product class:** a group of products within the product family recognised as having a certain functional coherence; also known as a product category. Example: financial instruments.
4. **Product line:** a group of products within a product class that are closely related because they perform a similar function, are sold to the same customer groups, are marketed through the same outlets or channels, or fall within given price ranges. A product line may consist of different brands, or a single **family brand**, or an individual brand that has been developed from a line extension. Example: house and property insurance.
5. **Product type:** a group of items within a product line that share one of several possible forms of the market offering. Example: life insurance.
6. **Item** (also called *stock keeping unit* or *product variant*): a distinct unit within a brand or product line distinguishable by size, price, appearance or some other attribute. Example: renewable life insurance.

Product/market offering systems and mixes

A **product system** is a group of diverse but related items that function in a compatible manner. For example, smartphones come with attachable items including headsets, keyboards, ebooks and voice recording functions. A **product mix** (also called a **product assortment**) is the complete set of all market offerings that a company brings to the marketplace.

A product mix consists of several product lines. Michelin has three product lines: tyres, maps and restaurant-rating services. A company's product mix has a certain width, length, depth and consistency:

- The *width* of a market or a product mix refers to how many different product lines the company carries. Table 14.3 shows the four lines that make up Nivea's Sun Care range.
- The *length* of a product mix refers to the total number of items in the mix. Nivea has four items in its children's Protection line.
- The *depth* of a product mix refers to how many variants there are in the market offering/product mix portfolio. Nivea has 15 in its Sun Care portfolio.
- The *consistency* of the product mix refers to how closely related the various lines are in end use, production requirements or distribution channels, or in some other way. Nivea's offerings are consistent so far as they are essentially consumer goods (though they market to business and institutional markets).

The product-mixed dimensions enable the company to expand its business in four ways. It can add new product lines, thus widening its product mix. It can lengthen each line. It can add more variants to each product and deepen its product mix. To make these product and brand decisions, it is useful to conduct product-line analysis.

Product-line analysis

When designing a product line, companies normally develop a basic platform and modules that can be added to meet different customer requirements. Homebuilders show a model home to which buyers can add additional features. This modular approach enables the company to position itself optimally by offering variety (to exhibit effectiveness in the marketplace) and to lower production costs (to become effective with its resources).

Product-line managers need to know the sales and profits of each market offering in their line in order to determine which items to build, maintain, harvest or divest.[27] They also need to understand each product line's market profile.

Sales and profits

Figure 14.8 shows a sales and profit report for a five-item product line. The first item accounts for 50 per cent of total sales and 30 per cent of total profits. The first two items account for 80 per cent of total sales and 60 per cent of total profits. If these two items were suddenly attacked by a competitor, the line's sales and profitability could collapse. These items must be carefully monitored

Table 14.3 Product-mix width and product-line length for Nivea Sun Care

	Product-mix width			
	Protection	**Children's Protection**	**After Sun**	**Sun Touch Self-Tan**
	Light-Feeling Sun Lotion	Baby Sun Lotion 501	Cooling After Sun Spray	Quick & Easy Self-Tan Spray (Fair Skin)
Product-line length	Firming Sun Lotion	Children's Lotion	Regenerating After Sun Balm	Self-Tan Spray
	Moisturising Sun Spray	Children's Sun Spray	Tan-Prolonging After Sun Lotion	Self-Tan Lotion
	Oil Spray	Moisturising After Sun Lotion		Self-Tan Cream

Source: Beiersdorf GmbH.

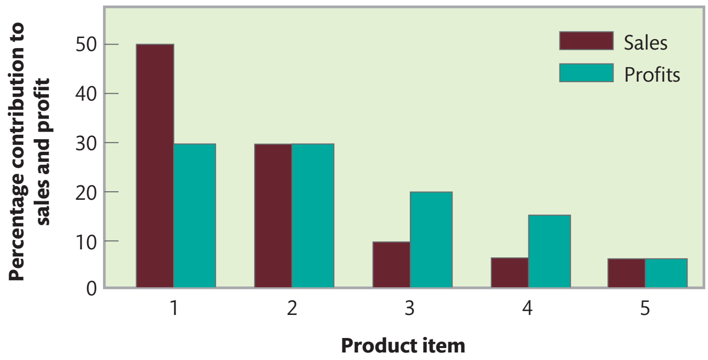


Figure 14.8 Product item contributions to a product line's total sales and profits

and protected. Finally, the last item delivers only 5 per cent of the line's sales and profits. The firm may consider dropping this item unless it has strong growth potential.

Every company's product portfolio contains offers with different margins. Supermarkets make almost no margin on bread and milk, reasonable margins on tinned and frozen foods and better margins on flowers, ethnic food lines, freshly baked goods and dry goods. A telephone company makes different margins on its core telephone, call-waiting, caller ID and voicemail services.

A company can classify its products into four types that yield different gross margins, depending on sales volume and promotion. To illustrate with laptop computers:

1 **Core product offerings**: basic laptop computers that produce high sales volume and are heavily promoted but with low margins because they are viewed as undifferentiated commodities.
2 **Staples**: items with lower sales volume and no promotion, such as faster central processing units (CPUs) or bigger memories. These yield a somewhat higher margin.
3 **Specialities**: items with lower sales volume but that might be highly promoted, such as digital film-making equipment; or that might generate income for services, such as personal delivery, installation or on-site training.
4 **Convenience items**: peripheral items that sell in high volume but receive less promotion, such as carrying cases and accessories, top-quality video or sound cards, and software. Consumers tend to buy them where they buy the original equipment because it is more convenient than making further shopping trips. These items can carry higher margins.

The main point is that companies should recognise that these items differ in their potential for justifying higher prices and increased advertising expenditure margins to increase sales and margins.[28]

Market profile

The product line manager must review how the line is positioned against competitors' lines. Consider Company A with an industrial powder coatings line. Two coating hues are offered white and coloured and Company A offers a selection of hues in the domestic appliance and automotive markets. Company B offers a small range of white hues and specialise in non-white colours for the domestic appliance and automotive markets. Company C offers a small range of relatively expensive hues to the automotive industry but specialises in expensive coatings with high technical specifications for heavy duty and undersea pipe markets.

The **product map** in Figure 14.9 shows which company's coatings are competing against Company A's coatings. No company offers a low price white coating for domestic appliances. If company A identifies a an unmet demand for low price white coatings for domestic appliances it could contemplate adding new coatings to its product line and may consider reducing its colour coatings for the automotive and domestic appliance markets. If Company C expects Company B to improve its specifications for the top price colour automotive market it may decide to withdraw from the automotive market altogether.

Mapping products in this way provides a clear picture of the spread of market segments and provides information for two key decisions – product line length and product mix pricing.

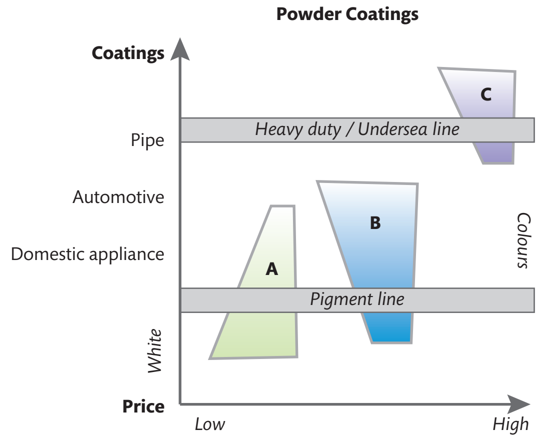


Figure 14.9 Product map for industrial powder coatings product line
Source: M. R. V. Goodman AJM Management Development.

Product-line length

Company objectives influence product-line length. One objective is to create a line to induce customers to trade up. Thus, the UK supermarket Sainsbury's would like to move customers up from its entry basic product line to its premium product line. A different objective is to create a line that facilitates cross-selling: whisky firms sell the dram and special drinking glasses. Another objective is to create a product line that protects against economic cycles; Electrolux offers white goods such as refrigerators, dishwashers and vacuum cleaners under different brand names in the discount, middle-market and niche segments.[29] Companies seeking high market share and market growth will generally carry longer lines. Companies that emphasise high profitability will carry shorter lines consisting of carefully selected items.

Product lines tend to lengthen over time. Excess manufacturing capacity puts pressure on firms to develop new items. The sales force and distributors also pressure the companies for extra market offerings to satisfy customers. However, as items are added, costs rise: design and engineering costs, inventory carrying costs, manufacturing changeover costs, order processing costs, transportation costs and new item promotional costs. Eventually, someone calls a halt: top management may stop development because of insufficient funds or manufacturing capacity. Finance managers may call for a study of money-losing items. A pattern of market offering/product line growth followed by massive pruning may repeat itself many times. Increasingly, consumers are growing weary of dense market offering/product lines, overextended brands and feature-laden market offerings (see the 'Marketing insight' box).

A company lengthens its product line in two ways: line stretching and line filling

Line stretching

Every company's product line covers part of the total possible segment range. For example, malt whisky and Champagne are located in the upper-price niche segment of the alcoholic drinks market. **Line stretching** occurs when a company lengthens its line beyond its current range. The company can stretch its line down market, up market, or both ways.

Marketing insight

When less is more

Although many customers find the notion of having more choices appealing, the reality is that customers can sometimes be overwhelmed by the choices involved. With thousands of new products introduced each year, customers find it harder and harder to navigate shop aisles successfully. Although customers with well-defined preferences may benefit from more differentiated offers with specific benefits to better suit their needs, too much choice may be a source of frustration, confusion and regret for other customers. Product proliferation has another disadvantage. Exposing the customer to constant offer changes and introductions may nudge them into reconsidering their choices, resulting in their switching to a competitor as a result.

Also, not all the new choices may be winners, as Nestlé found out with its KitKat bars, among the best-selling confectionery bars in the UK since they were invented there in the 1930s. To increase sales in 2004, the company rolled out a vast array of new flavours. The summer saw the launch of strawberries and cream, passion fruit and mango, and red berry versions; with winter came Christmas pudding, tiramisu (with real wine and mascarpone) and low–carbohydrate versions. The new flavours were a disaster – the tastes were too sweet and unusual for many – and, even worse, some consumers could not find the classic KitKat bars among all the new varieties. An ill-timed switch from the classic slogan, 'Have a break, have a KitKat', did not help, and sales dropped 18 per cent as a result. The new flavours were then discontinued.

Perceptive marketers are also realising that it is not just the lines that are confusing customers – many items are just too complicated for the average consumer. Royal Philips Electronics learned its lesson when the company asked 100 top managers to take various Philips electronic products home one weekend and see whether they could make them work. The number of executives who returned frustrated and angry spoke volumes about the challenges the ordinary consumer faced.

Sources: D. Ball (2006) Flavor experiment for KitKat leaves Nestlé with a bad taste, *Wall Street Journal*, 6 July; B. Schwartz (2004) *The Paradox of Choice: Why More Is Less*, New York: HarperCollins Ecco; F. Endt (2004) It is rocket science, *Newsweek*, 18 October, E8; A. Chernev (2003) When more is less and less is more: The role of ideal point availability and assortment in choice, *Journal of Consumer Research*, 30 September, 170–83; S. S. Iyengar and M. R. Lepper (2000) When choice is demotivating: Can one desire too much of a good thing?, *Journal of Personality and Social Psychology*, 79(6); S. Jeffries (2011) Less is more: The age of minimalism, *The Guardian*, 11 February; S. Monty (2014) When less is more: Can marketers learn digital restraint, theguardian.com, 13 January.

Down-market stretch

A company positioned in the middle market may want to introduce a lower-priced line for any of three reasons:

1 It may notice, as did Aldi and Lidl, that there are strong growth opportunities as large supermarkets such as Carrefour, Tesco and others attract a growing number of shoppers who want lower-priced goods.
2 It may wish to tie-up lower-end competitors that might otherwise try to move up market. If the company has been attacked by a low-end competitor, it could counterattack by entering the low end of the market.
3 The company may find that the middle market is stagnating or declining.

A company faces a number of brand titles when deciding to move a brand down market:

- Use the parent brand name on all its offerings; Sony has used its name on products in a variety of price tiers.
- Introduce lower-priced offerings using a sub-brand name, as Electrolux does with its economy brands such as Zanussi.

Moving down market carries risks, as cheap 'poundshop' retailers have discovered in the UK as high sales-to-profit margins increase as competition mounts.

Up-market stretch

Companies may wish to enter the high end of the market to achieve more growth, either to return higher margins or simply to position themselves as full-line manufacturers. Many markets have spawned surprising up-market segments: Nestlé's Mövenpick ice cream and S. Pellegrino bottled water. However, other companies have included their own name in moving up-market, as is evidenced in UK major supermarket premium lines.

Two-way stretch

Companies serving the middle market might decide to stretch their line in both directions. Pet food companies have stretched up and down to create a portfolio offering varieties in the entry, middle and niche market segments.

The relative position of a brand and its competitor context will also affect consumer acceptance. Research has shown that a high-end model of a low-end brand is favoured over a low-end model of a high-end brand, even when information about competing categories is made available.[30]

Line filling

A firm can also lengthen its product line by adding more items within the present range. There are several motives for line filling: reaching for incremental profits, trying to satisfy dealers that complain about lost sales because of missing items in the line, trying to utilise excess capacity, trying to be the leading full-line company, and trying to plug holes to keep out competitors.

Line filling is overdone if it results in self-cannibalisation and customer confusion. The company needs to differentiate each item in the consumer's mind with a *just-noticeable difference.* The company should also check that the proposed product specification meets a market need.

Holiday Inn

Holiday Inn has also performed a two-way stretch of its hotel product line. The hotel chain segmented its domestic hotels into five separate chains to tap into five different benefit segments – the up-scale Crowne Plaza, the traditional Holiday Inn, the budget Holiday Inn Express, and the business-orientated Holiday Inn Select and Holiday Inn Suites. Different branded chains received different marketing programmes and emphasis; Holiday Inn Express has been advertised with a humorous advertising campaign. By basing the development of these brands on distinct consumer targets with unique needs, Holiday Inn is able to insure against overlap between brands.

Source: https://www.ihg.com/content/gb/en/about/brands (accessed October 2018).

European Holiday Inn
Source: Nigel Howard/Evening Standard/Rex Shutterstock.

Line modernisation, featuring and pruning

Product lines need to be modernised. The issue is whether to overhaul the line piecemeal or completely. A piecemeal approach allows the company to see how customers and dealers take to the new style. It is also less draining on the company's cash flow, but it allows competitors to see changes and to start redesigning their own lines.

In rapidly changing markets, innovation is continuous. Companies plan improvements to encourage customer migration to higher-valued, higher-priced items. A major issue is timing improvements so they do not appear too early (thus damaging sales of the current line) or too late (after the competition has established a strong reputation for more advanced equipment).[31]

Firms must periodically review the line for items that are depressing profits.[32] One study found that for a big Dutch retailer, a major assortment reduction led to a short-term drop in category sales, caused mainly by fewer category purchases by former buyers, but it also attracted new category buyers at the same time. These new buyers partially offset the sales losses among former buyers of the delisted items.[33]

In 1999, Unilever announced its 'Path to Growth' programme designed to get the most value from its brand portfolio by eliminating three-quarters of its 1,600 distinct brands by 2003. More than 90 per cent of its profits came from just 400 brands, prompting Unilever co-chairman Niall FitzGerald to liken the brand reduction to weeding a garden, so 'the light and air get into the

Pruning slow-selling brands from product lines often benefits the brands that are left, such as Unilever's global bestsellers, including Lipton worldwide and Persil in the UK
Source: Cineberg/Shutterstock

blooms which are likely to grow the best'. The company retained global brands such as Lipton, as well as regional brands and 'local jewels' such as Persil, the leading detergent in the UK. The company planned to reduce the number of product variants further by the end of the decade. Following an abortive and hostile takeover bid from Kraft, Unilever announced in 2017 that it intended to sell its margarine spreads brands. In December that year the company confirmed that it had concluded a deal worth 6.8 billion euros with the US private equity firm KKR.[34]

Multibrand companies all over the world are attempting to optimise their brand portfolios. In many cases, this has led to a greater focus on core brand growth and to concentrating energy and resources on the biggest and most established brands.

Volkswagen

VW has four different brands to manage in its European portfolio. Initially, Audi and Seat had a sporty image and VW and Skoda had a family-car image. Audi and VW were in a higher price–quality tier than their respective counterparts. Skoda and Seat, with their basic interiors and utilitarian engine performance, were clearly differentiated. With the goal of reducing costs, streamlining parts/systems designs and eliminating redundancies, Volkswagen upgraded the Seat and Skoda brands. Once viewed as below-par products by European consumers, Skoda and Seat have captured market share with attractive interiors, a full array of safety systems and reliable power-trains borrowed from Volkswagen. The danger, of course, is that by borrowing from its upper-echelon Audi and Volkswagen products, Volkswagen may have diluted their cachet. Frugal European car buyers may convince themselves that a Seat or Skoda is almost identical to a VW, but it is several thousand euros cheaper.[35]

Co-branding and ingredient branding

Co-branding

Marketers often combine their products with those of other companies. In **co-branding** – also called dual branding or brand bundling – two or more well-known brands are combined into a joint market offering or marketed together in some fashion. One form of co-branding is *same-company co-branding*, as when the Danone Group advertises Activia Yogurt and Actimel. Still another form is joint-venture co-branding, such as British Gas energy and engineering and Worcester Bosch gas boilers in the UK. There is also *multiple-sponsor co-branding* that is evident when football clubs grant after-match interviews with the media in a room full of sponsors' displayed logos. Finally, there is *retail co-branding*, where several retail establishments use the same location as a way to optimise both space and profits, as is the case in discount retail parks throughout Europe.

The main advantage of co-branding is that a market offering may be convincingly positioned by virtue of the multiple brands. Co-branding can generate greater sales from the existing target market as well as opening additional opportunities for new consumers and channels. It can also reduce the cost of introducing a new market offering, because it combines two well-known images and speeds adoption. Co-branding may be a valuable means to learn about consumers and how other companies approach them.

The potential disadvantages of co-branding are the risks and lack of control in becoming aligned with another brand in the minds of consumers. Consumer expectations about the level of involvement and commitment with co-brands are likely to be high, so unsatisfactory performance could have negative repercussions for both brands. If the other brand has entered into a number of co-branding arrangements, overexposure may dilute the transfer of any association. It may also result in a lack of focus on existing brands.

For co-branding to succeed, the two brands must separately have brand equity – adequate brand awareness and a sufficiently positive brand image. The most important requirement is a logical fit between the two brands, such that the combined brand or marketing activity maximises the advantages of each while minimising their disadvantages. Research studies show that consumers are more likely to perceive co-brands favourably if the two brands are complementary rather than similar.[36]

Besides remembering these strategic considerations, managers must enter into co-branding ventures carefully. There must be the right kind of fit in values, capabilities and goals, in addition to an appropriate balance of brand equity. There must be detailed plans to legalise contracts, make financial arrangements and coordinate marketing programmes. The financial arrangement between brands may vary, although one common approach is for the brand more deeply involved in the production process to pay a licensing fee and royalty.

Brand alliances require a number of decisions. What capabilities does a firm lack? What resource constraints is the firm facing (people, time, money, etc.)? What are the growth goals or revenue needs? In assessing a joint branding opportunity, a firm should satisfy itself that it is a profitable business venture. How might it help maintain or strengthen brand equity? Is there any risk of dilution of brand equity? Does the opportunity offer any extrinsic advantages such as learning opportunities?

Ingredient branding

Ingredient branding is a special case of co-branding. It creates brand equity for materials, components or parts that are necessarily contained within other branded products. Some successful ingredient brands include Dolby noise reduction, Gore-Tex water-resistant fibres[37] and Scotchgard fabrics. Ingredient branding is growing in an area known as 'nutraceuticals' – food products, such as Actimel, that claim they deliver health-benefit properties.

An interesting variation on ingredient branding is 'self-branding', in which companies advertise and even trademark their own branded ingredients. For instance, stately homes all over Europe advertise crockery, foodstuffs and linen bearing their insignia in site-based shops and specialist magazines. If it can be done well, it makes far more sense to self-brand ingredients because it results in more control and suitability.[38] Ingredient brands try to create enough awareness and preference for their market offerings so consumers will not buy a 'host' product that does not contain the brand badge.

Many manufacturers make components or materials that enter into final branded products but lose their individual identity. One of the few component branders that has succeeded in building a separate identity is Intel. Intel's consumer-directed brand campaign convinced many personal computer buyers to buy only computer brands with 'Intel Inside'. The 'Marketing in practice' box outlines the characteristics of successful ingredient branding.

Marketing in practice

Making ingredient branding work

What are the requirements for success in ingredient branding?

1. Customers must perceive that the ingredient matters to the performance and success of the end product. Ideally, this intrinsic value is easily seen or experienced.
2. Customers must be convinced that not all ingredient brands are the same and that this ingredient is superior.
3. A distinctive symbol or logo must clearly signal to customers that the host product contains the ingredient. Ideally, the symbol or logo would function like a 'seal', be simple and versatile, and credibly communicate quality and confidence.
4. A coordinated 'pull' and 'push' programme must help customers understand the importance and advantages of the branded ingredient. Channel members must offer full support. Often this will require consumer advertising and promotions and – sometimes in collaboration with manufacturers – retail merchandising and promotion programmes.

Sources: K. L. Keller (2008) *Strategic Brand Management*, 3rd edn, Upper Saddle River, NJ: Prentice Hall; P. Kotler and W. Pfoertsch (2006) *B2B Brand Management*, New York: Springer.

Packaging, labelling, warranties and guarantees

Most physical items must be packaged and labelled. Many marketers have called packaging a fifth P, along with price, product, place and promotion. Most marketers, however, treat packaging and labelling as an important element of marketing strategy. Cost is an important consideration too. So it is best to see packaging as part of the overall activity of companies that seek to develop highly regarded CPV offerings that enable businesses to achieve a sustainable competitive advantage. Warranties and guarantees can also be an important part of the market offering, as they often appear on the packaging.

Packaging

Packaging is traditionally defined as all the activities of designing and producing the container or presentation pack for a market offering. Packages might include up to three levels of material – beer comes in a bottle or can (*primary package*) in a cardboard box (*secondary package*) and in a palette box (*shipping package*).

Well-designed packages can build brand equity and drive sales.[39] Pepsi redesigned its bottle after 17 years in 2013. It enlarged the globe logo and produced a shorter label to make the bottle more aesthetically pleasing. The package is the customers' first encounter with the item and either impresses or disinterests them. Absolut Vodka, S. Pellegrino and Coca-Cola are world famous for their distinctive bottles. Toblerone confectionery is well known for its famous triangular shape and packaging. Expensive cereals feature see-through plastic windows in packaging to emphasise the quality of the contents. Packaging also affects consumers' later product experiences – good packaging, for example, protects the item after first opening and keeps it in good condition for subsequent use. Various factors have contributed to the growing use of packaging as a marketing tool:

- **Self-service.** An increasing number of product items are sold on a self-service basis. In an average supermarket, which stocks 15,000 items, the typical shopper passes by some 300 items per minute. Given that 50–70 per cent of all purchases are made in the shop, the effective package must perform many of the sales tasks: attract attention, describe the product's features, create consumer confidence and make a favourable overall impression.
- **Consumer affluence.** Rising consumer affluence means consumers are willing to pay a little more for the convenience, appearance, dependability and prestige of the better-packaged items.
- **Company and brand image.** Packages contribute to instant recognition of the company or brand. In a shop they can effectively advertise the item.

- **Innovation opportunity.** Innovative and unique packaging design can bring large benefits to consumers and profits to producers. Companies are incorporating materials and features, such as tamper-proof packs.

From the perspective of both the firm and consumers, packaging must achieve six objectives:[40]

1. identify the brand in an attractive way;
2. convey descriptive and persuasive information;
3. provide protection to facilitate transportation;
4. assist at-home storage;
5. aid product consumption;
6. be environmentally friendly on disposal.

To achieve the marketing objectives for the brand and satisfy the desires of consumers, marketers must choose the aesthetic and functional components of packaging correctly. Aesthetic considerations relate to a package's size and shape, material, colour, text and graphics. Blue is cool and serene, red is active and lively, yellow is medicinal and weak, pastel colours are feminine, dark colours are masculine. Functionally, structural design is crucial. For example, innovations with food products over the years have resulted in packages that are resealable, tamper-proof and more convenient to use (easy to hold, easy to open or squeezable). The packaging elements must harmonise with each other and with pricing, advertising and other parts of the marketing programme.

Packaging changes can have an immediate impact on sales. A good example is the book publishing industry, where customers often quite literally choose a book by its cover: Penguin Books has repackaged most of its titles and promoted them under the banner, 'Classic Books, Fresh Looks'.[41] Packaging changes can come in all forms. Kleenex tissues' seasonally themed oval-shaped boxes and Crest toothpaste's beauty product-inspired Vivid White packaging both led to sales increases.

After the company designs its packaging, it must test it. Engineering tests ensure that the package stands up under normal conditions; visual tests, that the script is legible and the colours harmonious; dealer tests, that dealers find the packages attractive and easy to handle; and consumer tests, that buyers will respond favourably. Eye tracking by hidden cameras can assess how much consumers notice and examine packages.[42]

Although developing effective packaging may be expensive and take several months to complete, companies must pay attention to growing environmental and safety concerns to reduce packaging. Increasingly, many companies are recognising the importance of going 'green' and are finding new ways to develop their packaging. Disposal of used packaging is rapidly becoming a major concern in many countries, as landfill sites come under strain and as EU fines for poor recycling practices begin to bite. In the UK, supermarkets either choose not to supply plastic carrier bags or sell temporary shopping bags at a slight penalty cost. Most, however, also promote the sales of environmentally friendly multiple-use bags, often sourced in underdeveloped economies. In Sweden, McDonald's has run an outdoor campaign to recycle empty cans in return for burgers. Recyclers can swap ten cans for a hamburger or forty for a Big Mac, and branded billboards dispense plastic bags with a printed 'price list'.

Packaging shape earns strong customer recall
Source: I Wei Huang/Shutterstock

Plastic packaging: an ecological disaster?

The overuse of plastic materials in packaging is stimulating passionate debate as they are not easily biodegraded. Many cardboard packs have plastic lids or spouts. Few drinks such as milk and fruit juice seem to be offered in glass bottles that are biodegradable. Most of the popular mineral waters such as Evian and Volvic are supplied in plastic polyethylene terephthalate (PET) bottles, and even the niche brands such as S. Pellegrino and Perrier seem to be abandoning their glass bottles. All is not doom and gloom, however, as some ecologically sensitive companies are starting to experiment with the use of reusable packaging. Danone, for example, is now supplying supermarkets in Belgium with yogurts in small brown earthenware pots that can be washed out and reused.[43] In the spring of 2018, scientists at the University of Portsmouth announced that they had discovered by accident an enzyme that destabalises and breaks down PET (polyethylene terephthylene) that is commonly used to bottle drinks.[44]

Plastics even have an important positive ecological advantage – a little of the material goes a long way. Furthermore, plastic materials are light, and while they encase over 50 per cent of the items that are bought, they only account for 20 per cent by weight of the packaging that is consumed. Thus, less energy is needed to transport plastic-packed goods. This is the main reason why it remains the packaging material of choice for many product offerings. It is actually good for the environment as it reduces the carbon footprint – a classic case of there being two sides to every story. Now, perhaps the righteous indignation of the ecologists may begin to look irrational.

Might it be possible to gain the benefits of plastic packaging without its associated recycling problems? The answer is yes. Cellulose, the most abundant organic compound on earth, is the main ingredient of cellophane, which was first used in Switzerland after its invention there in 1908. So why not consider abandoning oil-based plastics in favour of biodegradable ones? Research into environmentally renewable polymers has been gathering pace since the 1980s. Polyactic acid (PLA) and other starch-based polymers from sugar cane, potatoes, corn and wheat have emerged as the likeliest packaging materials.

However, there is a real problem with biodegradable plastic packaging – it looks the same as oil-based plastic packaging and so presents an insurmountable recycling problem. This is potentially capable of solution if European households are supplied with a separate recycling bin for biodegradable plastic packaging.

Environmental costs of packaging
Source: Serif.

Cordier Mestrezat breaks with tradition and packages Bordeaux in plastic cartons and the cardboard casks reappear

Purists have been challenged by a French fine wine brand to sip their wine through a straw rather than pour it from a bottle into a wine glass. In June 2008 Cordier began supplying the new packs to supermarkets in a determined effort by the company to boost wine consumption among young urbanites. The new packs are biodegradable and come with a 'sensory straw' to send a spray of wine around the palate and to 'ensure that customers enjoy the same sensations as with a wine glass'. Wine experts have expressed their horror, as the wine's bouquet and colour will not be able to be appreciated in the conventional way. Cordier responded to the purists' protests by emphasising the serious state of the wine industry in France, where consumption is falling from 100 litres per person to 54 litres, and the need to move with the times.

The cardboard cask is ripe for a revival. And it's happening. Right now. For environmental reasons, mainly. In terms of packaging, a wine cask saves a whole lot more space, which helps reduce shipping space and cost. You can also keep the wine if you haven't finished it, which means less waste. It all makes sense.

Sources: L. Clout (2008) The future of wine: Bordeaux through a straw, *The Telegraph*, 16 May, https://www.telegraph.co.uk/news/newstopics/howaboutthat/1965538/The-future-of-wine-Bordeaux-through-a-straw.html.

Cardboard packaging is more ecologically friendly

The fast-food burger chain McDonald's has franchised many restaurants across Europe and this has generated a significant amount of packaging. The company has gone to considerable trouble to see that its packaging is biodegradable and recycled.

Packaging power

Special packs are often designed for low-risk trial. The Dulux paint company offers mini-pots to enable potential customers to see what the paint colours and textures will look like in the at-home situation. Multiple packs are increasingly found in supermarkets across Europe in a bid to sell more and more alcoholic and non-alcoholic drinks. As a fully integrated marketing communications campaign is usually expensive, many companies pay particular attention to developing effective and efficient packaging. At certain times during the year, the packaging assumes a great deal of

McDonald's burger and fries' cardboard packaging is environmentally friendly
Source: Martin Lee/Alamy Stock Photo.

importance. In the UK, chocolate Easter eggs are presented in elaborately designed packaging and high-value items such as expensive jewellery and watches usually feature expensive packaging.

Distinctive packaging is usually protected in European countries by law to prevent pirating. In the UK, packaging is covered by the 1994 Trade Marks Act. To convey value to the buyer, some companies place their offerings in over-size boxes, which is a practice that can be challenged in the EU.

Labelling

The label may be a simple tag attached to the item or an elaborately designed graphic that is part of the package. It might carry only the brand name, or a great deal of information. Even if the seller prefers a simple label, the legal regulations may require more.[45]

Labels perform five functions:

1. The label *identifies* the product or brand – for instance, the name Jaffa stamped on oranges. It also states the ingredients.
2. The label might also *grade* the item.
3. The label might *describe* the item: who made it, where it was made, when it was made, what it contains, how it is to be used and how to use it safely. Cigarette packs in the UK warn buyers that smoking can damage their health.
4. The labels on food items increasingly *carry messages* about healthy eating.
5. The label might *promote* the product through attractive graphics. New technology allows for 360-degree shrink-wrapped labels to surround containers with bright graphics and accommodate more on-pack product information, replacing paper labels glued on to cans and bottles.

Quality labels usually indicate a quality market offering. Eventually they become outmoded and need freshening up. Companies with labels that have become icons need to tread very carefully when initiating a redesign – see the case of the Campbell Soup Company.

The Campbell Soup Company

The Campbell Soup Company has estimated that the average shopper sees its familiar red-and-white can 76 times a year, creating the equivalent of millions of dollars' worth of advertising. Its label is such an icon that pop artist Andy Warhol immortalised it in one of his silk screens in the 1960s. In 2013, Campbell announced that it had secured a partnership with the Andy Warhol Foundation to produce a limited-edition range of tomato soup cans inspired by the artist's paintings.

The original Campbell's Soup label – with its scripted name and signature red and white – was designed in 1898, and the company did not redesign it until more than a century later, in 1999. With the goal of making the label more contemporary and making it easier for customers to find individual soups, Campbell made the famous script logo smaller and featured a photo of a steaming bowl of the soup flavour. In addition to the new graphic, the company put nutritional information on the packaging, with serving suggestions, quick dinner ideas and coloured bands that identify the six subgroups of condensed soup: that is, creams, broths and so on.[46]

Campbell's soup can
Source: Michael Neelon (misc.)/Alamy.

The company's European business in greater Europe is headquartered in Puurs, Belgium, and includes businesses in Belgium, France, Germany, Russia and Scandinavia. Campbell has production facilities in Puurs, Le Pontet, France, Utrecht, the Netherlands and Lübeck, Germany.

While attractive and clear labelling reinforces a company's brand, it can also be used to mislead potential customers. Some firms claim that their wares are made in the home country, whereas they may be made elsewhere and merely packaged in the domestic market. Some food packs are deliberately scented in order to provide a pleasurable experience when the package is opened. Foods may carry evocative claims such as 'country fresh', or make questionable health claims. In the UK, the Food Standards Agency keeps a wary eye on labelling practice. Throughout Europe, national and EU laws protect consumers from the worst labelling practices.

Warranties and guarantees

Even the best businesses are sometimes faced with a customer who is not satisfied with the goods they have bought or who simply wants their money back. Alongside improved consumer protection legislation, awareness of consumer rights has increased dramatically over the last 30 years – and so have people's expectations of the sort of redress they can expect when the market offerings are not up to an acceptable standard. Anyone in business who provides market offerings should be aware of their obligations to customers.

All sellers are legally responsible for fulfilling a buyer's normal or reasonable expectations. **Warranties** are formal statements of expected product/market offering performance by the manufacturer. Products under warranty can be returned to the manufacturer or designated centre for repair, replacement or refund. Whether expressed or implied, warranties are legally enforceable. Wise companies will extend their warranties if there are good reasons to do so. In some cases they are obliged to do so to retain market credibility if they have been unfavourably exposed by a consumer body.

Extended warranties – are they all they claim to be?

The UK government's Citizens Advice urges people to think carefully about the value for money they are offered by an extended warranty because it is likely to be expensive compared with the amount customers could normally pay out in repair costs. Some people forget that the goods they buy new have a manufacturer's guarantee that usually lasts for one year, so there is no need to buy an extended warranty when they buy the goods.

If consumers decide that they would like a warranty, they do not have to buy one at the shop where they bought the goods. There are a number of firms – including insurance companies and the manufacturers themselves – that sell extended warranties on everyday household goods, from toasters to computers. In some cases they may be cheaper and more comprehensive than retailers' extended warranties. It is now also possible to buy warranties that cover a number of appliances, such as all the electrical equipment in the kitchen. So it is certainly a good idea to shop around for quotes before signing up to a warranty.

The law also requires retailers to provide certain information on warranties they are selling, and consumers may get rights to cancel their extended warranty if they choose to do so.

Source: Competition and Markets Authority (CMA), Extended warranties on domestic electrical goods: Retailers obligations, see www.gov.uk/government/uploads/system/uploads/attachment_data/file/374671/Extended_warranties_retailer_obligations.pdf (accessed October 2018).

Extended warranties can be extremely lucrative for manufacturers and retailers. Despite being regularly challenged in the UK as to their real worth, many retailers still attempt to market them robustly. Electrical appliance stores and home computer shops have become infamous for pushing (bullying) customers into purchasing additional 'peace of mind' cover. Many sellers offer either general or specific guarantees, others offer specific and in some cases extraordinary guarantees:

- The John Lewis Partnership promises that it is 'never knowingly undersold' and if challenged on price will investigate. If the customer is right, it will immediately lower its price.
- Marks & Spencer will exchange clothing items that are found to be the wrong size provided the goods are returned in good condition with the appropriate invoice.
- British Gas guarantees its domestic central heating installations and promises prompt and efficient service if anything goes wrong.

Guarantees reduce the buyer's perceived risk. They suggest that the product is of high quality and that the company and its service performance are dependable. They can be especially helpful when the company or product is not that well known, or when the product's quality is superior to that of competitors.

SUMMARY

1. Because economic conditions change and competitive activity varies, companies normally find it necessary to reformulate their marketing strategy several times during a product's life cycle. Technologies, product forms and brands also exhibit life cycles with distinct stages. The general sequence of stages in any life cycle is introduction, growth, maturity and decline. The majority of products today are in the maturity stage.
2. Each stage of the product life cycle calls for different marketing strategies. The introduction stage is marked by slow growth and minimal profits. If successful, the product enters a growth stage marked by rapid sales growth and increasing profits. There follows a maturity stage in which sales growth slows and profits stabilise. Finally, the product enters a decline stage. The company's task is to identify the truly weak products, develop a strategy for each one and phase-out weak products in a way that minimises the hardship to company profits, employees and customers.
3. Like products, markets evolve through four stages: emergence, growth, maturity and decline. This necessitates coordinated decisions on product mixes, product lines, brands, and packaging and labelling.
4. In planning their market offering, the marketer needs to think through the five levels of the product: the core benefit, the basic product, the expected product, the augmented product and the potential product, which encompasses all the augmentations and transformations that the product might ultimately undergo.
5. Products can be classified in several ways. In terms of durability and reliability, products can be non-durable goods, durable goods or services. In the consumer goods category, products are convenience goods (staples, impulse goods and emergency goods), shopping goods (homogeneous and heterogeneous), speciality goods or unsought goods. In the industrial goods category, products fall into one of three categories: materials and parts (raw materials and manufactured materials and parts), capital items (installations and equipment), or supplies and business services (operating supplies, maintenance and repair items, maintenance and repair services, and business advisory services).
6. Brands can be differentiated on the basis of a number of different product or service dimensions: product form, features, performance, conformance, durability, reliability, repair ability, style and design, as well as such service dimensions as ordering ease, delivery, installation, customer training, customer consulting, and maintenance and repair.
7. Most companies sell more than one product. A product mix can be classified according to width, length, depth and consistency. These four dimensions are the tools for developing the company's marketing strategy and deciding which product lines to grow, maintain, harvest and divest. To analyse a product line and decide how many resources should be invested in that line, product-line managers need to look at sales and profits and market profile.
8. A company can change the product component of its marketing mix by lengthening its product via line stretching (down market, up market, or both) or line filling, by modernising its products, by featuring certain products and by pruning its products to eliminate the least profitable.
9. Brands are often sold or marketed jointly with other brands. Ingredient brands and co-brands can add value, assuming they have equity and are perceived as fitting appropriately.
10. Physical products must be packaged and labelled. Well-designed packages can create convenience value for customers and promotional value for producers. In effect, they can act as 'five-second commercials' for the product. Warranties and guarantees can offer further assurance to consumers.

APPLICATIONS

Marketing debate

With products, is it form or function? The 'form versus function' debate applies in many arenas, including marketing. Some marketers believe that product performance is the be all and end all. Other marketers maintain that the looks, feel and other design elements of products are what really make the difference.

Take a position: product functionality is the key to brand success *versus* product design is the key to brand success.

Marketing discussion

Can products be totally differentiated from services? Can products (i.e. tangible items) and services (intangible items) really be separated from customer-perceived value offerings in contemporary sellers' markets? (See Chapters 3, 10 and 11.)

FURTHER READING

M. E. H. Creusen, G. Gemser and M. Candi (2018) The influence of experiential augmentation on product evaluation, *European Journal of Marketing*, 52(5/6), 925–945.

The aim of this paper is to examine the influence of experiential augmentation on product evaluation by consumers. An important distinction is made between product-related experiential augmentation and experiential augmentation of the environment. Furthermore, the research examines how brand familiarity moderates the effect of experiential augmentation.

The findings of the first experiment indicate that product-related experiential augmentation contributes positively to product evaluation for both an unfamiliar and a familiar brand. Experiential augmentation of the environment influences product evaluation negatively, but only in the absence of product-related experiential augmentation.

The second experiment tests some possible explanations for this negative effect and shows that it occurs only in the case of a familiar brand.

What are the practical implications of these two experiments for marketing managers?

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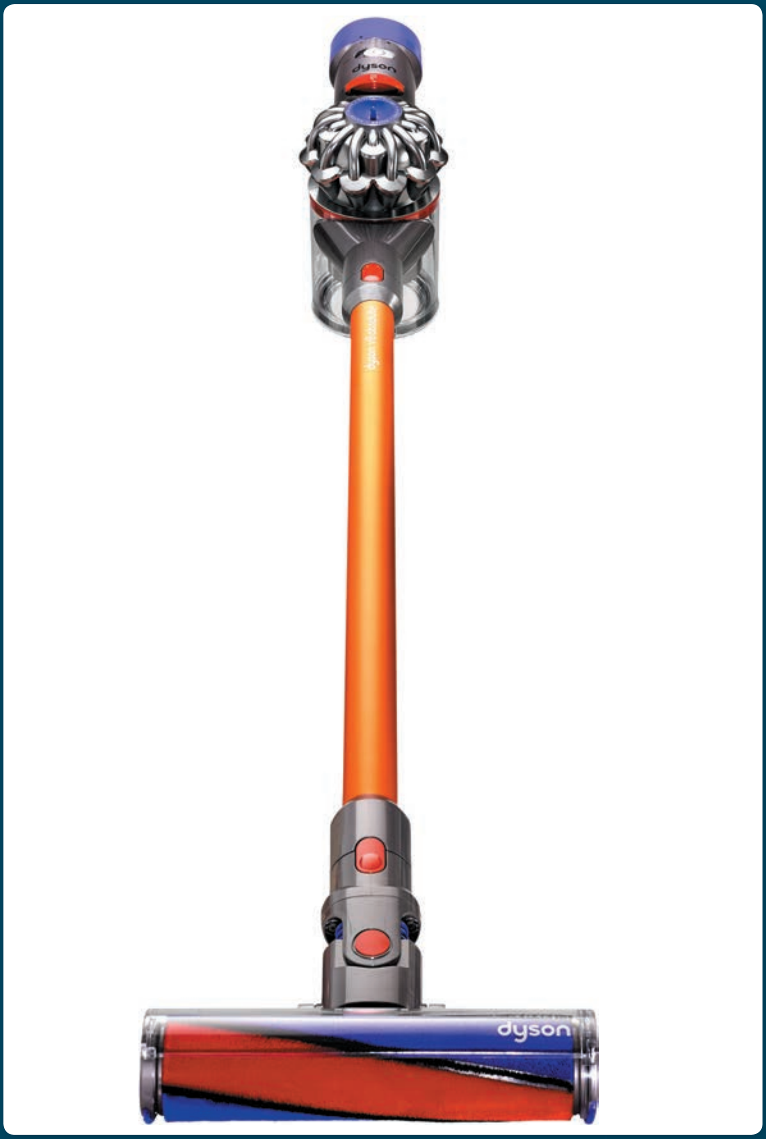
CHAPTER 15
Introducing new market offerings

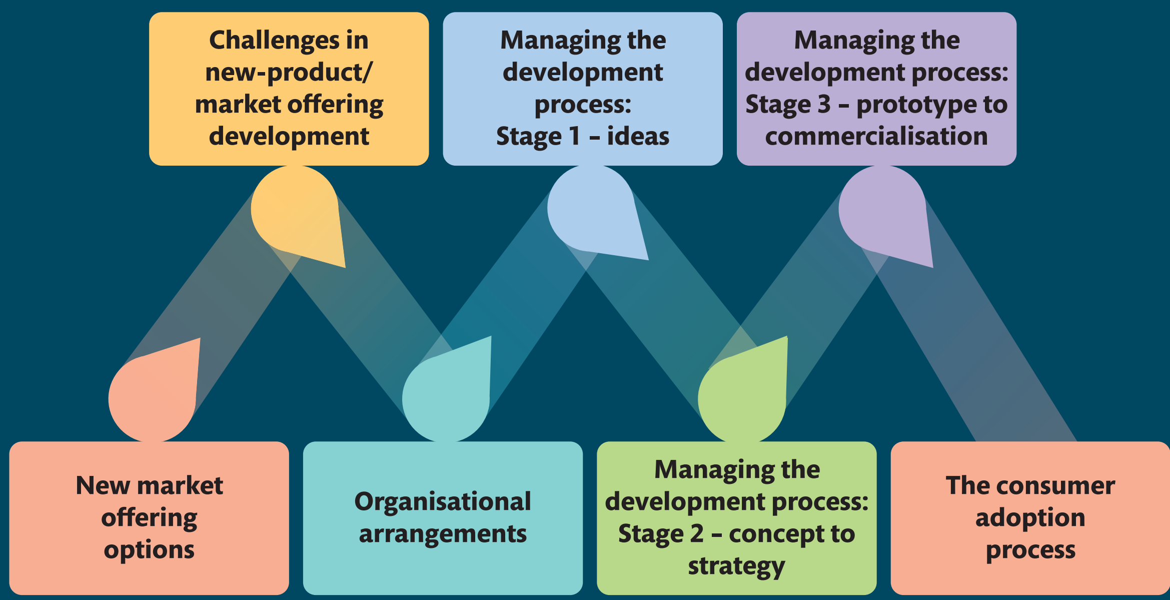
In this chapter, you will learn about the following topics:

1. The challenges a company faces in developing new customer-perceived value (CPV) offerings (products and services)
2. Organisational structures and processes that managers use to develop new market offerings
3. The main stages in developing new market offerings
4. The best way to manage the process of developing new market offerings
5. The factors that affect the rate of diffusion and consumer adoption of newly launched market offerings



Dyson knows the value of innovation and new-product development
Source: Frankie Angel / Alamy Stock Photo

Chapter Journey



Firms all over the world are challenged in highly competitive buyers' markets to innovate products. The term *product* in this chapter, following the argument in Chapter 14, refers to a market offering that is a package of tangible (product) and intangible (service) attributes and benefits. Marketers play a key role in the development of new market offerings by identifying and evaluating new ideas and working with R&D personnel and other functional areas in every stage of development. Companies need to grow their revenue by developing new market offerings and by expanding into new markets. New-product development shapes the company's future. Improved or replacement products can maintain or build sales; new-to-the-world products can transform industries and companies and change lives. However, the low success rate of new market offerings points to the many challenges involved.

Look how Sir James Dyson has approached, and is still approaching, this all-important task. To encourage and to improve the speed of development of new product innovations Sir James Dyson, who invented the 'bagless' vacuum cleaner, remains keen to encourage design and engineering education and training, despite having his plans for a school turned down when the UK government rejected his funding bid in 2008. The main Dyson website carries an invitation for young would-be engineers to spend some time with the company and learn what they do.

The dual cyclone 'bagless' cleaner took five years to develop and it was a further two years before Sir James managed to obtain financial backing in Japan. Using income from the Japanese licence, he began to manufacture a new model under his own name in the UK in 1993. The new concept and colourful design of his cleaners resulted in much popular acclaim. In addition to the cleaners, Sir James has a number of other inventions carrying his name, including the Sea Truck, the award-winning Ballbarrow, as well as the Trolleyball – a trolley that makes it easier to launch boats, and the less successful Wheelboat, which can travel at speeds of up to 64km/h on both land and water. To revive falling sales in the vacuum cleaner business in 2005, Sir James incorporated his Dyson Ball technology into a new version of the Dyson vacuum cleaner principle to create the more manoeuvrable DC25 model. This offers the tried-and-trusted benefits from Root Cyclone technology and is easy to operate as it has no wheels and can pivot easily round awkward corners as it cleans. In the Spring of 2018, Dyson announced that it was stopping any further development of corded machines as its invention of a small and powerful cyclone motor has enabled the company to exploit the cordless vaccum market.

However, Dyson has suffered several setbacks on its way to becoming an iconic company. Sir James advises companies: 'Enjoy failure and learn from it. You can never learn from success.' The most notable was the early failure of the company's venture into the washing machine market. After making heavy losses, the company pulled out of the market.

Sir James established his Foundation in 2002 and hopes that his enthusiastic support of the need to train new designers and engineers will raise the flag in the UK. The Foundation plays an active role in supporting the training of engineers in schools and will do much to reclaim some of the lost appeal following the company's decision, for economic reasons, to move its manufacturing base from the UK to Malaysia.[1]

New market offering options

The following sections review several ways in which companies innovate as they strive to achieve an evolving portfolio of new market offerings. Is there one best way to manage this process that involves specific managers and executives? Or perhaps the creation of new market offerings is really about a coordinated effort involving everyone within the company as well as key organisations in the company's value chain?

The US guru Peter Drucker believed that a continual determination to develop new products was crucial for all organisations:

> **If the prime purpose is to create a customer, the business has two – and only two – functions: marketing and innovation. Marketing and innovation produce results. Everything else is a cost.[2]**

Make or buy?

A company can add new market offerings through acquisition or by innovative development. The acquisition route can take three forms: the company can buy other companies, it can acquire patents from other companies, or it can buy a licence or franchise from another company. However, firms can make only so many acquisitions successfully. At some point, there becomes a pressing need for *organic growth* – the development of new products from within the company. New offerings can evolve within the organisation or independent researchers or specialist agencies can be contracted to develop specific new ones or provide new technology. Many firms have engaged consultants to provide fresh insights and different points of view.[3]

Types of new product

New offerings range from completely new items that create an entirely new market at one end, to minor improvements or revisions of existing products at the other. Most new product development activity is devoted to the improvement of existing products. Some of the most successful new consumer products in recent years have been brand extensions.

In many categories, it is becoming increasingly difficult to identify high-potential products that will transform a market. However, continuous innovation to improve customer satisfaction can force competitors to retaliate.[4] Continually launching new products as brand extensions into related offering categories can also broaden the brand meaning. Adidas started as a running-shoe manufacturer but now competes in the sports market with all types of athletic shoes, clothing and equipment. Product innovation and effective marketing programmes have allowed these firms to expand their 'market footprint'.

Comparatively few new products are truly innovative and so really new. Those that are incur the greatest cost and risk because they are new to both the company and the marketplace.[5] Radical innovations can strain the company's profit performance in the short term, but their successful addition to a company's portfolio of products can create a greater sustainable competitive advantage than existing conventional products. Companies typically must create a strong research and development (R&D) and marketing partnership to achieve radical innovations.[6] Few reliable techniques exist for estimating demand for these innovations. Focus groups will provide some perspectives on customer interest and need, but marketers may need to use a 'probe and learn' approach based on observation and feedback of early users' experiences and other suitable means.[7]

Many high-tech firms strive for radical innovation.[8] High-tech covers a wide range of industries – telecommunications, computers, consumer electronics, biotech and software. High-tech marketers face a number of challenges in launching their products: high technological uncertainty, high market uncertainty, high competitive volatility, high investment costs, short product life cycles and difficulty in finding funding sources for risky projects.[9]

Challenges in new-product/market offering development

In the past, the major driver of growth for business has been the exploitation of specific technologies. Electricity, the internal combustion engine, domestic running water, sewerage, radio and the telephone, chemical and petroleum constituted the second industrial revolution (the first being the age of steam). Now companies are living in the age of the third industrial revolution: the age of information, driven by the computer, micro-electronics and the internet. This is unlikely to result in the same rates of growth as the second revolution heralded. So, companies relying on natural growth have to turn to innovation and this means realising the importance of creativity and innovation. New product introductions have accelerated in recent years. In many industries, such as retailing, consumer goods, electronics and cars, the time it takes to introduce products has been halved.[10] Luxury leather-goods maker Louis Vuitton implemented a new factory format dubbed Pégase so that it could ship fresh collections to its boutiques every six weeks – more than twice as frequently as in the past – offering customers a choice of more and newer 'looks'.[11]

The innovation imperative

In strong buyers' markets many products fall into decline – as a result of technological developments, severe competition, changing market and societal factors, and customer purchase experiences – making innovation a necessity. Highly innovative firms are able to identify and quickly seize new market opportunities. The Boston Consulting Group publishes a report each year identifying the world's 50 most innovative companies. The ranking is a function of the perspectives of 1,500 senior global innovation executives as well as the companies' financial performance. In 2018, 14 of the 50 leading innovators were based in Europe[12]. There was a notable shift towards digitally enhanced value propositions for differentiation and digitally enabled processes. Innovative firms create a positive cultural attitude towards innovation and risk taking, streamline the innovation process, practise teamwork and allow people to experiment and even fail. Organisational resources need to be assigned to new product development and effectively planned in order for innovation to flourish.

Bayer

Innovation – basis of growth and prosperity

Bayer is continually seeking innovative solutions to generate added value for customers and society in the fields of health and nutrition. The company boasts the largest research and development budget of the entire chemical and pharmaceutical industry in Germany and also supports political frameworks to foster innovation in Europe and beyond.[13]

Companies that fail to develop new products put themselves at risk. Their existing offerings are vulnerable to changing customer needs and tastes, new technologies, shortened life cycles and increased domestic and foreign competition. New technologies are especially threatening. Kodak has worked hard to develop a new business model and product-development processes that work well in a digital photography world. Its new goal is to do for photos what Apple does for music by helping people to organise and manage their personal libraries of images. Table 15.1 shows the company's philosophy of innovation and transformation.

A new strategy, corporate venturing, is interesting large corporations as it provides an opportunity to balance entrepreneurship and strategy by investing in innovative start-ups.

New product/market offering success

Most established companies focus on incremental innovation. This can allow companies to enter new markets by adapting existing market offerings for new customers, use variations on a core product to stay one step ahead of the market and create interim solutions for industry-wide problems.[14]

Newer companies can create disruptive technologies that are often cheaper and likely to challenge the competitive space. Established companies can be slow to react or to invest in these disruptive technologies because they threaten their existing business. As a result, they may find themselves facing formidable new competitors, and many fail. Lepore challenged the disruptive innovation theory developed by Christensen in 2014 by questioning the validity of the examples that were often quoted to justify the theory.[15] To avoid the risk of failure, both newer and existing firms must carefully monitor the preferences of both customers and potential customers to discover new viable market opportunities.[16]

New products (whether incremental or radical) are risky and success can never be certain. Marketers should determine if:

- their new product offering is both unique and superior;
- they have a well-defined product concept that is thoroughly market researched;
- their company has a sustainable technological advantage;
- the new offering has market appeal and will boost the company's prestige.

The modern market environment is global and firms should not lose sight of the importance of designing new market offerings for export markets. A study of small and medium-sized firms in Finland, Germany, Japan, South Korea and South Africa found that committed management leadership resulted in significant success in foreign markets. The implication is that companies should adopt an international focus in designing and developing new products.[17]

New product/market offering failure

New products continue to fail at a disturbing rate.[18] Failure can result for many reasons: (see Table 15.2).

Table 15.1 Kodak's seven notions of innovation

1	See the future through the eyes of your customer.
2	Intellectual property and brand power are key assets.
3	Use digital technology to create tools for customers.
4	Build a championship team, not a group of champions.
5	Innovation is a state of mind.
6	Speed is critical, so push your organisation.
7	Partner up if you're not the best in something.

Source: Based on S. Hamm and W. C. Symonds (2006) Mistakes made on the road to innovation, *BusinessWeek*, *Inside Innovation*, November, 27–31.

Table 15.2 Reasons why new products fail

Reason	See Chapter/s
Ineffective strategic and functional management	2, 3, 21
Poor market research	6
Poor design	14
High development costs	15
Incorrect positioning	10
Ineffective branding	12
Poor marketing communications	17 and 18
Incorrect pricing strategy	16
Poor logistics	19
Fierce competition	9

Exercise: What else might cause new products to fail
Source: M. R. V. Goodman, AJM Management Development

Some additional factors hindering new product development are:

- **Shortage of important ideas in certain areas.** There may be few ways left to improve some basic markets (such as steel or detergents).
- **Fragmented markets.** Companies must aim their new products at smaller market segments and this can mean lower sales and profits for each product.

Failure comes with the task, and truly innovative firms accept it as part of what is required to be successful. Many web companies are the result of failed business ventures and experience numerous failed initiatives as they evolve their products and services. Initial failure is not always the end of the road for an idea.[19] Recognising that 90 per cent of experimental drugs fail, ethical pharmaceutical companies have established a corporate culture that looks at failure as an inevitable part of discovery, and scientists are encouraged to look for new uses for compounds that fail at any stage in a human clinical trial. Google called an end to the Glass smart eyewear commercialisation in January 2015 and referred the project for further R&D.[20]

Organisational arrangements

Many companies use customer-driven engineering to design new market offerings. This strategy attaches high importance to incorporating customer value preferences in the final design.

New product development requires senior management to define business domains, product categories and specific criteria for success. Most importantly, they need to be willing to devote significant financial and management support over the medium to long term. For example, Siemens VAI, one of the largest metallurgical firms in the world, took 12 years to develop Corex, a direct reduction technology for iron production that cuts costs and improves the production environment.

Budgeting for new product development

Senior management also need to decide how much to budget for new product development. R&D outcomes are so uncertain that it is difficult to use normal investment criteria. Some companies solve this problem by financing as many projects as possible, hoping to achieve a few winners. Other companies apply a conventional percentage-of-sales figure or spend what the competition

Xerox

Xerox traditionally developed new products as many firms did in the past: come up with an idea, develop a prototype and get some consumer feedback. When Xerox researchers first came up with the idea for a dual-engine commercial printer, they decided to first go straight to the consumer to collect feedback before even developing any prototypes. Lucky they did. Although the Xerox team thought customers would want a second engine for special purposes, the fact that the second engine would be a back-up if the main engine failed turned out to be the biggest draw. In introducing the dual-engine Nuvera 288 Digital Perfecting System in April 2007, 'customer-led innovation' was cited as a critical driver. Xerox now believes in **brainstorming**, or 'dreaming with the customer', by combining company experts who know technology with customers who know the problem areas and what the most valuable product features can be. In addition, scientists and engineers are encouraged to meet face to face with customers, in some cases working on-site for a few weeks to see how customers interact with products. To further support the customer experience, Xerox continued to develop and deploy relevant products in 2013, like its multifunction printers enabled with ConnectKey® technology, 'which have seen sales of more than 200,000 units so far. We also had our best year ever for sales of our iGen® family of production colour printers – including a mega-win with one of the world leaders in personalised photo products and services.'

Xerox is benefiting from innovation and is stretching the boundaries of what is possible in digital printing of course, but it is also creating agile business processes, transforming data into decisions, making personalisation pervasive and enabling the sustainable and mobile enterprise. It has hundreds of scientists, engineers and researchers around the world, not only making current offerings better, but also working closely with clients to identify problems and find simple ways to solve them.[21]

Unilever

Unilever champions innovation to widen consumer choice and thus give it a consistent competitive edge. Over 6,000 R&D professionals in the company's six main R&D centres in the US, UK, Netherlands, India and China are charged with building the company's brands through innovation. Each year about €1 billion is spent on R&D.

Unilever's R&D test kitchen in the Netherlands is one of its centres of culinary expertise. Its chefs create ideas for new products, recipes and product demonstrations for its Food Solutions professional catering business, as well as providing culinary training for employees. The company aims to provide consumers with choice in terms of product varieties, such as low-fat and low-sugar versions of its ice creams, and low-fat versions of its margarines. Unilever also invests in developing new products with added health and nutrition benefits.

The work is led by the Unilever Food and Health Research Institute, which employs around 450 scientific staff and collaborates with external experts on product innovation and enhancement. The Institute is part of the company's wider commitment to research and development across both its Foods and Home and Personal Care categories.

Here are some examples of recent innovations.

Knorr fresh meal kit

The European meal kits sector is a strong growth market and in October 2017 Unilever launched its own meal kit and recipe box product under its Knorr brand portfolio. At the same time, it launched a trial meal kit delivery service in the Netherlands with online retailer Picnic.

Trialling new product offerings. Bon appetite!
Source: Paul Maguire/Alamy Stock Photo

Verve

Verve is a premium laundry range that launched in the UK at the London Fashion Week Festival in February 2017. Verve is promoted as an anti-ageing kit for clothes and the kit consists of four products: a pack of capsules, conditioner, fabric serum and misting refresh spray.

Source: *Campaign* (2017) https://www.campaignlive.co.uk/article/unilever-were-launching-local-innovations-ever/1447812.

spends. Still other companies decide how many successful new products they need and work backwards to estimate the required investment. In all cases, new product development is expensive as several ideas need to be generated and screened for their potential in order to identify one strong runner.

Success rates vary. Inventor Sir James Dyson claims he made 5,127 prototypes of his bagless, transparent vacuum cleaner before finally achieving success. However, he does not regret his failures: 'If you want to discover something that other people haven't, you need to do things the wrong way . . . watching why that fails can take you on a completely different path.' Dyson announced in 2018 that it was ceasing to further develop corded vacuums, opting to step-up research in cordless machines.[22]

Organising new product/market offering development

Companies handle the organisational aspect of new-product development in several ways. Many assign responsibility for new ideas to product managers. However, product managers are often so busy managing existing lines that they give little thought to new projects other than line extensions.[23] They also lack the specific skills and knowledge needed to develop and critique potential new products. Some companies have a *high-level management committee* charged with reviewing and approving proposals. Large companies often establish a new product development department headed by an executive who has direct access to top management. The department's major responsibilities include generating and screening new ideas, working with the R&D department and carrying out field testing and final marketing.

Some companies assign new product development work to **venture teams** – cross-functional groups charged with developing a specific product or business. These 'intrapreneurs' are relieved of their other duties and given a budget, time frame and 'skunkworks' setting. (*Skunkworks* are informal workplaces, sometimes garages, where intrapreneurial teams attempt to develop new products.) Cross-functional teams can collaborate and use concurrent new-offering development to push new offerings to market.[24] Concurrent product development resembles a football match, with team members passing the new market offering back and forth as they head towards the goal.

Many top companies use the *stage-gate system* to manage the innovation process.[25] The system enables companies to strike a considered balance between entrepreneurial and business acumen. They divide the process into stages, at the end of each being a gate or checkpoint. The project leader, working with a cross-functional team, must bring a set of known deliverables to each gate before the project can pass to the next stage. To move from the business plan stage into offering development requires a convincing market research study of consumer needs and interests, a competitive analysis and a technical appraisal. Senior managers review the criteria at each gate to make one of four decisions: *go*, *kill*, *hold* or *recycle*. Stage-gate systems make the innovation process visible to everyone involved and clarify the project leader's and team's responsibilities at each stage.[26]

The stages in the new product development process are shown in Figure 15.1. Many firms have parallel sets of projects working through the process, each at a different stage. Think of the process

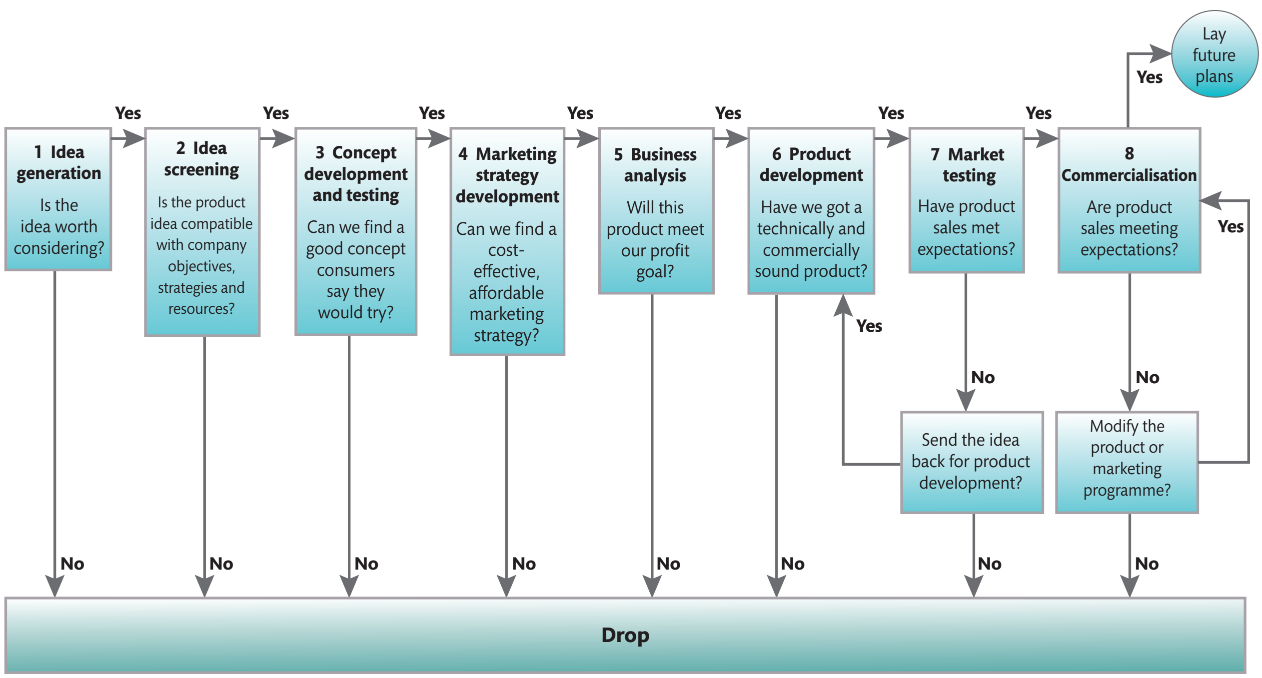


Figure 15.1 The new product development decision process

as a *funnel*: a large number of initial new product ideas and concepts are reduced to a fewvww high-potential products that are ultimately launched. However, the process is not always linear. Many firms use a *spiral development process* that recognises the value of returning to an earlier stage to make improvements before moving forward.

Managing the development process: Stage 1 – ideas

Process stages

Introducing a new product to the marketplace requires a firm to manage three process activities:

1 Managing idea generation and screening.
2 Managing activities as selected ideas develop from concepts to strategy, paying particular attention to concept development and timing, marketing strategy development and business analysis.
3 Managing the introduction of the new offering to the marketplace, with particular reference to product development, market testing and commercialisation.

Idea generation

The new product development process starts with the search for ideas. Some marketing experts believe the greatest opportunities and best advantages with new market offerings are found by uncovering the best possible set of unmet customer needs or technological innovations.

Inventions and innovations

The term 'invention' traditionally refers to turning money into ideas; innovation is turning ideas into money. There is a fine line between these two essential new product activities. Patent offices provide a testimony to the creative activity of individuals. Some are just interesting ideas that inventors have patented. Inventions that are taken up by businesses and developed from ideas to products that are capable of being marketed have to meet real customer needs if they are to become innovations. Innovation is the first practical application of a new mode of thought that can generate a better solution to an existing need (for example, the invention and subsequent commercialisation of electric washing machines revolutionised domestic clothes washing) or completely transform traditional practices (in the way mobile phones have done).

In many ways, the days of the mad inventor have given way to the age of innovation, and existing ideas are being improved and applied more efficiently to meet known and perceived customer needs. New presentations of existing technology through clever design are increasingly capturing customers' attention and becoming 'must-have' items.

Ideas can come from interacting with various groups and using creativity-generating techniques (see 'Marketing in practice' box).

Marketing in practice

Ten ways to find great new product ideas

1 Run informal sessions where groups of customers meet with company engineers and designers to discuss problems and needs and brainstorm potential solutions.
2 Allow time off – scouting time – for technical people to discuss their own pet projects.
3 Make a customer brainstorming session a standard feature of plant tours.
4 Survey your customers: find out what they like and dislike in your and your competitors' products.
5 Encourage spontaneous ideas and hold idea-generating away-day meetings with key customers.
6 Use iterative rounds: a group of customers in one room, focusing on identifying problems, and a group of technical people in the next room, listening and brainstorming solutions.

Immediately test proposed solutions with the group of customers.

7 Set up a keyword search that routinely scans trade publications in multiple countries for new offering announcements.

8 Treat trade shows as intelligence missions, where you view all that is new in your industry under one roof.

9 Have your technical and marketing people visit your suppliers' labs and spend time with their technical people – find out what's new.

10 Set up an ideas workshop, and make it open and easily accessed. Allow employees to review the ideas and add constructively to them.

Source: Adapted from R. Cooper (1998) *Product Leadership: Creating and Launching Superior New Products*, New York: Basic Books. Copyright © 1998 Robert G. Cooper. Reprinted by permission of Basic Books, a member of the Perseus Books Group.

Interacting with others

Encouraged by the **open innovation** movement, many firms are increasingly going outside the company to gather sources of new ideas,[27] including from customers, employees, scientists, engineers, channel members, marketing agencies, top management and even competitors.

A true innovation is a market offering that brings a new solution to consumers' problems by presenting and achieving more customer-perceived value than the usual solution, or by offering a totally different conceptual solution. A better conventional vacuum cleaner or a cordless model? The Dyson engineers are seeking to make the company's vacuum machines smaller, cordless and easier to handle while keeping, and if possible improving on, their performance. The Gallup Organisation has produced a series of audits or 'Innobarometers' to assist the EU civil service and politicians to audit the degree of innovation evident within the EU member states. The Innobarometer 2018 researched 'the experience of European managers in innovative activities'.

The 2018 Innobarometer survey (see Table 15.3) presents some summary data of twelve EU countries, showing how they altered their expenditure on innovation as a result of the economic downturn.

Customer needs and wants are the logical place to start the search for new ideas.[28] One-to-one interviews and focus group discussions can explore needs and reactions. The traditional company-centric approach to innovation is giving way to a world in which companies co-create products with their customers.[29] Companies are increasingly turning to 'crowdsourcing' – a term first defined by Howe of *Wired* magazine in 2005, to generate new ideas and to create consumer-generated marketing campaigns. Crowdsourcing is a means of inviting the internet community to help create content or software, often with prize money or a celebratory moment involved. This strategy has helped create new offerings and companies such as Wikipedia and Google's popular video website YouTube.

Regular users of a product can be a good source of input when they innovate without the consent or even the knowledge of the companies that produce them. Mountain bikes developed as a result of young people taking their bicycles up to the top of a mountain and riding down. When the bicycles broke, the young riders began building more durable machines and adding such things as motorcycle brakes, improved suspension and accessories. The young cyclists, not the companies, developed these innovations. Some companies, particularly those that want to appeal to young consumers, bring the lead users into their product design process.[30]

Technical companies can learn a great deal by studying customers who make the most advanced use of the company's products and who recognise the need for improvements before other customers do. Employees throughout the company can be a source of ideas for improving production, and development of new products and services. Toyota claims its employees submit 2 million ideas annually (about 35 suggestions per employee), more than 85 per cent of which are implemented. Many firms, such as Kodak and Oticon[31] (the Danish hearing aid company), give monetary, holiday or other recognition awards to employees who submit the best ideas.

A company can motivate its employees to submit new ideas to an ideas manager, whose name and phone number are widely circulated, or by means of the traditional suggestion box. Internal brainstorming sessions also can be quite effective – if they are conducted correctly. The Marketing in practice box gives some research guidelines.

Table 15.3 European Innovation Scorecard 2018

Country	Ranking	Summary Innovation Index
INNOVATION LEADERS		
Sweden	1	0.71
Denmark	2	0.67
Finland	3	0.65
Netherlands	3	0.65
UK	4	0.61
Luxembourg	4	0.61
STRONG INNOVATORS		
Germany	5	0.60
Belgium	6	0.59
Ireland	7	0.58
Austria	7	0.58
France	8	0.56
EU average		0.50
Slovenia	9	0.47
MODERATE INNOVATORS		
Czech Republic	10	0.42
Portugal	11	0.41
Malta	12	0.40
Spain	12	0.40
Estonia	12	0.40
Cyprus	13	0.39
Italy	14	0.37
Lithuania	15	0.36
Hungary	16	0.33
Greece	16	0.33
Slovakia	17	0.32
Latvia	18	0.29
Poland	19	0.27
Croatia	20	0.26
WEAK INNOVATORS		
Bulgaria	21	0.23
Romania	22	0.16

Source: Adapted from European Scoreboard 2018; https://interactivetool.eu/f/extensions/DGGROW4/EIS_2.html#d; published 2017.

Marketing in practice

Seven ways to draw new ideas from your customers

1 Observe how your customers are using your products.

2 Ask your customers about their problems with your products.

3 Ask your customers about their dream goods. Ask your customers what they want your product to do, even if the ideal sounds impossible.

4 Use a customer advisory board to comment on your company's ideas.

5 Use websites for new ideas. Companies can use specialised search engines to find blogs and postings relevant to their businesses.

6 Form a brand community of enthusiasts who discuss your offerings. Sony engaged in collaborative dialogues with consumers to co-develop its PlayStation 2. LEGO draws on children and influential adult enthusiasts for feedback on new product concepts in the early stages of development.

7 Encourage or challenge your customers to change or improve your products. BMW posted a toolkit on its website to let customers develop ideas using telematics and in-car online services.

Source: From an unpublished paper, P. Kotler (2007) Drawing new ideas from your customers.

Marketing insight

Reckitt Benckiser's connect-and-develop approach to innovation

Since its creation in 1999 through the merger of the UK's Reckitt & Colman and Benckiser of Germany, this company has grown impressively. In 2013, revenues of £10,043 million were achieved, together with profits of £2,616 million. The company has achieved this by fostering an innovative approach that has developed several new products that customers never knew they needed. So where do these ideas come from? According to the company's chief executive during this period, Bart Becht: 'Consumers will generally not come up with the next innovation. So, the company tries to have ideas that target consumers in specific areas. Then they screen them. They go through literally thousands of ideas every quarter. Then they ask consumers about the ideas.'

To ensure that consumers know about these ideas, Reckitt Benckiser spends over 12 per cent of its entire revenue on media and significantly more when other aspects of marketing are included, such as education programmes, marketing to professionals and PR.

The key word, never omitted from any Reckitt Benckiser presentation, is 'powerbrands'. The company continues to benefit from its strategic focus on the health and hygiene market sectors. Well-known brands in the UK include Veet hair remover, Durex, Dettol, Nurofen, Strepsils, Calgon, Vanish, Woolite, Cillit Bang, Harpic, Finish, Air Wick, Lemsip, Gaviscon and Scholl.

An important contributor to the company's success has been its development of a strong innovative culture across all of its branded offerings. The company seeks to generate 40 per cent of its revenues from market offerings/products launched in the previous three years. Its culture values swift decision making, innovation and a focus on financial results. Managers' pay is closely linked to individual performance and – to foster teamwork – to that of their colleagues.

Cillit Bang is a good example of well-known technology that has been given a new set of clothes and a clever slogan that most people remember.

Sources: *Campaign* (2014) Reckitt Benckiser to focus on 'power-brands' with a centralised marketing set up; Company annual report (2016) https://www.rb.com/media/2473/rb-annual-report-2016-no-spine.pdf.

Companies can find good ideas by researching the market offerings of competitors and other companies. They can find out what customers like and dislike about competitors' products. They can buy their competitors' products, analyse them and build better ones. Company sales representatives and intermediaries are a particularly good source of ideas. These groups have first-hand exposure to customers and are often the first to learn about competitive developments.

Marketing in practice

How to run a successful creative problem-solving session

Group creative problem-solving (CPS) sessions have much to recommend them, but also some drawbacks. If carried out incorrectly, they can frustrate and antagonise participants; if carried out correctly, however, they can create insights, ideas and solutions that would have been impossible without everyone's participation. To ensure success, experts recommend the following guidelines:

1 There should be a trained facilitator to guide the session.

2 Participants must feel that they can express themselves freely.

3 Participants must see themselves as collaborators working towards a common goal.

4 Rules need to be set up and followed, so conversations do not stray.

5 Participants must be given proper background preparation and materials so that they can get into the task quickly.

6 Individual sessions before and after the CPS workshop can be useful to think and learn about the topic ahead of time as well as to reflect afterwards on what happened.

7 CPS sessions must lead to a clear plan of action and implementation, so the ideas that materialise can provide tangible value.

8 CPS sessions can do more than just generate ideas – they can help build teams and leave participants better informed and energised.

Sources: Based on L. Tischler (2007) Be creative: You have 30 seconds, *Fast Company*, May, 47–50; see also M. Goodman and S. M. Dingli (2017) *Creativity and Strategic Innovation Management*, 2nd edn, Abingdon: Routledge.

Top management can be another major source of ideas. Some company leaders, such as Paul Otellini, the former CEO of Intel, take personal responsibility for technological innovation in their companies. Otellini diversified Intel beyond its traditional core microprocessor business and presided over the company's nascent efforts into phones.[32] Ideas can come from inventors, patent lawyers, university and commercial laboratories, industrial consultants, advertising agencies, marketing research firms and industrial publications. However, although ideas can flow from many sources, their chances of receiving serious attention often depend on whether the company has a formal screening system and new offering responsibility.

Understanding creativity

Creativity could provide a solution to the problem facing companies searching for growth in today's markets, where the age of unlimited natural growth is over as the third industrial revolution impacts on businesses. Traditionally, many in management are suspicious of creativity, often regarding it as a childish and wasteful activity. Creativity is about more than just a compelling image or copy: marketers can make a greater impact by taking into account and appealing to all the senses. This attitude towards creativity must change if companies want to survive in the digital era. Part of the problem is a lack of understanding of just what creativity is all about. It could be said that creativity is taking a number of known assets and rearranging them in a way that sparks the imagination. The iPhone is a great example of this. It had nothing in it that was new when it was launched; what Apple did was brilliantly rethink what a mobile device was for. This was a classic example of creativity. So how might companies try their hand at rethinking?

Creativity techniques

The following list presents a sample of techniques for stimulating creativity in individuals and groups:[33]

- **Attribute listing.** List the attributes of an object, such as a screwdriver. Then modify each attribute, such as replacing the wooden handle with plastic, providing torque power, adding different screw heads and so on.
- **Forced relationships.** List several ideas and consider each in relation to the others. In designing new office furniture, for example, consider a desk, bookcase and filing cabinet as separate ideas. Then imagine a desk with a built-in bookcase, or a desk with built-in files, or a bookcase with built-in files.
- **Morphological analysis.** Start with a problem, such as 'getting something from one place to another via a powered vehicle'. Now think of dimensions, such as the type of platform (cart, chair, sling, bed), the medium (air, water, oil, rails) and the power source (compressed air, electric motor, magnetic fields). By listing every possible combination, many new solutions can be generated.
- **Reverse-assumption analysis.** List all the normal assumptions about an entity and then reverse them. Instead of assuming that a restaurant has menus and charges for and serves food, reverse each assumption. The new restaurant may decide to serve only what the chef bought that morning and cooked; it may provide some food and charge only for how long the person sits at the table; or it may design an exotic atmosphere and rent out the space to people who bring their own food and beverages.
- **New contexts.** Take familiar processes, such as people-helping services, and put them into a new context. Imagine helping dogs and cats instead of people with daycare service, stress reduction, psychotherapy, animal funerals and so on. As another example, instead of sending hotel guests to the front desk to check in, greet them at the kerb side and use a wireless device to register them.

A cyber café: cafeteria + internet
Source: Maksym Azovtsev/Shutterstock

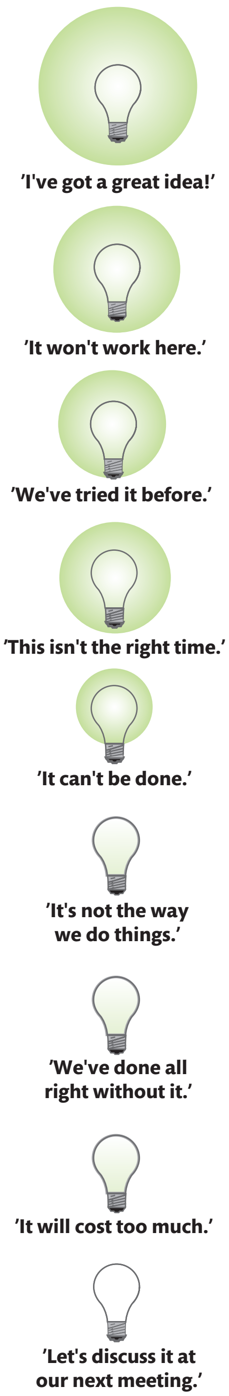


Figure 15.2 Forces fighting new ideas
Source: Jerold Panas, Young & Partners. Reproduced with permission.

- **Mind mapping.** Start with a thought, such as a bathroom, write it on a piece of paper, then think of the next thought that comes up (say, comfort); link it to a bathroom, then think of the next association (say, steamy room); then link it to the next association (say, reading) and do this with all associations that come up with each new word. Perhaps a whole new idea will materialise – such as steam-resistant reading material!

Increasingly, ideas arise from *lateral marketing* that combines two CPV concepts or ideas to create a new offering. Here are some successful examples:

- petrol station shops = petrol stations + food
- cyber cafés = cafeteria + internet
- cereal bars = cereal + snacking
- Kinder Surprise = confectionery + toy
- cordless vacuum cleaner = portable + battery powered.

Idea screening

In screening ideas the company must avoid two types of error: a DROP-error and a GO-error. The former occurs when the company dismisses a good idea. It is extremely easy to find fault with other people's ideas (see Figure 15.2). Some companies shudder when they look back at ideas they dismissed or breathe sighs of relief when they realise how close they came to dropping what eventually became a huge success. The former was the case with the *Harry Potter* books.

A *GO-error* occurs when the company permits a poor idea to move into development and commercialisation. An *absolute product failure* loses money; its sales do not cover variable costs. A *partial product failure* loses money, but its sales cover all its variable costs and some of its fixed costs. A *relative product failure* yields a profit lower than the company's target rate of return.

The purpose of screening is to drop poor ideas as early as possible. The rationale is that development costs rise substantially with each successive development stage. Most companies require ideas to be described on a standard form for a review. The description states the idea, the target market and the competition, and roughly estimates market size, product price, development time and costs, manufacturing costs and rate of return.

The executive committee then reviews each idea against a set of criteria. Does the product meet a need? Would it offer superior in-use value? Can it be distinctively advertised? Does the company have the necessary know-how and capital? Will the new product deliver the expected sales volume, sales growth and profit? Consumer input may be necessary to tap into marketplace realities to answer some of these questions.[34]

Management can rate the surviving ideas using a weighted-index method, such as that in Table 15.4. The first column lists factors required for successful product launches and the second column assigns importance weights. The third column scores the product idea on a scale from 0 to 1.0, with 1.0 being the highest score. The final step multiplies each factor's importance by the product score to obtain an overall rating. In this example, the product idea scores 0.69, which places it on the 'good idea' level. The purpose of this basic rating device is to promote systematic evaluation and discussion – it is not supposed to make the final decision for management.

Table 15.4 Product-idea rating device

Product success requirements	Relative weight (a)	Product score (b)	Product rating (c) = (a) × (b)
Unique or superior product	0.40	0.8	0.32
High performance-to-cost ratio	0.30	0.6	0.18
High marketing euro support	0.20	0.7	0.14
Lack of strong competition	0.10	0.5	0.05
Total	1.00		0.69a

a = rating scale: .00–.30 poor; .31–.60 fair; .61–.80 good. Minimum acceptance rate: .61

As the idea moves through development, the company will constantly need to revise its estimate of the product's overall probability of success, using the following formula:

Overall probability of success = Probability of technical completion × Probability of commercialisation given technical completion × Probability of economic success given commercialisation

For example, if the three probabilities are estimated as 0.50, 0.65 and 0.74, respectively, the overall probability of success is 0.24. The company must then judge whether this probability is high enough to warrant continued development.

Managing the development process: Stage 2 – concept to strategy

Attractive ideas must be refined into testable product concepts. An *idea* is a possible market offering that the company might introduce to the market. A *product concept* is a statement of the idea expressed in customer-perceived value terms.

Concept development and testing

Concept development

This can be illustrated by considering concept development as follows: a large food-processing company has the idea of producing a powder to add to milk to increase its nutritional value and taste. This is a product *idea*, but customers do not buy such ideas, they buy product *concepts*.

A product idea can be turned into several concepts. The first question is: who will use this product? The powder can be targeted at infants, children, teenagers, young or middle-aged adults or older adults. Second, what primary benefit should this product provide? Taste, nutrition, refreshment, energy? Third, when will people consume this drink? Breakfast, mid-morning, lunch, mid-afternoon, dinner, late evening? By answering these questions, a company can form several concepts:

- **Concept 1:** an instant breakfast drink for adults who want a quick, nutritious breakfast without preparation.
- **Concept 2:** a tasty snack for children to drink as a midday refreshment.
- **Concept 3:** a health supplement for older adults to drink in the late evening before they go to bed.

Each concept represents a *category concept* that defines the product's competition. An instant breakfast drink would compete against bacon and eggs, breakfast cereals, coffee and pastry, and other breakfast alternatives. A tasty snack drink would compete against soft drinks, fruit juices, sports drinks and other thirst quenchers.

Suppose the instant-breakfast-drink concept looks best. The next task is to show where this powdered product would stand in relationship to other breakfast products. *Perceptual maps* are a visual way to display consumer perceptions and preferences. They provide quantitative portrayals of market situations and how consumers see different market products, services and brands.

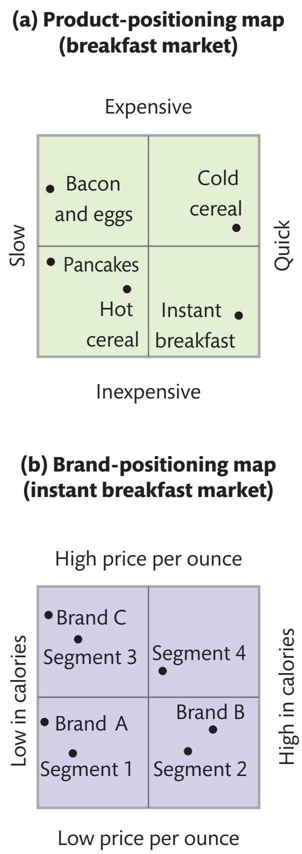


Figure 15.3 Product and brand positioning

By overlaying consumer preferences with brand perceptions, marketers can reveal 'holes' or 'openings' that suggest unmet customer needs.

Figure 15.3(a) uses the two dimensions of cost and preparation time to create a *product-positioning map* for the breakfast drink. An instant breakfast drink offers low cost and quick preparation. Its nearest competitor is cold cereal or breakfast bars; its most distant competitor is bacon and eggs. These contrasts can help communicate and promote the concept to the market.

Next, the product concept becomes a brand concept (see Chapters 12 and 13). Figure 15.3(b) is a brand-positioning map – a perceptual map showing the current positions of three existing brands of instant breakfast drinks (A–C), as seen by consumers. It can also be useful to overlay consumer preferences on to the map in terms of their current or desired preferences. Figure 15.3(b) also shows that there are four segments of consumers (1–4), whose preferences are clustered around the points displayed on the map.

The brand-positioning map helps the company to decide how much to charge and how calorific to make its drink. Three segments (1–3) are well served by existing brands (A–C). The company would not want to position itself next to one of those existing brands, unless that brand is weak or inferior or market demand was high enough to be shared. As it turns out, the new brand would be distinctive in the medium-price, medium-calorie market or in the high-price, high-calorie market. There is also a segment of consumers (4) clustered fairly near the medium-price, medium-calorie market, suggesting that it may offer the greatest opportunity.

Concept testing

Concept testing involves presenting the product-idea concept, symbolically or physically, to target consumers and getting their reactions. The more the tested concepts resemble the final market offering or experience, the more dependable concept testing is. Concept testing of prototypes can help avoid costly mistakes but can be especially challenging with radically different, innovative products.[35] In the past, creating physical prototypes was costly and time consuming, but today firms can use *rapid prototyping* to design products on a computer, and then produce outline models to show potential customers for their reactions. Companies are also using *virtual reality* to test product concepts. Virtual reality programmes use computers and sensory devices (such as gloves or goggles) to simulate real-time experiences.

Concept testing presents customers with a version of the product concept that they can experience. In the case of Concept 1 in the milk example, the expanded concept might look like this:

> **The market product idea is a powdered mixture added to milk to make an instant breakfast that gives the person all the day's needed nutrition along with good taste and high convenience. The product comes in three flavours (chocolate, vanilla and strawberry) and individual packets, six to a box, at €5 a box.**

After receiving this information, researchers measure the new product dimensions by asking customers to respond to the following types of question:

1. **Communicability and believability.** Are the CPV benefits clear and believable? If the scores are low, the concept must be refined or revised.
2. **Need level.** Does the proposed product solve a problem or fill a need? The stronger the need, the higher the expected customer and consumer interest.
3. **Gap level.** Do any other products currently meet this need and are they satisfactory? The greater the gap, the higher the expected customer interest. Marketers can multiply the need level by the gap level to produce a *need–gap* score. A high score means the customer sees the proposed product as filling a strong need not satisfied by available alternatives.
4. **Customer-perceived value.** Is the potential benefit of the proposed product (using the term 'product' to mean a market offering that is a mix of tangible and intangible benefits) acceptable? The higher the value, the higher is the expected customer and consumer interest.
5. **Purchase intention.** Would the respondents (definitely, probably, probably not, definitely not) buy the product? Customers who answered the first three questions in favour of the new product should answer 'Definitely' here.

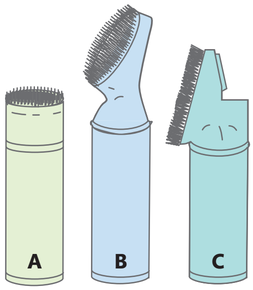


Figure 15.4 Vacuum cleaner tool samples for conjoint analysis

6 **User targets, purchase occasions, purchasing frequency.** Who would use this product, when and how often?

Respondents' answers indicate whether the concept has a strong customer and consumer appeal, what rival market products it competes against and which customers are the best targets. The need–gap levels and purchase-intention levels can be checked against norms for the market category to see whether the concept appears to be a winner, a long shot or a loser.

Conjoint analysis

Conjoint analysis is a scaling technique method for deriving the use–benefit values that consumers attach to varying levels of a product's customer-perceived value (CPV) attributes. It is also called trade-off analysis as it models the relative customer-perceived value of competing products and throws light on how customers decide what CPV attributes (quality or transaction) can be offset. The technique has become one of the most popular concept development and testing tools. With conjoint analysis, respondents see and rank different hypothetical products formed by varying combinations of CPV attributes. Management can then identify the most appealing product's CPV attributes and its estimated market share and profit.

Suppose the new product marketer is considering five CPV attribute–benefit design elements:

1 three package designs (A, B, C – see Figure 15.4);
2 three brands (Euro 1, Euro 2 and Euro 3);
3 three retail prices (€1.20, €1.40 and €1.60);
4 a possible seal of approval such as *Good Housekeeping* magazine in the UK (yes, no);
5 a possible money-back guarantee (yes, no).

Although the researcher can form 108 possible product concepts ($3 \times 3 \times 3 \times 2 \times 2$), it would be too much to ask customers to rank 108 concepts. A sample of, say, 18 contracting product concepts is feasible and customers would rank them from the most to the least preferred. The marketer can then use a statistical software program to discover the customer's preferred utility functions for each of the five attributes (see Figure 15.5). Utility ranges between 0 and 1; the higher the utility, the stronger the consumer's preference for that level of the attribute. Looking at packaging, it is clear that package B is the most favoured, followed by C and then A, which has hardly any perceived utility. The preferred

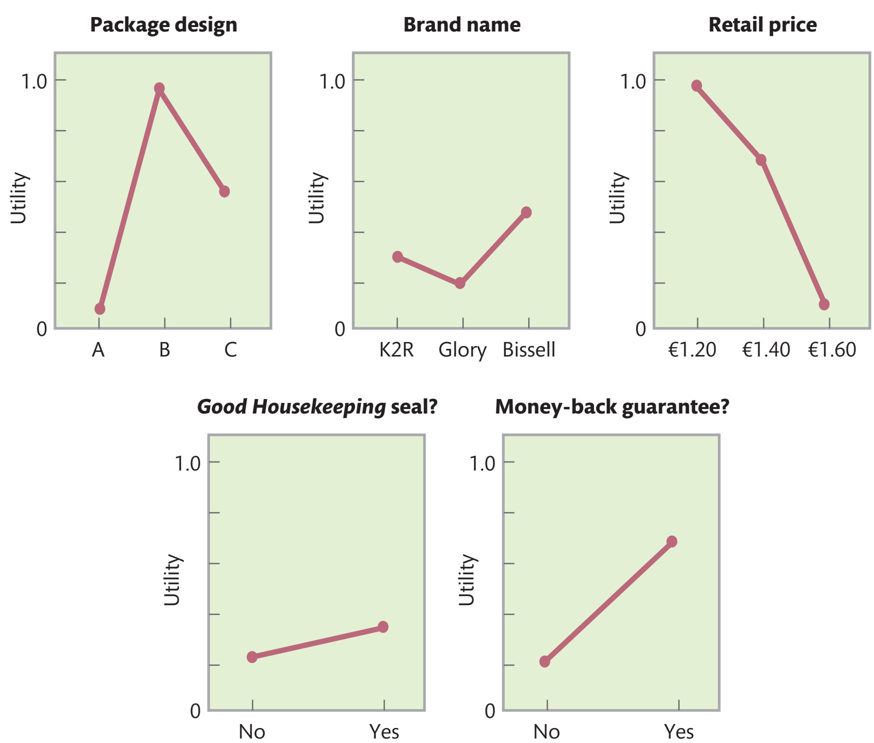


Figure 15.5 Utility functions based on conjoint analysis

brand names are Bissell, K2R and Glory, in that order. The consumer's utility varies inversely with price. A *Good Housekeeping* seal is preferred, but it does not add that much utility and may not be worth the effort to obtain it. A money-back guarantee is strongly preferred.

The consumer's most desired market offering is package design B, brand name Bissell, priced at €1.40, with a *Good Housekeeping* seal and a money-back guarantee. It is also possible to determine the relative importance of each attribute to this consumer – the difference between the highest and lowest utility level for that attribute. The greater the difference, the more important the attribute. Clearly this consumer sees price and package design as the most important attributes, followed by money-back guarantee, brand name and a *Good Housekeeping* seal.

CPV preference data from a sufficient sample of target consumers help the company to estimate the market share any specific offer is likely to achieve, given any assumptions about competitive responses. Still, the organisation may not launch the market offering that promises to gain the greatest market share, because of cost considerations. The most customer-appealing product (in CPV terms) is not always the most profitable one to bring to market.

Under some conditions, researchers will collect the data without a full-profile description of each product, by presenting two factors at a time. For example, respondents may see a table with three price levels and three package types and indicate which of the nine combinations they would like most, second best and so on. A further table consists of trade-offs between two other variables. The trade-off approach may be easier to use when there are many variables and possible offers. However, it is less realistic in that respondents are focusing on only two variables at a time. Adaptive conjoint analysis (ACA) is a 'hybrid' data-collection technique that combines self-explicated importance ratings with pair-wise trade-off tasks.[36]

Marketing strategy development

Following a successful concept test, the firm will develop a preliminary three-part strategy plan for introducing the new product offering to the market. The first part describes the target market's size, structure and behaviour, the planned positioning and the sales, market share and profit goals sought in the first few years:

The target market for the instant breakfast drink is families with children who are receptive to a new, convenient, nutritious and inexpensive form of breakfast. The company's brand will be positioned at the higher-price, higher-quality end of the instant breakfast drink category. The company will initially aim to sell 500,000 cases, or 10 per cent of the market, with a loss in the first year not exceeding €1.5 million. The second year will aim for 700,000 cases, or 14 per cent of the market, with a planned profit of €2.2 million.

The second part outlines the planned price, distribution strategy and marketing budget for the first year:

The product will be offered in chocolate, vanilla and strawberry in individual packets of six to a box, at a retail price of €2.49 a box. There will be 48 boxes per case, and the case price to distributors will be €24. For the first two months, dealers will be offered one case free for every four cases bought, plus cooperative advertising allowances. Free samples will be distributed door to door. Money-off coupons will appear in newspapers. The total sales promotional budget will be €2.9 million. An advertising budget of €6 million will be split 50:50 between national and local. Two-thirds will go into television and one-third into newspapers. Advertising copy will emphasise the benefit concepts of nutrition and convenience. The advertising execution concept will revolve around a small boy who drinks instant breakfast and grows strong. During the first year, €100,000 will be spent on marketing research to buy store audits and consumer-panel information to monitor market reaction and buying rates.

The third part of the marketing strategy plan describes the long-run sales and profit goals and marketing-mix strategy over time:

The company intends to win a 25 per cent market share and realise an after-tax return on investment of 12 per cent. To achieve this return, product quality will start high and be improved over time through technical research. Price will initially be set at a high level and lowered gradually to expand the market and meet competition. The total promotion budget will be boosted each year by about 20 per cent, with the initial advertising–sales promotion split of 65:35 evolving eventually to 50:50. Marketing research will be reduced to €60,000 per year after the first year.

Business analysis

After management develops the product concept and marketing strategy, it can evaluate the business attractiveness of the proposal. Management needs to prepare sales, costs and profit projections to determine whether they satisfy company objectives. If they do, the concept can move to the development stage. As new information comes in, the business analysis will undergo revision and expansion.

Estimating total sales

Total estimated sales are the sum of estimated first-time sales, replacement sales and repeat sales. Sales estimation methods depend on whether the product is purchased once (such as an engagement ring or retirement home), infrequently or often. For one-time products, sales rise at the beginning, peak, then approach zero as the number of potential buyers is exhausted (see Figure 15.6(a)). If new buyers keep entering the market, the curve will not go down to zero. Infrequently purchased products – such as cars, toasters and industrial equipment – exhibit replacement cycles dictated by physical wear or obsolescence associated with changing styles, features and performance. Sales forecasting for this category calls for estimating first-time sales and replacement sales separately (see Figure 15.6(b)). Frequently purchased products, such as consumer and industrial non-durables, have product life cycle sales resembling Figure 15.6(c). The number of first-time buyers initially increases and then decreases as fewer buyers are left (assuming a fixed population). Repeat purchases occur soon, providing the product satisfies some buyers. The sales curve eventually falls to a plateau representing a level of steady repeat-purchase volume; by this time, the product market offering is no longer a new product.

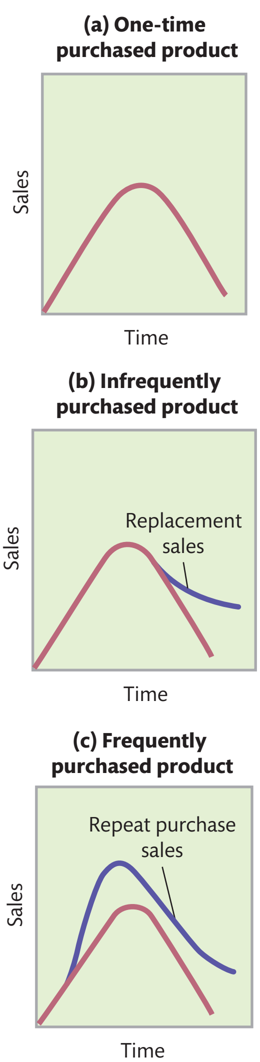


Figure 15.6 Product life cycle sales for three types of market offering

In estimating sales, the manager's first task is to estimate first-time purchases of the new product in each period. To estimate replacement sales, management researches the products' survival-age distribution – that is, the number of units that fail in years 1, 2, 3 and so on. The low end of the distribution indicates when the first replacement sales will take place. Replacement sales can be difficult to estimate before the product is in use; some manufacturers therefore base the decision to launch a new offering solely on the estimate of first-time sales.

For a frequently purchased new product, the seller estimates repeat sales as well as first-time sales. A high rate of repeat purchasing means customers are satisfied; sales are likely to stay high even after all first-time purchases take place. The seller should note the percentage of repeat purchases in each repeat-purchase class: those who rebuy once, twice, three times and so on. Some products and brands are bought a few times and then dropped.[37]

Estimating costs and profits

Costs are estimated by the R&D, manufacturing, marketing and finance departments. Table 15.5 illustrates a five-year projection of sales, costs and profits for a company marketing an instant breakfast drink.

Row 1 shows projected sales revenue over the five-year period. The company expects to sell €11,889,000 (approximately 500,000 cases at €24 per case) in the first year. Behind this projection is a set of assumptions about the rate of market growth, the company's market share and the ex-factory price. *Row 2* shows the cost of goods sold, which hovers around 33 per cent of sales revenue. This cost is calculated by estimating the average cost of labour, ingredients and packaging per case. *Row 3* shows the expected gross margin – the difference between sales revenue and cost of goods sold.

Row 4 shows anticipated development costs of €3.5 million, including product development costs, marketing research costs and manufacturing development costs. *Row 5* shows the estimated marketing costs over the five-year period to cover advertising, sales promotion and marketing research, and an amount allocated for sales force coverage and marketing administration. *Row 6* shows the allocated overhead for this new product to cover its share of the cost of executive salaries, heat, light and so on.

Row 7, the gross contribution, is gross margin minus the preceding three costs. *Row 8*, supplementary contribution, lists any change in income from other company products caused by the new product introduction. Dragalong income is additional income to them and cannibalised income is reduced income. Table 15.5 assumes no supplementary contributions. *Row 9* shows net contribution, which in this case is the same as gross contribution. *Row 10* shows discounted contribution – that is, the present value of each future contribution

Table 15.5 Projected five-year cash-flow statement (in €000)

	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5
1 Sales revenue	0	11,889	15,381	19,654	28,253	32,491
2 Cost of goods sold	0	3,981	5,150	6,581	9,461	10,880
3 Gross margin	0	7,908	10,231	13,073	18,792	21,611
4 Development costs	−3,500	0	0	0	0	0
5 Marketing costs	0	8,000	6,460	8,255	11,866	13,646
6 Allocated overheads	0	1,189	1,538	1,965	2,825	3,249
7 Gross contribution	−3,500	−1,281	2,233	2,853	4,101	4,716
8 Supplementary contribution	0	0	0	0	0	0
9 Net contribution	−3,500	−1,281	2,233	2,853	4,101	4,716
10 Discounted contribution (15%)	−3,500	−1,113	1,691	1,877	2,343	2,346
11 Cumulative discounted cash flow	−3,500	−4,613	−2,922	−1,045	1,298	3,644

discounted at 15 per cent per annum. For example, the company will not receive €4,716,000 until the fifth year. This amount is worth only €2,345,000 today if the company can earn 15 per cent on its money through other investments.[38]

Finally, *Row 11* shows the cumulative discounted cash flow, the accumulation of the annual contributions in *Row 10*. Two things are of central interest. The first is the maximum investment exposure, the highest loss the project can create. The company will be in a maximum loss position of €4,613,000 in year 1. The second is the payback period, the time when the company recovers all its investment, including the built-in return of 15 per cent. The payback period here is about three and a half years. Management must decide whether to risk a maximum investment loss of €4.6 million and a possible payback period of three and a half years.

Companies use other financial measures to evaluate the merit of a new product proposal. The simplest is **breakeven analysis**, which estimates how many units the company must sell (or how many years it will take) to break even with the given price and cost structure. If management believes sales could easily reach the break-even number, it is likely to develop the new offering.

A more complex method of estimating profit is **risk analysis**. Here, three estimates are obtained (optimistic, pessimistic and most likely) for each uncertain variable affecting profitability, under an assumed marketing environment and marketing strategy for the planning period. The computer simulates possible outcomes and computes a distribution showing the range of possible rates of return and their probabilities.

Managing the development process: Stage 3 – prototype to commercialisation

Up to now, the new market offering has existed only as a description of an idea, a drawing or a prototype. The next step represents a jump in investment that dwarfs the costs incurred so far. The company will determine whether the new idea can translate into a technically and commercially feasible CPV market offering. If not, the accumulated project cost will be lost, except for any useful information gained in the process.

Product and market development

The task of translating target customer requirements into a working prototype is aided by a set of methods known as **quality function deployment** (QFD). The methodology takes the list of desired *customer attributes* (CAs) generated by market research and turns them into a list of *engineering attributes* (EAs) that engineers can use. For example, customers of a proposed truck may want a certain acceleration rate (CA). Engineers can turn this into the required horsepower and other engineering equivalents (EEs). The methodology measures the trade-offs and costs of meeting customer requirements. A major contribution of QFD is improved communication between marketers, engineers and manufacturing people.[39]

Physical prototypes

The R&D department will develop one or more versions of the core offer product concept. Its goal is to develop a prototype that embodies the key customer-perceived attributes and benefits described in the product concept statement. The prototype must perform safely under normal use and conditions and be produced within budgeted manufacturing costs. In the past, developing and manufacturing a successful prototype could take days, weeks, months or even years. The web now permits more rapid prototyping and more flexible development processes.[40] Sophisticated virtual-reality technology is also speeding up the process. By designing and testing product designs through simulation, for example, companies can achieve the flexibility to respond to new information and resolve uncertainties by exploring alternatives. Look at Boeing for example.

Scientists must not only design the new product's functional characteristics but also communicate its psychological aspects and brand image through physical cues. How will consumers react to different colours, sizes and weights? Marketers need to supply design and development staff with information about what CPV attributes consumers seek and how consumers judge whether these attributes are present.

Customer tests

When the prototypes are ready, they must be put through rigorous functional tests and customer tests before they enter the marketplace. *Alpha testing* is testing the proposed new product within the firm to see how it performs in different applications. After refining the prototype, the company moves to *beta testing* with customers.[41] Consumer testing can take several forms, from bringing potential customers into a laboratory to giving them samples to use in their homes. Nestlé has on-site labs, such as a milk testing centre where dozens of mothers bring their babies to be studied. In-home placement tests are common for products ranging from ice cream to new appliances.

How are customer preferences measured? The *rank-order* method asks the consumer to rank the options. The *paired-comparison* method presents pairs of options and asks the consumer which one is preferred in each pair. The *monadic-rating* method asks the consumer to rate each product on a scale so that marketers can derive the individual's preference order and levels.

Market testing

After management is satisfied with functional and psychological performance, the new product is ready to be branded, packaged and market tested. In an authentic setting, marketers can learn how large the market is and see how consumers and dealers react to handling, using and repurchasing the new product.

Not all companies undertake **market testing**, but many believe it can yield valuable information about buyers, dealers, marketing programme effectiveness and market potential. The main issues are: how much market testing should be done and what kind(s)?

The amount of market testing is influenced by the investment cost and risk on the one hand, and the time pressure and research cost on the other. High-investment–high-risk new products, where the chance of failure is high, must be market tested; the cost of the market tests will be an insignificant percentage of total project cost. High-risk products – those that create really new product categories (first instant breakfast drink), or have novel features (first gum-strengthening toothpaste) – warrant more market testing than modified new products (another toothpaste brand).

The amount of market testing may be severely reduced if the company is under great time pressure because the season is just starting, or because competitors are about to launch their brands. The company may prefer the risk of a new product failure to the risk of losing distribution or market penetration on a highly successful product.

Consumer goods market testing

Consumer new product tests seek to estimate four variables: trial, *first repeat, adoption* and *purchase frequency*. The company hopes to find all these variables at high levels. Many consumers may try the new product but few rebuy it, or it might achieve high permanent adoption but low purchase frequency (e.g. gourmet frozen foods).

Here are four major methods of consumer goods market testing, from least to most costly:

Sales-wave research

Consumers who initially try the new product at no cost are re-offered it, or a competitor's product, at slightly reduced prices. The offer may be made as many as five times (sales waves), while the company notes how many customers selected that product again and their reported level of satisfaction. Sales-wave research can also expose consumers to one or more advertising concepts to measure the impact of that advertising on repeat purchase. It can be implemented quickly and conducted with a fair amount of security and it can be carried out without final packaging and advertising. However, it does not indicate trial rates that the new product would achieve with different sales promotion incentives, as the consumers are pre-selected to try the product. Nor does it indicate the brand's power to gain distribution and a favourable shelf position.

Simulated test marketing

This calls for finding 30–40 qualified shoppers and questioning them about brand familiarity and preferences in a specific product category. These consumers attend a brief screening of both well-known and new TV commercials or print advertisements. One advertisement promotes the new product but is not singled out for attention. Consumers receive a small amount of money and are invited into a store where they may buy any items. The company notes how many consumers buy the new product brand and competing brands. This provides a measure of the advertisement's relative effectiveness against competing advertisements in stimulating customer trials. Consumers are asked the reasons for their purchases or non-purchases. Those who did not buy the new product are given a free sample. Some weeks later, they are interviewed by phone to determine product attitudes, usage, satisfaction and repurchase intention, and are offered an opportunity to repurchase the new product.

This method gives fairly accurate results on advertising effectiveness and trial rates (and repeat rates if extended) in a much shorter time and at a fraction of the cost of using real test markets. The results are incorporated into new product forecasting models to project ultimate sales levels. Marketing research firms have reported surprisingly accurate predictions of sales levels of new market offerings that are subsequently launched in the market.[42] In a world where media and channels have become highly fragmented, however, it will become increasingly difficult for simulated test marketing to truly simulate market conditions by means of traditional approaches.

Controlled test marketing

A research firm manages a panel of stores that will carry new products for a fee. The company with the new product specifies the number of stores and geographic locations it wants to test. The research firm delivers the new product to the participating stores and controls shelf position, number of facings, displays and point-of-purchase promotions, and pricing. Electronic scanners measure sales at checkout. The company can also evaluate the impact of local advertising and promotions. Controlled test marketing allows the company to test the impact of in-store factors and limited advertising on buying behaviour. A sample of consumers can be interviewed later to give their impressions of the new product. The company does not have to use its own sales force, give trade allowances or 'buy' distribution. However, controlled test marketing provides no information on how to persuade the trade to carry the new product. This technique also exposes the product and its features to competitors' scrutiny.

Full-scale test markets

The ultimate way to test a new consumer product is to put it into full-scale test markets. The company chooses a few representative cities and the sales force tries to persuade the trade to carry the new product and give it good shelf exposure. The company puts on a full advertising and promotion campaign similar to the one it would use in national marketing. **Test marketing** also measures the impact of alternative marketing plans by varying the marketing programme in different cities and or/regions: a full-scale test can cost more than €1 million, depending on the number of test areas, the test duration and the amount of data the company wants to collect.

Management faces several decisions:

- **How many test sites?** Most tests use 2–6 sites. The greater the possible loss, the greater the number of contending marketing strategies, the greater the regional differences and the greater the chance of test-market interference by competitors, the more sites management should test.
- **Which sites?** Each company must develop selection criteria, such as having good media coverage, cooperative chain stores and average competitive activity. How representative the site is of other markets must also be considered.
- **Length of test?** Market tests last anything from a few months to a year. The longer the average repurchase period, the longer the test period.
- **What information to collect?** Warehouse shipment data will show gross stock buying but will not indicate weekly sales at the retail level. Store audits will show retail sales and competitors' market shares but will not reveal buyer characteristics. Consumer panels will indicate which people are buying which brands and their loyalty and switching rates. Buyer surveys will yield in-depth information about consumer attitudes, usage and satisfaction.
- **What action to take?** If the test markets show high trial and repurchase rates, the marketer should launch the new product nationally; if a high trial rate and low repurchase rate, then redesign or drop the new product; if a low trial rate and high repurchase rate, develop marketing communications to convince more people to try it. If trial and repurchase rates are both low, the company should abandon the new product. Many managers find it difficult to jettison a project that created much effort and attention even if they should, resulting in an unfortunate (and typically unsuccessful and expensive) escalation of commitment.[43]

In spite of its benefits, many companies today do not do any test marketing and rely on faster and more economical testing methods. Absolut Vodka and Colgate-Palmolive often launch a new product in a set of small 'lead countries' and keep rolling it out if it proves successful.

Business-product market testing

New business products can also benefit from market testing. Expensive industrial new products and new technologies will normally undergo alpha testing (within the company) and beta testing (with outside customers). During beta testing, the company's technical people observe how test customers use the new product – a practice that often exposes unanticipated problems of safety and servicing and alerts the company to customer training and service support requirements. The company can also observe how much CPV the equipment adds to the customer's operation as a clue to subsequent pricing.

The company will ask test customers to express their purchase intention and other reactions after the test. Companies must interpret beta test results carefully because only a small number of test customers are used, they are not randomly drawn and tests are somewhat customised to each site. Another risk is that test customers who are unimpressed with the new product may leak unfavourable reports about it.

A second common test method for business products is to introduce them at trade shows. The company can observe how much interest buyers show in the new product, how they react to various CPV attributes and benefits, and how many express purchase intentions or place orders.

New industrial products can be tested in distributor and dealer display rooms, where they may stand next to the manufacturer's other products and possibly competitors' products. This method yields preference and pricing information in the product's normal selling atmosphere. The disadvantages are that customers might want to place early orders that cannot be fulfilled and those customers who come in might not represent the target market.

Industrial manufacturers come close to using full test marketing when they give a limited supply of the new product to the sales force to sell in a limited number of areas that receive sales promotion support and printed catalogue sheets.

Commercialisation and launch

If the company goes ahead with commercialisation, it will face its largest costs to date.[44] It will need to contract for manufacture or build or rent a full-scale manufacturing facility. Another major cost is marketing. To introduce a major new consumer packaged product into the national market can cost from €25 million to as much as €100 million in advertising, promotion and other marketing communications in the first year. In the introduction of new food products, marketing expenditures typically represent 57 per cent of sales during the first year. Most new product campaigns rely on a sequenced mix of marketing communication tools.

When (timing)

In commercialising a new product, market-entry timing is critical.[45] Suppose a company has almost completed the development work on its new product and learns that a competitor is nearing the end of its development work. The company faces three choices:

1 **First entry.** The first firm entering a market usually enjoys the 'first-mover advantages' of locking up key distributors and customers and gaining leadership. But if the new product is rushed to market before it is ready, the first entry can backfire.
2 **Parallel entry.** The firm might time its entry to coincide with the competitor's entry. The market may pay more attention when two companies are advertising their new products.
3 **Late entry.** The firm might delay its launch until after the competitor has entered. The competitor will have borne the cost of educating the market and its new product may reveal faults the late entrant can avoid. The late entrant can also learn the size of the market.

The timing decision requires additional considerations. If a new product replaces an older product, the company might delay the introduction until the old product's stock is drawn down. If the product is seasonal, it might be delayed until the right season arrives; often a new product waits for a 'killer application' to occur. Complicating new product launches, many companies are encountering competitive 'design-arounds' – rivals are imitating inventions but making their own versions just different enough to avoid patent infringement and the need to pay royalties.

Where (geographic strategy)

The company must decide whether to launch the new product in a single locality, a region, several regions, the national market or the international market. Most will develop a planned market roll-out over time. Company size is an important factor here. Small companies will select an attractive site area and put on a blitz campaign, entering other sites one at a time. Large companies will introduce their new product into a whole region and then move to the next region or country. Companies with national distribution networks, such as car companies, will launch their new models in the national market.

Most companies design new products to sell primarily in the domestic market. If the product does well, the company considers exporting to neighbouring countries or the world market, redesigning if necessary. In choosing roll-out markets, the major criteria are market potential, the company's local reputation, the cost of setting up the supply channels, the cost of communication media, the influence of the area on other areas and the strength of competition.

With the web connecting near and distant parts of the globe, competition is more likely to cross national borders. Companies are increasingly rolling out new products simultaneously across the globe, rather than nationally or even regionally. However, masterminding a global launch poses challenges, and a sequential roll-out across countries may still be the best option.[46]

To whom (target-market prospects)

Within the roll-out markets, the company must adopt a customer relationship approach and target its initial distribution and marketing communications to appeal to the best-prospect groups. The company will have profiled these and ideally they should be early adopters, heavy users and opinion leaders who can be reached at low cost.[47] Few groups have all these characteristics. The company should rate the various prospect groups on these characteristics and target the best group. The aim is to generate strong sales as soon as possible to attract further prospects.

How (introductory market strategy)

The company must develop an action plan for introducing the new product. Because new-product launches often take longer and cost more money than expected, many potentially successful offerings suffer from underfunding. It is important to allocate sufficient time and resources as the new product gains a foothold in the marketplace.[48]

To coordinate the many activities involved in launching a new product, management can use network-planning techniques such as **critical path scheduling**. This calls for developing a master chart showing the simultaneous and sequential activities that must take place to launch the product. By estimating how much time each activity takes, the planners estimate completion time for the entire project. Any delay in any activity on the critical path – the shortest route to completion – will cause the project to become overdue.[49]

Coca-Cola launches Life brand

Coca-Cola unveiled Coca-Cola Life in the UK in September 2014. The low-calorie cola, which contains a third less sugar than conventional Coke, was the brand's first new cola variant in eight years. The new cola was a response to changing lifestyle trends and intended to address the public health challenge of obesity in the UK, though some health campaigners claimed it still contains excessive sugar levels. Coca-Cola Life, which is sweetened with a combination of sugar and Stevia, rather than artificial sweeteners, is the first Coke variant to be launched on the market since Coke Zero in 2006.

The launch campaign comprised outdoor, print, digital and experiential. Coca-Cola was adamant that the launch highlighted an increasingly health-conscious stance from the company. Detractors retorted that the launch was about a company launching another sugary product to encourage more people to consume a drink that contributes to a range of dietary and health-related problems. In response to this, Coca-Cola announced that it would roll out a traffic-light labelling scheme to show levels of fat, saturated fat, salt, sugar and calories, as well as GDA (guideline daily amount) percentages of each.

Source: M. Philips (2014) Coca-Cola Life: Can brands ever play a role in tackling obesity?, *The Guardian*, 11 September, www.theguardian.com/media-network/media-network-blog/2014/sep/11/coca-cola-life-brands-obesity.

The consumer adoption process

Adoption is an individual's decision to become a regular user of a product. The *consumer adoption process* is followed by the *consumer loyalty process,* which is the concern of the established producer. Years ago, new product marketers used a *mass market approach* to launch products, which had two main drawbacks: it called for heavy marketing expenditures and it was aimed at too many people. These drawbacks led to a second approach: *heavy-user target marketing.* This approach makes sense, provided that heavy users are identifiable and are early adopters. However, even within this group, many heavy users are loyal to existing brands. New product marketers now aim at early adopters and use the theory of innovation diffusion and customer adoption to identify them.

Stages in the process

An **innovation** is any good, service or idea that someone perceives as new, no matter how long its history. Innovations take time to spread. Rogers defines the **innovation diffusion process** as 'the spread of a new idea from its source of invention or creation to its ultimate users or adopters'.[50] The consumer adoption process tracks the steps an individual takes from first hearing about an innovation to its final adoption.[51]

Adopters of new products move through five stages:

1 **Awareness.** The consumer becomes aware of the innovation but lacks information about it.
2 **Interest.** The consumer is stimulated to seek information about the innovation.
3 **Evaluation.** The consumer considers whether to try the innovation.
4 **Trial.** The consumer tries the innovation to improve his or her estimate of its value.
5 **Adoption.** The consumer decides to make full and regular use of the innovation.

The new product marketer should facilitate movement through these stages. A portable electric dishwasher manufacturer might discover that many customers are stuck in the interest stage; they do not buy because of their uncertainty and the large investment cost.[52] But these same customers would be willing to use an electric dishwasher on a trial basis for a small monthly fee. The manufacturer should consider offering a trial-use plan with an option to buy.

Factors influencing the process

Marketers recognise the following characteristics of the adoption process: differences in individual readiness to try new products, the effect of personal influence, differing rates of adoption and differences in organisations' readiness to try new products. Some researchers are focusing on use-diffusion processes as a complement to adoption process models, to see how consumers actually use new products.[53]

Readiness to try new products and personal influence

Rogers[54] defines a person's level of innovativeness as 'the degree to which an individual is relatively earlier in adopting new ideas than the other members of his social system'. In each product area, there are pioneers and early adopters. Some people are the first to adopt new clothing fashions or new appliances; some doctors are the first to prescribe new medicines; some farmers are the first to adopt new farming methods; some are the first to sample new technology, such as Google's Glass wearable headset.[55] People fall into the adopter categories shown in Figure 15.7. After a slow start, an increasing number of people adopt the innovation, the number reaches a peak and then it diminishes as fewer non-adopters remain. The five adopter groups differ in their value orientations and their motives for adopting or resisting the new product:[56]

- **Innovators:** technology enthusiasts who are venturesome and enjoy tinkering with new products and mastering their intricacies. In return for low prices, they are happy to conduct alpha and beta testing and report on early weaknesses.
- **Early adopters:** opinion leaders who carefully search for new technologies that might give them a dramatic competitive advantage. They are less price sensitive and willing to adopt the product if given personalised solutions and good service support.
- **Early majority:** deliberate pragmatists who adopt the new technology when its benefits are proven and a lot of adoption has already taken place. They make up the mainstream market.
- **Late majority:** sceptical conservatives who are risk averse, technology shy and price sensitive.
- **Laggards:** tradition-bound users who resist the innovation until they find that the status quo is no longer defensible.

Each group must be approached with a different type of marketing if the firm wants to move its innovation through the stages of the full product life cycle.[57]

Personal influence is the effect one person has on another's attitude or purchase probability. Its significance is greater in some situations and for some individuals than others, and it is more important in the evaluation stage than the other stages. It has more influence on late adopters than early adopters and is more important in risky situations.

Characteristics of the innovation

Some products are an instant success (for example, rollerblades), whereas others take a long time to gain acceptance (electric cars).[58] Five characteristics influence the rate of adoption of an innovation. In this instance they are considered in relation to mobile phones.

The first characteristic is *relative advantage* – the degree to which the innovation appears superior to existing products. The greater the perceived relative advantage of using the new features, say for easily downloading videos, or skipping web commercials, the more quickly it will be adopted.

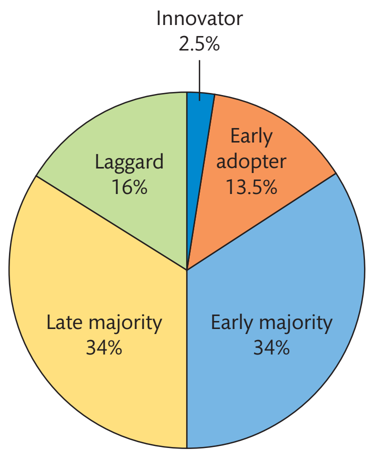


Figure 15.7 Speed of adoption of new market offerings
Source: M R V Goodman AJM Management Development

The second is *compatibility* – the degree to which the innovation matches the values and experiences of the individuals. Mobile phones, for example, are highly compatible with the preferences of many users. Third is *complexity* – the degree to which the innovation is difficult to understand or use. Mobile phones can be complex and will therefore take a slightly longer time to be adopted. Fourth is *divisibility* – the degree to which the innovation can be tried on a limited basis. This provides a sizeable challenge for mobile phones – sampling can occur only in a retail store or perhaps a friend's house. Fifth is *communicability* – the degree to which the benefits of use are observable or describable to others. The fact that many new-generation mobile phones are considered as a 'must have' product eases the marketing task, even if users are not fully conversant with how to benefit from the new features.

Other characteristics that influence the rate of adoption include cost, risk and uncertainty, scientific credibility and social approval. The new product marketer must research all these factors and give the key ones maximum attention when designing the new product and marketing programme.

Organisations' readiness to adopt innovations

The creator of a new teaching method would want to identify innovative schools. The producer of a new piece of medical equipment would want to identify innovative hospitals. Adoption is associated with variables in the organisation's environment (community progressiveness, community income), the organisation itself (size, profits, pressure to change) and the administrators (education level, age, sophistication). Other forces come into play in trying to get a product adopted into organisations that receive the bulk of their funding from the government, such as state schools and hospitals in the UK. A controversial or innovative market offering can be seriously damaged by negative public opinion.

SUMMARY

1 Once a company has segmented the market, chosen its target customer groups and identified their needs, and determined its desired market positioning, it is ready to develop and launch appropriate new market offerings. Marketing should participate with other departments in every stage of the development of new value offerings.

2 Successful new product/market offering development requires the company to establish an effective organisation for managing the process. Traditionally, companies have chosen to use product managers, new product managers, new product committees, new product departments or new-product venture teams. Increasingly, companies are adopting cross-functional teams, connecting to individuals and organisations outside the company, and developing multiple market offerings as they accept that the right CPV requires the coordinated effort of all internal and external parties.

3 Eight stages take place in the new product/ market offering development process: idea generation, screening, concept development and testing, marketing strategy development, business analysis, product/offer development, market testing and commercialisation. At each stage, the company must determine whether the idea should be dropped or moved to the next stage.

4 The consumer adoption process is the process by which customers learn about new market offerings, try them, and adopt or reject them. Today, many marketers are targeting heavy users and early adopters of new products, because both groups can be reached by specific media and tend to be opinion leaders. The consumer adoption process is influenced by many factors beyond the marketer's control, including consumers' and organisations' willingness to try new market offerings.

APPLICATIONS

Marketing debate

Who should you target with new products? Some new-product experts maintain that getting close to customers through intensive research is the only way to develop successful new products. Other experts disagree and maintain that customers cannot possibly provide useful feedback on what they don't know and cannot provide insights that will lead to breakthrough products.

Take a position: consumer research is critical to new product development *versus* consumer research may not be all that helpful in new product development.

Marketing discussion

Think about the last new product you bought. How do you think its success will be affected by the five characteristics of an innovation: relative advantage, compatibility, complexity, divisibility and communicability?

FURTHER READING

L. Witell, A. Gustafsson and M. D. Johnson (2014) The effect of customer information during new product development on profits from goods and services, *European Journal of Marketing*, 48(9/10), 1,709–1,730.

This study investigates how customer information obtained at different phases of a new product development (NPD) process influences profits from new market offerings.

The results reveal that obtaining customer information during NPD influences the profits from new market offerings, which vary depending on the phase of the NPD process. The financial rewards from obtaining customer information for goods are highest in the early phases of the NPD process and decline in later phases. The financial rewards for services, on the other hand, are high in the early and late phases of the NPD process.

On the understanding that the P for product of the traditional marketing mix really is a mix of product and service elements (i.e. a market offering), how might this influence a marketing practitioner in dealing with the factors that affect the consumer adoption process?

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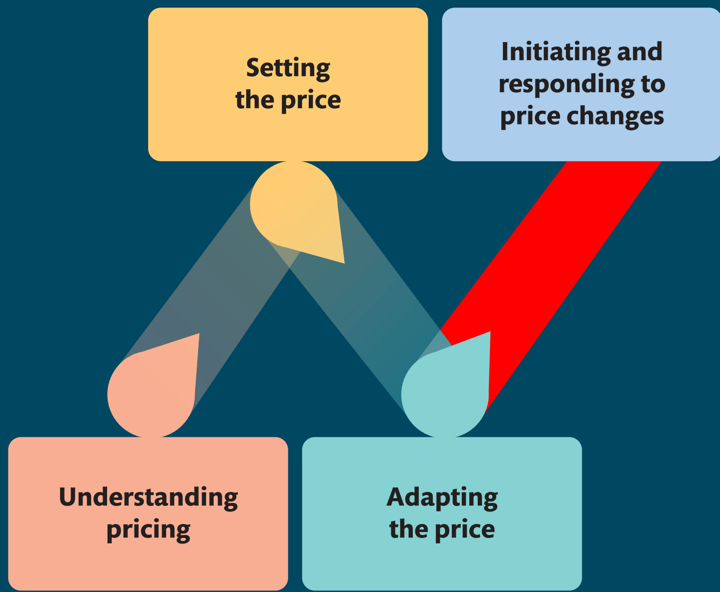
CHAPTER 16
Developing and managing pricing strategies

In this chapter, you will learn about the following topics:

1. How consumers process and evaluate prices
2. How a company initially should set prices for products or services
3. How a company should adapt prices to meet varying circumstances and opportunities
4. When a company should initiate a price change
5. How a company should respond to a competitor's price change

Price may be a strong driver of premium positioning
Source: Kristjan Porm/Alamy Stock Photo

Chapter Journey



Price is the one element of the marketing mix that produces revenue; the other elements produce costs. Prices are perhaps the easiest element of the marketing programme to adjust; product features, channels and even promotion take more time. Price also communicates to the market the company's intended value positioning of its product or brand. Consider the Vertu Signature Diamond mobile phone.

Located in Paris, Vertu is famous for its luxury mobile phone products. Vertu Signature Diamond is included in the top-ten list of the world's most expensive mobile phones. This phone is made of platinum and claimed the best assembly process is done by hand, not machines. The phone is decorated with pretty fancy diamonds and is produced in only 200 pieces.[1] Inspired to create something unique of exceptional quality, the Vertu mobile phone signals the extraordinary. For most consumers there is only one problem: the price tag. The price of this phone is approximately €74,000.[2]

Pricing decisions are clearly complex and difficult, and many marketers neglect their pricing strategies[3] and the effect they might have on the market and on the public. Holistic marketers must take into account many factors in making pricing decisions – the company, the customers, the competition and the marketing environment. Pricing decisions must be consistent with the firm's marketing strategy and its target markets and brand positionings.

In this chapter, we provide concepts and tools to facilitate the setting of initial prices and adjusting prices over time and markets.

Understanding pricing

Price is not just a number on a tag. Price comes in many forms and performs many functions. Rent, tuition, fares, fees, rates, tolls, wages and commissions may all in some way be the price you pay for some good or service. Price is also made up of many components. If you buy a new car, the sticker price may be adjusted by rebates and dealer incentives. Some firms allow for payment through multiple forms, such as €120 plus 25,000 frequent flier miles from an airline loyalty programme.[4]

Pricing practices have changed significantly, thanks in part to severe rapid technological advances. But the new millennial generation also brings new attitudes and values to consumption. Often burdened by student loans and other financial demands, this generation is reconsidering just what they really need to own. Renting, borrowing and sharing are valid options to many. Some say these new behaviours are creating a **sharing economy**, in which consumers share bikes, cars, clothes, couches, apartments, tools and skills and extract more value from what they already own. As one sharing-related entrepreneur noted, 'We're moving from a world where we're organized around ownership to one organized around access to assets'. In a sharing economy, someone can be both a consumer and a producer, reaping the benefits of both roles.[5]

The sector of the new sharing economy that is really exploding is rentals. One of the pioneers in the rental economy is Airbnb.[6]

Airbnb

Rhode Island School of Design graduates Brian Chesky and Joe Gebbia came upon the idea of making a little extra money by launching www.airbedandbreakfast.com and renting out air mattresses to attendees at an industrial design conference in San Francisco. Emboldened by their success at attracting three very different guests for a week, the two shortened the name of their venture to Airbnb, hired a tech expert and set out to extend their 'couch-surfing' business by adding features such as escrow payments and professional photography so the potential rental properties looked their best. Around-the-clock customer service for guests and a €1 million insurance policy for hosts provided each party with valuable peace of mind. All kinds of spaces were included – not just rooms, apartments and houses but also driveways, treehouses, igloos and even castles. Airbnb applied a broker's model to generate revenues: 3 per cent from the host and 6 per cent to 12 per cent from the guest, depending on the property price. Although it now operates in 192 countries and 33,000 cities, books millions of spaces annually and has seen its valuation approach €10 billion, it faces several significant challenges, including government intervention in the form of taxes, disputes over illegal subletting and the imposition of safety and other hospitality-related regulations.

Sources: www.airbnb.com; S. Schomer (2010) Dare to share, *Fast Company*, December/January, 75–84; *Financial Times* (2016) Is there a future for the Airbnb landlords?, *FT Money*, December, 10–11.

Throughout most of history, prices were set by negotiation between buyers and sellers. Bargaining is still a sport in some areas and countries, and takes place in both consumer and business markets. Companies may proactively seek to increase their bargaining power. For instance, the introduction of **private labels** may enhance a retailer's bargaining power with respect to manufacturers.[7] Setting one price for all buyers is a relatively modern idea that arose with the development of large-scale retailing in the second half of the nineteenth century. European department stores such as Le Bon Marché (France), Delaney's New Mart (Ireland), Whiteleys (England) and others introduced fixed-price policies (accompanied by guarantees allowing exchanges and refunds) because they carried so many items and supervised so many employees.

Pricing in a digital world

Traditionally, price has operated as a major determinant of buyer choice. Consumers and purchasing agents who have access to price information and price discounters put pressure on retailers to lower their prices. Retailers in turn put pressure on manufacturers to lower their prices. The result can be a marketplace characterised by heavy discounting and sales promotion.

Downward price pressure from a changing economic environment coincided with some longer-term trends in the technological environment. For some years now, the internet has been changing the way buyers and sellers interact. Here is a short list of how the internet allows sellers to discriminate between buyers and buyers to discriminate between sellers.

Buyers can:

- **Get instant price comparisons from thousands of vendors.** Customers can compare the prices offered by over two dozen online bookstores just by clicking mySimon.com. PriceScan.com lures thousands of visitors a day, most of them corporate buyers. Intelligent shopping agents ('bots') take price comparison a step further and seek out products, prices and reviews from hundreds if not thousands of merchants.
- **Name their price and have it met.** On Priceline.com, the customer states the price he or she wants to pay for an airline ticket, hotel or rental car, and Priceline checks whether any seller is willing to meet that price. Volume-aggregating sites combine the orders of many customers and press the supplier for a deeper discount.
- **Get products free.** Open Source, the free software movement that started with Linux, will erode margins for just about any company creating software. The biggest challenge confronting Microsoft, Oracle, IBM and virtually every other major software producer is: how do you compete with programs that can be had for free? The 'Marketing insight' box describes how different firms have been successful with essentially free offerings.

Sellers can:

- **Monitor customer behaviour and tailor offers to individuals.** The JSTOR (Journal Storage) project, a non-profit venture that makes available electronic versions of archived issues of scholarly journals, monitors usage data to determine prices to individual customers. More than 2,000 international educational institutions, including those from most European countries, have become participants in the project.[8] Educational institutions are charged prices based on the value to the school, not the number of copies sold. So, a large institution where users view articles many times pays more.
- **Give certain customers access to special prices.** Online retailers may email certain buyers a special website address with lower prices. Ruelala is a members-only website that sells upscale women's fashion, accessories and footwear through limited-time sales, usually two-day events. Business marketers are already using extranets to get a precise handle on inventory, costs and demand at any given moment in order to adjust prices instantly.
- **Let customers decide the price.** British rock band Radiohead distributed its album, *In Rainbows,* on the band's website, applying an 'honesty box' principle. Consumers were given the choice of how much they wanted to pay for Radiohead's new album – anything between nothing at all and £100 (€130).[9] An internet survey of 3,000 people who downloaded the album found that most paid an average of £4 (€5), although there was a hardcore of 67 fans who thought that the record was worth more than £10 and a further 12 who claimed to have paid more than £40.[10]

Both buyers and sellers can:

- **Negotiate prices in online auctions and exchanges.** Want to sell hundreds of excess and slightly worn widgets? Post a sale on eBay. Want to purchase vintage baseball cards at a bargain price? Go to www.baseballplanet.com.

How companies price

Companies do their pricing in a variety of ways. In small companies, prices are often set by the boss. In large companies, pricing is handled by division and product line managers. Even here, top management sets general pricing objectives and policies, and often approves the prices proposed by lower levels of management. In industries where pricing is a key factor (aerospace, railways, oil companies), companies will often establish a pricing department to set or assist others in determining appropriate prices. This department reports to the marketing department, finance department or top management. Others who exert an influence on pricing include sales managers, production managers, finance managers and accountants.

Setting the price 'correctly' will not only bring satisfactory returns but will also help strengthen sales and accurately reflect the value provided to customers. Not surprisingly, that ideal price cannot be identified only by focusing on the cost of doing business or on competitors' pricing decisions. Rather, developing a pricing strategy should begin with determining the true value of a company's offerings to its customers. There is often a gap between what customers will pay and what a business charges.

Marketing insight

Giving it all away

Giving away products for free via sampling has been a successful marketing tactic for years. Estée Lauder gave free samples of cosmetics to celebrities, and organisers at awards shows to this day like to lavish winners with extensive free items or gifts known as 'swag'. Other manufacturers, such as Gillette and HP, have built their business model around selling the host product essentially at cost and making money on the sale of necessary supplies, such as razor blades and printer ink.

Companies such as Blogger (weblog publishing tool) and Skype (internet phone calls) have achieved some success with a 'freemium' strategy – free online services with a premium component. Some online firms have successfully moved 'from free to fee' and begun charging for services. Under a new participative-pricing mechanism that lets consumers decide on the price they feel is warranted, buyers often choose to pay more than zero, and even enough for sellers' revenues to increase over what a fixed price would have yielded. Venture capitalists and entrepreneurs believe that successful online freemium strategies of this kind depend on a number of factors (see Figure 16.1).

Sources: J. Hamari, N. Hanner, and J. Koivisto (2017) Service quality explains why people use freemium services but not if they go premium: An empirical study in free-to-play games, *International Journal of Information Management*, 37(1a), 1,449–1,459, C. Anderson (2009) *Free: The Future of a Radical Price*, New York: Hyperion; P. J. Howe (2007) The next pinch: Fees to check bags, *Boston Globe*, 8 March; K. Heires (2006) Why it pays to give away the store, *Business 2.0*, October, 36–37; K. Capel (2006) Wal-Mart with wings, *Business Week*, 27 November, 44–45; M. Maier (2006) A radical fix for airlines: Make flying free, *Business 2.0*, April, 32–34; G. Stoller (1996) Would you like some golf balls with that ticket?, *USA Today*, 30 October.

1. **Mix free and paid elements.** The essence of a freemium strategy is one that mixes free and paid elements (premiums) of some kind. The paid elements could include another form of exchange such as users' personal data or their time, but might also be in the form of a fee paid by users.
2. **Product differentiation.** It is important that your product stands out from the crowd. It should be superior to other market offerings. Remember that a freemium model is quite mainstream these days.
3. **Low costs.** For both free and paid elements the costs of producing and supporting the service should be kept to a minimum.
4. **Bottom up.** Services in a freemium package must be designed from the bottom up so that the free and paid elements are balanced and complementary. Basically, freemium refers to a marketing strategy that allows consumers to use a basic version of a product or service for nothing, in the hope that they will go on to pay a premium for the whole thing.
5. **Easy access.** Make sure that your product can be easily accessed by customers. For instance, if it is time-consuming to download registration forms online customers may get bored or frustrated and abort.
6. **Understand the customer.** Remember that the key freemium driver is the basic fact that customers like and are attracted to things that are free.
7. **Timing is everything.** The revenue from your freemium strategy should soon cover the costs of your free service. If not, cut your losses and move along to the next start-up.
8. **Focus on your main goal.** Remember that your main goal is to pull people into the funnel in the hopes of turning a fraction of them into paying customers. 'If we can focus on getting people to listen to more music than they were before and they're building more playlists, they eventually will convert', says Spotify CEO, Daniel Ek.

Figure 16.1 Guidelines for a successful freemium strategy

Source: E. Zoller (2011) Winning with 'freemium' content, *Forum*, April, 30; (2001) Word worth freemium, *Management Today*, May, 13; K. Heires (2006) Why it pays to give away the store, *Business 2.0*, October, 36–7; G. Peoples (2011) A new kind of free, Billboard, 123(46), 30.

There are many ways to find out how much customers value a company's offerings:

- One tactic is to employ researchers to perform so-called discrete choice analysis. In this scenario, customers view different products with different features and are asked to judge the varying prices researchers attach to them. Those findings help a company settle on an attractive mix of features and price them accordingly.
- A simpler, less expensive way to get good pricing information is to ask customers directly. Through qualitative measures, a company can ask customers what they would substitute for a specific product if it did not exist. This will show if customers have alternative options and how good those options are, which reveals the true value of a product or service.
- Another important source of information is company employees. A company's sales force knows a lot about what customers want, need and value in a product, but often they don't have an avenue to share these insights.[11]

Changing a company's pricing strategy often demands a shift in organisational culture. One key to drive such a change in culture is to convince the sales team that low prices or discounts are not always the answer to closing sales, and to ensure that any employee who works directly with customers must be able to explain the value of the product. Ideally, reconsidering pricing will force a company to focus more on its customers' needs and wants.

For any organisation, effectively designing and implementing pricing strategies requires a thorough understanding of consumer pricing psychology and a systematic approach to setting, adapting and changing prices.

Consumer psychology and pricing

Many economists assume that consumers are 'price takers' and accept prices at 'face value' or as given. Marketers recognise that consumers often actively process price information, interpreting prices in terms of their knowledge from prior purchasing experience, formal communications (advertising, sales calls and brochures), informal communications (friends, colleagues or family members), point-of-purchase or online resources, or other factors.[12]

Purchase decisions are based on how consumers perceive prices and what they consider the current actual price to be – not the marketer's stated price. Customers may have a lower price threshold below which prices signal inferior or unacceptable quality, as well as an upper price threshold above which prices are prohibitive and seen as not worth the money.

Understanding how consumers arrive at their perceptions of prices is an important marketing priority. Here we consider three key topics – reference prices, price–quality inferences and price endings.

Reference prices

Research has shown that although consumers may have fairly good knowledge of the range of prices involved, surprisingly few can accurately recall specific prices of products.[13] When examining products, however, consumers often employ **reference prices**, comparing an observed price to an internal reference price they remember or to an external frame of reference such as a posted 'regular retail price'.[14]

All types of reference prices are possible (see Table 16.1) and sellers often attempt to manipulate them. For example, a seller can situate its product among expensive competitors to imply that it belongs in the same class. Department stores will display women's apparel in separate departments differentiated by price; dresses found in the more expensive department are assumed to be of better quality. Marketers also encourage reference-price thinking by stating a high manufacturer's suggested price, or by indicating that the product was priced much higher originally, or by pointing to a competitor's high price. When consumers evoke one or more of these frames of reference, their perceived price can vary from the stated price. Research on reference prices has found that 'unpleasant surprises' – when perceived price is lower than the stated price – can have a greater impact on purchase likelihood than pleasant surprises.[15] Consumer expectations can also play a key role in price response. In the case of internet auction sites such as eBay, when consumers know similar goods will be available in future auctions, they will bid less in the current auction.[16] Also, recent research suggests that high prices increase expectations and set a reference point against which people evaluate their consumption experiences.[17]

Table 16.1 Possible consumer reference prices

- Fair price (what the product should cost)
- Typical price
- Last price paid
- Upper-bound price (reservation price, or what most consumers would pay)
- Lower-bound price (lower threshold price, or the least consumers would pay)
- Competitor prices
- Expected future price
- Usual discounted price

Source: Adapted from R. S. Winer (1988) Behavioral perspectives on pricing: Buyers' subjective perceptions of price revisited, in T. Devinney (ed) *Issues in Pricing: Theory and Research*, Lexington, MA: Lexington Books, 35–57.

Clever marketers try to frame the price to signal the best value possible: for example, a relatively more expensive item can look less expensive if the price is broken down into smaller units. A €350 annual membership may look more expensive than 'under €30 a month', even if the totals are the same.[18]

Price–quality inferences

Many consumers use price as an indicator of quality.[19] Image pricing is especially effective with ego-sensitive products such as perfumes, expensive cars and Armani T-shirts. A €100 bottle of perfume might contain €10 worth of scent, but gift givers pay €100 to communicate their high regard for the receiver. The price of a product therefore serves at least two consumer functions: (1) a higher price may signal higher quality (the 'positive' function of price); (2) the price denotes the monetary sacrifice the consumer must make to obtain the product (the 'negative' function of price).

Price and quality perceptions of cars interact.[20] Higher-priced cars are perceived to possess high quality. Higher-quality cars are likewise perceived to be higher priced than they actually are; as illustrated by this note from a dedicated supporter of the luxury car brand Rolls-Royce: 'If you think "I would love to buy a Rolls-Royce to fulfil my dream, but I cannot afford it!" then think again.' When information about true quality is available, price becomes a less significant indicator of quality and merely functions as a cost component. When this information is not available, price also acts as a signal of quality. Some brands adopt exclusivity and scarcity as a means to signify uniqueness and justify premium pricing. Luxury goods makers of watches, jewellery, perfume and other products often emphasise exclusivity in their communication messages and channel strategies. For customers of luxury goods who desire uniqueness, demand may actually increase with higher prices, as they may believe that fewer other customers will be able to afford to purchase the product.[21] Research even indicates that a status-product manufacturer can benefit from a competitor's cost reduction because of the competitor's price reduction associated with it.[22]

Tiffany

For its entire century-and-a-half history, Tiffany & Co's name has connoted diamonds and luxury. As a cultural icon – its 'Tiffany Blue' colour is even trademarked – Tiffany & Co has survived the economy's numerous ups and downs through the years. With the emergence in the late 1990s of the notion of 'affordable luxuries', Tiffany & Co seized the moment by creating a line of cheaper silver jewellery. Its 'Return to Tiffany' silver bracelet became a must-have item for teens of a certain set. Earnings skyrocketed for the next five years, but the affordable jewellery brought both an image and a pricing crisis for the company: what if all those teens who bought Tiffany & Co charm bracelets grew up to think of Tiffany & Co only as a place where they got the jewellery of their girlhood?

Starting in 2002, the company began hiking its prices again. At the same time, it launched higher-end collections, renovated stores to feature expensive items appealing to mature buyers and expanded aggressively into new cities and shopping malls. When the recession began in 2008, the firm knew it had to be careful not to dilute its high-end appeal. Tiffany & Co offset softer sales largely with cost-cutting and inventory management, and – very quietly – it lowered prices on its best-selling engagement rings only, by roughly 10 per cent.[23] However, based on recent reports concerning the malaise and slumping sales projections for the jewellery establishment – Tiffany in particular – it's easy to come away thinking that twenty- and thirty-something shoppers simply aren't buying jewellery anymore (or, worse, just aren't interested). But that would be a false assumption based on incomplete information. Some argue that brands such as Tiffany simply aren't speaking to the young shopper. The company hasn't adapted well to a newer, open market where brand prestige matters less to consumers, and in its malaise has sprung an influx of new firms, most arriving within the last three to four years (and mostly on the women's side). And while the Tiffanys of the world may not be seeing as many young customers coming through their doors, this new class of competition is certainly seeing them fill up their online shopping carts and passing through their Soho and Hamptons pop-ups and stores.[24]

Price endings

Many sellers believe prices should end in an odd number. Customers see an item priced at €299 in the €200 rather than the €300 range; they tend to process prices in a 'left-to-right' manner rather than by rounding.[25] Price encoding in this fashion is important if there is a mental price break at the higher, rounded price.

Another explanation for the popularity of '9' endings is that they convey the notion of a discount or bargain, suggesting that if a company wants a high-price image, it should avoid the odd-ending tactic.[26] One study even showed that demand was actually increased one-third when the price of a dress rose from €34 to €39 but was unchanged when the price increased from €34 to €44.[27] Findings from another study indicate that changes between just-below (e.g. €29.99 and €39.99) and round (e.g. €30 and €40) pricing affect choice, with just-below pricing shifting share towards lower-priced alternatives.[28]

Prices that end with 0 and 5 are also common in the marketplace; they are thought to be easier for consumers to process and retrieve from memory.[29] 'Sale' signs next to prices have been shown to spur demand, but only if not overused. Total category sales are highest when some, but not all, items in a category have sale signs; past a certain point, sale signs may cause total category sales to fall.[30]

Pricing cues such as sale signs and prices that end in 9 become less effective the more they are employed. They are more influential when consumers' price knowledge is poor, when they purchase the item infrequently or are new to the category, and when product designs vary over time, prices vary seasonally or quality or sizes vary across stores.[31] Limited availability (for example, 'three days only') can also spur sales among consumers actively shopping for a product.[32]

Prices that end with '9' convey the notion of a discount or bargain
Source: Michele Constantini Photo Alto Agency RF collections/Getty Images.

Setting the price

A firm must set a price for the first time when it develops a new product, when it introduces its regular product into a new distribution channel or geographical area, and when it enters bids on new contract work. The firm must decide where to position its product on quality and price.

Most markets have three to five price points or tiers. Operating in nearly 100 countries, French Accor Hotels is a European leader. Accor Hotels is good at developing different brands for different price points: Sofitel luxury hotels (highest price), Pullman Hotels and Resorts (high price), Novotel (high-medium price), Mercure (medium-high price), Suitenovotel (medium price), Ibis (medium-low price), and Etap and Formule 1 (low price). Consumers often rank brands according to these price tiers in a category.[33]

A firm must consider many factors in setting its pricing policy.[34] Let us look in some detail at a six-step procedure: (1) selecting the pricing objective; (2) determining demand; (3) estimating costs; (4) analysing competitors' costs, prices and offers; (5) selecting a pricing method; and (6) selecting the final price.

Step 1: selecting the pricing objective

The company first decides where it wants to position its market offering. The clearer a firm's objectives, the easier it is to set a price. Five major objectives are: survival, maximum current profit, maximum market share, maximum market skimming, and product-quality leadership.

Survival

Companies pursue survival as their major objective if they are plagued with overcapacity, intense competition or changing consumer wants. As long as prices cover variable costs and some fixed costs, the company stays in business. Survival is a short-run objective; in the long run, the firm must learn how to add value or face extinction.

Maximum current profit

Many companies try to set a price that will maximise current profits. They estimate the demand and costs associated with alternative prices and choose the price that produces maximum current profit, cash flow or rate of return on investment. This strategy assumes that the firm has knowledge of its demand and cost functions; in reality, these are difficult to estimate. In emphasising current performance, the company may sacrifice long-run performance by ignoring the effects of other marketing-mix variables, competitors' reactions and legal restraints on price.

Maximum market share

Some companies want to maximise their market share. They believe that a higher sales volume will lead to lower unit costs and higher long-run profit. They set the lowest price, assuming the market is price sensitive. Companies practising this **market-penetration pricing** strategy set their price as low as possible, win a large market share, experience falling costs and cut their price further as costs fall. The following conditions favour adopting a market-penetration pricing strategy: (1) the market is highly price sensitive and a low price stimulates market growth; (2) production and distribution costs fall with accumulated production experience; and (3) a low price discourages actual and potential competition.

Maximum market skimming

Companies unveiling a new technology favour setting high prices to maximise market *skimming*. Sony is a frequent practitioner of **market-skimming pricing**, in which prices start high and slowly drop over time. When Sony introduced the world's first high-definition television (HDTV) to the Japanese market in 1990, it had a price corresponding to €29,000. So that Sony could 'skim' the maximum amount of revenue from the various segments of the market, the price dropped steadily over the years – a 28-inch Sony HDTV cost just over €4,000 in 1993, but a 40-inch Sony HDTV cost about €500 in 2018.

This strategy can be fatal, however, if a worthy competitor decides to price low. When Philips, the Dutch electronics manufacturer, priced its videodisc players to make a profit on each player, Japanese competitors priced low and succeeded in building their market share rapidly, which in turn pushed down their costs substantially.

Market skimming makes sense under the following conditions: (1) a sufficient number of buyers have a high current demand; (2) the unit costs of producing a small volume are not so high that they cancel the advantage of charging what the traffic will bear; (3) the high initial price does not attract more competitors to the market; (4) the high price communicates the image of a superior product.

Product-quality leadership

A company might aim to be the *product-quality leader* in the market. Many brands strive to be 'affordable luxuries' – products or services characterised by high levels of perceived quality, taste and status with a price just high enough not to be out of consumers' reach. Brands such as Starbucks coffee, Aveda shampoo, Victoria's Secret lingerie, BMW cars and Viking range cookers have been able to position themselves as quality leaders in their categories, combining quality, luxury and premium prices with an intensely loyal customer base.

Other objectives

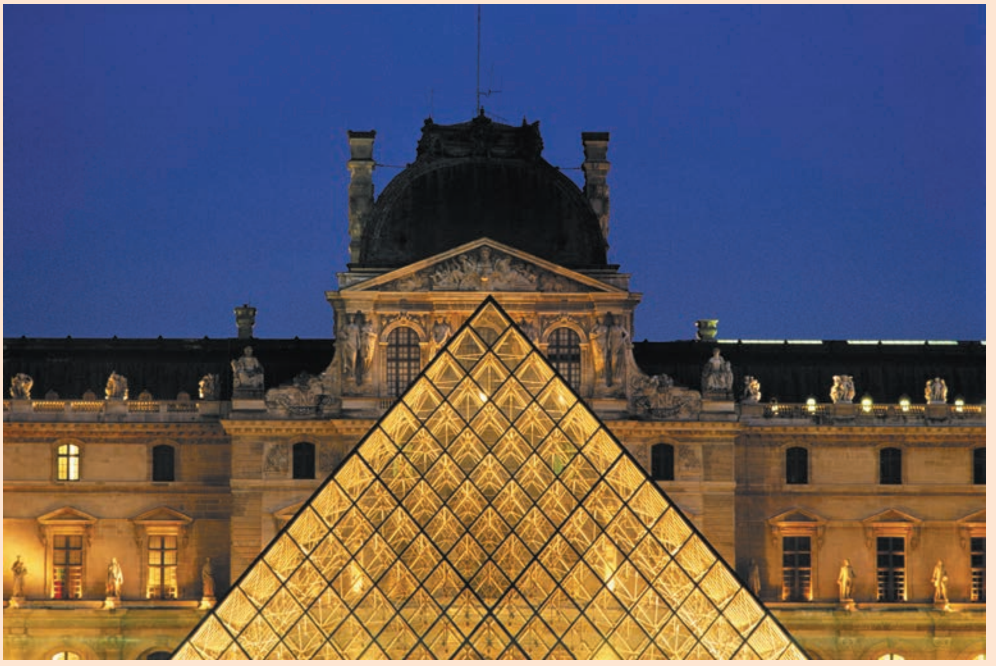
Non-profit and public organisations may have other pricing objectives. A university aims for *partial cost recovery*, knowing that it must rely on private gifts and public grants to cover its remaining costs. A non-profit hospital may aim for full cost recovery in its pricing. A non-profit theatre company may price its productions to fill the maximum number of theatre seats. A social service agency may set a service price geared to client income.

Whatever the specific objective, businesses that use price as a strategic tool will profit more than those that simply let costs or the market determine their pricing. For art museums, which earn only an average of 5 per cent of their revenues from admission charges, pricing can send a message that affects their public image and the number of donations and sponsorships they subsequently receive.

Museums for free?

Should art museums be free? This question arose when it was found that two-thirds of all visitors to French national museums such as the Louvre and Musée d'Orsay are foreign tourists, and that three-quarters of visitors are between the ages of 18 and 25. With a view to persuading more French people to visit their museums, the French government has followed the British and Danish examples of allowing free access to the permanent collections of some of the major museums. Attendance at British museums has doubled since free admission was introduced in 2001. And the diversity of visitors has increased, with the number of young people and people of ethnic minorities on the rise. Temporary shows, for which ticket prices can exceed €15, have also benefited from the free access given to permanent collections.

There are plenty of museums and monuments in Paris and the surrounding area, with remarkable artistic and cultural treasures: for instance, Centre Pompidou, Quai Branly and Musée Carnavalet. Many of them now offer free entrance one night a week, free access to the permanent collections, free access on the first Sunday of the month, depending on the period, discounted entrance or free entrance for children. Other initiatives have also been taken, including the Paris Museum Pass (three consecutive days costs €160). With this pass there is no entrance fee at more than 50 museums and historic places in and around Paris, including the Louvre, Notre Dame, Musée d'Orsay, Château de Versailles, Musée National Picasso, Centre Pompidou, Musée Rodin, Château de Rambouillet and other must-sees.[35]



Should access to museums be free to the public?
Source: A&L Sinibaldi/Stone/Getty Images.

Step 2: determining demand

Each price will lead to a different level of demand and will therefore have a different impact on a company's marketing objectives. The relationship between price and demand is captured in a demand curve (see Figure 16.2). In the normal case, the two are inversely related: the higher the price, the lower the demand. In the case of prestige goods, the demand curve sometimes slopes upwards. One perfume company raised its price and sold more perfume rather than less! Some consumers take the higher price to signify a better product. However, if the price is too high, the level of demand may fall again.

Price sensitivity

The demand curve shows the market's probable purchase quantity at alternative prices. It sums the reactions of many individuals who have different price sensitivities. The first step in estimating

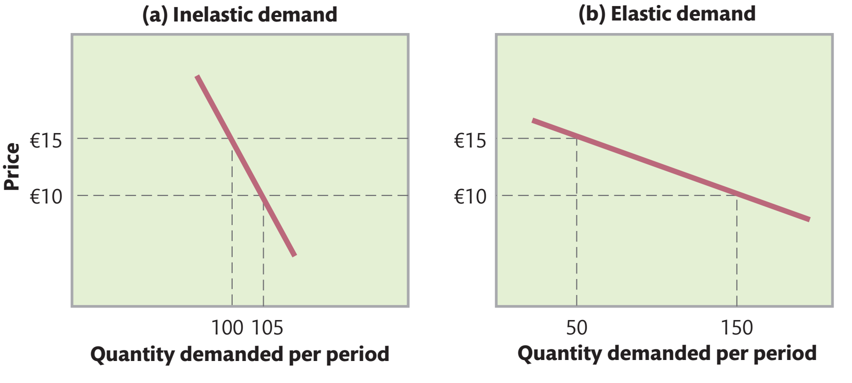


Figure 16.2 Inelastic and elastic demand

demand is to understand what affects price sensitivity. Generally speaking, customers are less price sensitive to low-cost items or items they buy infrequently. They are also less price sensitive when: (1) there are few or no substitutes or competitors; (2) they do not readily notice the higher price; (3) they are slow to change their buying habits; (4) they think the higher prices are justified; and (5) price is only a small part of the total cost of obtaining, operating and servicing the product over its lifetime.

A seller can charge a higher price than competitors and still get the business if it can convince the customer that it offers the lowest *total cost of ownership* (TCO). Marketers often do not realise the value they actually provide but think only in terms of product features. They treat the service elements in a product offering as sales incentives rather than as value-enhancing augmentations for which they can charge. In fact, pricing expert Tom Nagle believes the most common mistake manufacturers have made in recent years has been to offer all sorts of services to differentiate their products without charging for them in any way.[36]

Of course, companies prefer customers who are less price sensitive. Table 16.2 lists some characteristics associated with decreased price sensitivity. Meanwhile, the internet has the potential to increase price sensitivity. In some established, fairly big-ticket categories such as car retailing and term insurance, consumers pay lower prices as a result of the internet. Car buyers use the internet to gather information and to use the negotiating clout of an online buying service.[37] But customers must visit multiple sites to realise these savings, and they do not always do so. Targeting only price-sensitive consumers may in fact be 'leaving money on the table'.

Estimating demand curves

Most companies make some attempt to measure their demand curves, using several different methods:

- **Surveys** can explore how many units consumers would buy at different proposed prices, although there is always the chance they might understate their purchase intentions at higher prices to discourage the company from setting higher prices.
- **Price experiments** can vary the prices of different products in a shop or charge different prices for the same product in similar territories to see how the change affects sales. Another approach is to use the internet. An e-business could test the impact of a 5 per cent price increase by quoting a higher price to every 40th visitor to compare the purchase response. However, it must do this carefully and not alienate customers.
- **Statistical analysis** of past prices, quantities sold and other factors can reveal their relationships. The data can be longitudinal (over time) or cross-sectional (from different locations at the same time). Building the appropriate model and fitting the data with the proper statistical techniques calls for considerable skill.

Advances in database management have improved marketers' abilities to optimise pricing. A large retail chain uncovered a new strategy by analysing its data. It sold three similar power drills: one for about £45 (€57), a purportedly better one at £60 and a top-tier one at £65. The higher the price, the more the store profited. But while drill know-it-alls flocked to the £65 model and price

Table 16.2 Factors leading to less price sensitivity

- The product is more distinctive
- Buyers are less aware of substitutes
- Buyers cannot easily compare the quality of substitutes
- The expenditure is a smaller part of the buyer's total income
- The expenditure is small compared to the total cost of the end product
- Part of the cost is borne by another party
- The product is used in conjunction with assets bought previously
- The product is assumed to have more quality, prestige or exclusiveness
- Buyers cannot store the product

Source: Adapted from T. T. Nagle and R. K. Holden (2001) *The Strategy and Tactics of Pricing*, 3rd edn, Chapter 4.

fretters grabbed its £45 cousin, shoppers often ignored the middle one. After analysing an array of variables, including sales history and competitors' prices, the retailer cut the middle drill to £55. Drill aficionados still chose the £65 option and sales of that drill did not change. However, now that the £45 version seemed less of a bargain, the store sold 4 per cent fewer low-end drills – and 11 per cent more of the mid-range model. As a result, profits rose.[38]

In measuring the price–demand relationship, the market researcher must control various factors that will influence demand.[39] The competitor's response will make a difference. Also, if the company changes other marketing-mix factors besides price, the effect of the price change itself will be hard to isolate.

Price elasticity of demand

Marketers need to know how responsive, or elastic, demand would be to a change in price. Consider the two demand curves in Figure 16.2. In demand curve (a), a price increase from €10 to €15 leads to a relatively small decline in demand from 105 to 100. In demand curve (b), the same price increase leads to a substantial drop in demand from 150 to 50. If demand hardly changes with a small change in price, we say the demand is *inelastic*. If demand changes considerably, demand is *elastic*. The higher the elasticity, the greater the volume growth resulting from a 1 per cent price reduction. If demand is elastic, sellers will consider lowering the price. A lower price will produce more total revenue. This makes sense as long as the costs of producing and selling more units do not increase disproportionately.

Price elasticity depends on the magnitude and direction of the contemplated price change. It may be negligible with a small price change and substantial with a large price change. It may differ for a price cut versus a price increase, and there may be a *price indifference band* within which price changes have little or no effect.

Finally, long-run price elasticity may differ from short-run elasticity. Buyers may continue to buy from a current supplier after a price increase, but they may eventually switch suppliers. Here demand is more elastic in the long run than in the short run, or the reverse may happen: buyers may drop a supplier after being notified of a price increase but return later. The distinction between short-run and long-run elasticity means that sellers will not know the total effect of a price change until time passes.

One comprehensive study reviewing a 40-year period of academic research projects that investigated price elasticity yielded a number of interesting findings:[40]

- The average price elasticity across all products, markets and time periods studied was 22.62.
- Price elasticity magnitudes were higher for durable goods than for other goods, and higher for products in the introduction/growth stages of the product life cycle than in the mature/decline stages.
- Inflation led to substantially higher price elasticities, especially in the short run.
- Promotional price elasticities were higher than actual price elasticities in the short run (although the reverse was true in the long run).
- Price elasticities were higher at the individual-item or stock-keeping-unit (SKU) level than at the overall brand level.

Step 3: estimating costs

Demand sets a ceiling on the price the company can charge for its product. Costs set the floor. The company wants to charge a price that covers its cost of producing, distributing and selling the product, including a fair return for its effort and risk. Yet, when companies price products to cover their full costs, profitability is not always the net result.

Types of costs and levels of production

A company's costs take two forms: fixed and variable. **Fixed costs** (also known as **overhead costs**) are costs that do not vary with production level or sales revenue. A company must pay bills each month for rent, heat, interest, salaries and so on, regardless of output.

Variable costs vary directly with the level of production. For example, each handheld calculator produced by Texas Instruments incurs the cost of plastic, microprocessor chips and packaging. These costs tend to be constant per unit produced, but they are called variable because their total varies with the number of units produced.

Total costs consist of the sum of the fixed and variable costs for any given level of production. **Average cost** is the cost per unit at that level of production; it equals total costs divided by production. Management wants to charge a price that will at least cover the total production costs at a given level of production.

To price intelligently, management needs to know how its costs vary with different levels of production. Take the case in which a company has built a fixed-size plant to produce 1,000 units a day. The cost per unit is high if few units are produced per day. As production approaches 1,000 units per day, the average cost falls because the fixed costs are spread over more units. Short-run average cost (SRAC) increases after 1,000 units, however, because the plant becomes inefficient: workers must line up for machines, getting in each other's way, and machines break down more often (see Figure 16.3(a)).

If the company believes it can sell 2,000 units per day, it should consider building a larger plant. The plant will use more efficient machinery and work arrangements, and the unit cost of producing 2,000 units per day will be lower than the unit cost of producing 1,000 units per day. This is shown in the long-run average cost (LRAC) curve in Figure 16.3(b). In fact, a 3,000-capacity plant would be even more efficient according to Figure 16.3(b), but a 4,000-daily production plant would be less so because of increasing diseconomies of scale: there are too many workers to manage and paperwork slows things down. Figure 16.3(b) indicates that a 3,000-daily production plant is the optimal size if demand is strong enough to support this level of production.

There are more costs than those associated with manufacturing. To estimate the real profitability of selling to different types of retailer or customer, the manufacturer needs to use **activity-based cost (ABC) accounting** instead of standard cost accounting. ABC accounting tries to identify the real costs associated with serving each customer. It allocates indirect costs, such as clerical costs, office expenses, supplies and so on, to the activities that use them, rather than in some proportion to direct costs. Both variable and overhead costs are tagged back to each customer.

Companies that fail to measure their costs correctly are also not measuring their profit correctly and are likely to misallocate their marketing effort. The key to employing ABC effectively is to define and judge 'activities' properly. One proposed time-based solution calculates the cost of one minute of overhead and then decides how much of this cost each activity uses.[41]

Accumulated production

Suppose a company runs a plant that produces 3,000 units per day. As the company gains experience in producing more and more units, its methods improve. Workers learn short cuts, materials

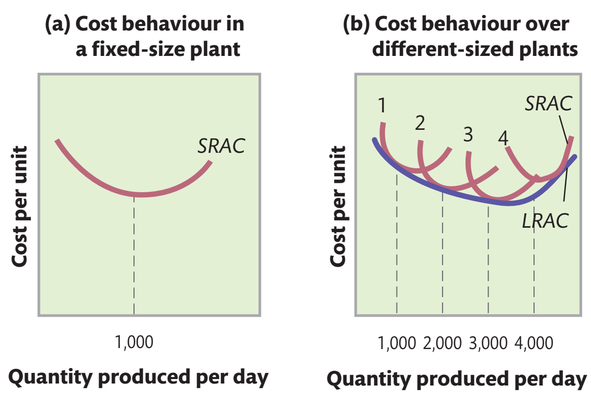


Figure 16.3 Cost per unit at different levels of production per period

flow more smoothly and procurement costs fall. The result, as Figure 16.4 shows, is that average cost falls with accumulated production experience. Thus, the average cost of producing the first 100,000 units is €10 per unit. When the company has produced the first 200,000 units, the average cost falls to €9. After its accumulated production experience doubles again to 400,000, the average cost is €8. This decline in the average cost with accumulated production experience is called the **experience curve** or **learning curve**.

Now suppose three firms compete in this industry, our company, A and B. Our company is the lowest-cost producer at €8, having produced 400,000 units in the past. If all three firms sell one unit for €10, our company makes €2 profit per unit, A makes €1 per unit and B breaks even. The smart move for our company would be to lower its price to €9. This will drive B out of the market, and even A may consider leaving. Our company will then pick up the business that would have gone to B (and possibly A). Furthermore, price-sensitive customers will enter the market at the lower price. As production increases beyond 400,000 units, our company's costs will drop still further and faster and will more than restore its profits, even at a price of €9.

Experience-curve pricing nevertheless carries major risks. Aggressive pricing might give the product a cheap image. The strategy also assumes that competitors are weak followers. It leads the company into building more plants to meet demand, but a competitor may choose to innovate with a lower-cost technology. The market leader is now stuck with the old technology.

Most experience-curve pricing has focused on manufacturing costs, but all costs can be improved on, including marketing costs. If three firms are each investing a large sum of money in marketing, the firm that has used it the longest might achieve the lowest costs. This firm can charge a little less for its product and still earn the same return, all other costs being equal.[42]

Target costing

Costs change with production scale and experience. They can also change as a result of a concentrated effort by designers, engineers and purchasing agents to reduce them through **target costing**.[43] Market research establishes a new product's desired functions and the price at which the product will sell, given its appeal and competitors' prices. Deducting the desired profit margin from this price leaves the target cost the marketer must achieve.

The firm must examine each cost element – design, engineering, manufacturing, sales – and consider different ways to bring down costs so the final cost projections are in the target cost range. If this is not possible, it may be necessary to stop developing the product because it cannot sell for the target price and make the target profit. To hit price and margin targets, marketers of the 9Lives® brand of cat food employed target costing to bring the price down to 'four cans for a euro' through a reshaped package and redesigned manufacturing processes. Even with lower prices, profits for the brand doubled. Other companies such as Aldi take advantage of global scope.

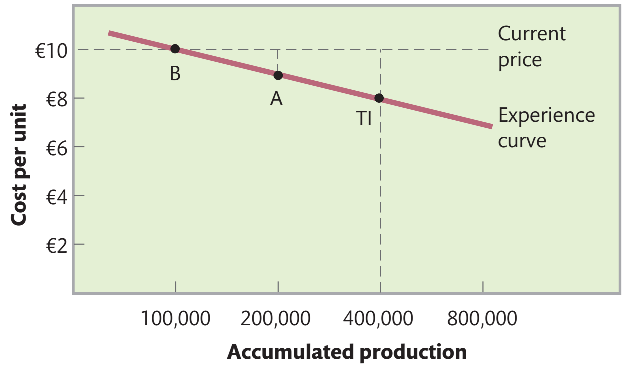


Figure 16.4 Cost per unit as a function of accumulated production: the experience curve

Step 4: analysing competitors' costs, prices and offers

Within the range of possible prices determined by market demand and company costs, the firm must take competitors' costs, prices and possible price reactions into account. The firm should first consider the nearest competitor's price. If the firm's offer contains features not offered by the nearest competitor, it should evaluate their worth to the customer and add that value to the competitor's price. If the competitor's offer contains some features not offered by the firm, the firm should subtract their value from its own price. Now the firm can decide whether it can charge more than, the same as or less than the competitor. The introduction of any price or the change of any existing price can provoke a response from customers, competitors, distributors, suppliers and even government. Competitors are most likely to react when the number of firms are few, the product is homogeneous (i.e. when no important differences between the product and competing products are perceived by buyers), and buyers are highly informed. How can a firm anticipate a competitor's reactions? One way is to assume the competitor reacts in the standard way to a price being set or changed. Another is to assume the competitor treats each price difference or change as a fresh challenge and reacts according to self-interest at the time. Now the company will need to research the competitor's current financial situation, recent sales, customer loyalty and corporate objectives. If the competitor has a market-share objective, it is likely to match price differences or changes.[44] If it has a profit-maximisation objective, it may react by increasing the advertising budget or improving product quality.

The problem is complicated because the competitor can put different interpretations on lowered prices or a price cut: that the company is trying to steal the market, that the company is doing poorly and trying to boost its sales, or that the company wants the whole industry to reduce prices to stimulate total demand.

Step 5: selecting a pricing method

Given the customers' demand schedule, the cost function and competitors' prices, the company is now ready to select a price. Figure 16.5 summarises the three major considerations in price setting: costs set a floor to the price; competitors' prices and the price of substitutes provide an orienting point; customers' assessment of unique features establishes the price ceiling.

Companies select a pricing method that includes one or more of these three considerations. We will examine six price-setting methods: mark-up pricing, target-return pricing, perceived-value pricing, value pricing, going-rate pricing and auction-type pricing.

Figure 16.5 The three Cs model for price setting

Mark-up pricing

The most elementary pricing method is to add a standard **mark-up** to the product's cost. Construction companies submit job bids by estimating the total project cost and adding a standard mark-up for profit. Lawyers and accountants typically price by adding a standard mark-up on their time and costs.

Suppose a toaster manufacturer has the following costs and sales expectations:

Variable cost per unit	€10
Fixed costs	€300,000
Expected unit sales	50,000

The manufacturer's unit cost is given by:

$$\text{Unit cost} = \text{variable cost} + \frac{\text{fixed cost}}{\text{unit sales}} = €10 + \frac{€300{,}000}{50{,}000} = €16$$

Now assume the manufacturer wants to earn a 20 per cent mark-up on sales. The manufacturer's mark-up price is given by:

$$\text{Mark-up-price} = \frac{\text{unit cost}}{(1 - \text{desired return on sales})} = \frac{€16}{1 - 02} = €20$$

The manufacturer would charge dealers €20 per toaster and make a profit of €4 per unit. The dealers in turn will mark up the toaster. If dealers want to earn 60 per cent on their selling price, they will mark up the toaster 100 per cent to €40. Mark-ups are generally higher on seasonal items (to cover the risk of not selling), speciality items, slower-moving items, items with high storage and handling costs and demand-inelastic items, such as prescription drugs.

Does the use of standard mark-ups make logical sense? Generally, no. Any pricing method that ignores current demand, perceived value and competition is not likely to lead to the optimal price. Mark-up pricing works only if the marked-up price actually brings in the expected level of sales. Still, mark-up pricing remains popular. First, sellers can determine costs far more easily than they can estimate demand. By tying the price to cost, sellers simplify the pricing task. Second, where all firms in the industry use this pricing method, prices tend to be similar and price competition is minimised.[45] Third, many people feel that cost-plus pricing is fairer to both buyers and sellers. Sellers do not take advantage of buyers when the latter's demand becomes acute, and sellers earn a fair return on investment.

Target-return pricing

In **target-return pricing**, the firm determines the price that would yield its target rate of return on investment. General Motors has priced its automobiles to achieve a 15–20 per cent ROI. Public utilities, which need to make a fair return on investment, can also use this method (see Chapter 22 for more on ROI).

Suppose the toaster manufacturer has invested €1 million in the business and wants to set a price to earn a 20 per cent ROI, specifically €200,000. The target-return price is given by the following formula:

$$\text{Target-return price} = \text{unit cost} + \frac{\text{desired return} \times \text{invested capital}}{\text{unit sales}}$$

$$= €16 + \frac{0.20 \times €1{,}000{,}000}{50{,}000} = €20$$

The manufacturer will realise this 20 per cent ROI provided its costs and estimated sales turn out to be accurate. But what if sales do not reach 50,000 units? The manufacturer can prepare a break-even chart to learn what would happen at other sales levels (see Figure 16.6). Fixed costs are €300,000 regardless of sales volume. Variable costs, not shown in the figure, rise with volume. Total costs equal the sum of fixed costs and variable costs. The total revenue curve starts at zero and rises with each unit sold.

The total revenue and total cost curves cross at 30,000 units. This is the break-even volume. We can verify it by the following formula:

$$\text{Break-even volume} = \frac{\text{fixed cost}}{(\text{price} - \text{variable cost})} = \frac{€300{,}000}{€20 - €10} = 30{,}000$$

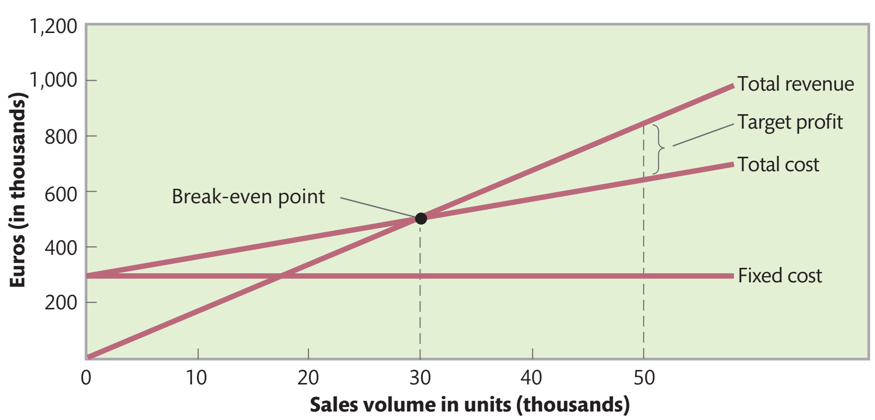


Figure 16.6 Break-even chart for determining target-return price and break-even volume

The manufacturer, of course, is hoping the market will buy 50,000 units at €20, in which case it earns €200,000 on its €1 million investment, but much depends on price elasticity and competitors' prices. Unfortunately, target-return pricing tends to ignore these considerations. The manufacturer needs to consider different prices and estimate their probable impacts on sales volume and profits. The manufacturer should also search for ways to lower its fixed or variable costs, because lower costs will decrease its required break-even volume. Acer has been gaining share in the netbook market through rock-bottom prices made possible because of its bare-bones cost strategy. Acer sells only via retailers and other outlets and outsources all manufacturing and assembly, reducing its overhead to 8 per cent of sales versus 14 per cent at Dell and 15 per cent at HP.[46]

Perceived-value pricing

An increasing number of companies now base their price on the customer's **perceived value**. Perceived value is made up of several elements, such as the buyer's image of the product performance, the ability to deliver on time, the warranty quality, customer support and softer attributes such as the supplier's reputation, trustworthiness and esteem. Companies must deliver the value promised by their value proposition, and the customer must perceive this value. Firms use the other marketing-mix elements, such as advertising and sales force, to communicate and enhance perceived value in buyers' minds.[47]

Caterpillar uses perceived value to set prices on its construction equipment. It might price its tractor at €100,000, although a similar competitor's tractor might be priced at €90,000. When a prospective customer asks a Caterpillar dealer why he should pay €10,000 more for the Caterpillar tractor, the dealer answers:

€ 90,000	is the tractor's price if it is only equivalent to the competitor's tractor;
€ 7,000	is the price premium for Caterpillar's superior durability;
€ 6,000	is the price premium for Caterpillar's superior reliability;
€ 5,000	is the price premium for Caterpillar's superior service;
€ 2,000	is the price premium for Caterpillar's longer warranty on parts;
€ 110,000	is the normal price to cover Caterpillar's superior value;
€ 10,000	is the discount;
€100,000	is the final price.

The Caterpillar dealer is able to indicate why Caterpillar's tractor delivers more value than the competitor's. Although the customer is asked to pay a €10,000 premium, he is actually getting €20,000 extra value. He chooses the Caterpillar tractor because he is convinced that its lifetime operating costs will be lower.

Ensuring that customers appreciate the total value of a product or service offering is crucial. For example, Danish online children's clothing store 'mormor.nu' (*mormor.nu* is Danish for grandmother now) employs more than 130 grandmothers from all parts of Denmark who create handmade children's clothing items. Mormor.nu is able to command premium prices because of its skill in bringing the trends of nostalgia, storytelling, authenticity, design, style and uniqueness together in a single concept. The company has a relentless focus on crucial aspects of the customer experience, such as creating handmade quality garments from pure wool, alpaca wool or cotton, and adding a sense of uniqueness and authenticity – each piece of clothing comes with a small name-tag signed by the grandmother who made the item. Because of higher perceived quality – making the products meet modern demands for fashionable children's clothing, as well as for old-fashioned quality and honest materials – the higher prices (e.g. €16 for a pair of baby socks or €160 for a baby shawl) come to match the product offer in the mind of the consumer. Mormor.nu even bucks the commoditisation trend by custom-designing clothing items to individual specifications.[48]

Mormor.nu creates handmade children's clothing items
Source: Robert Mandel/Shutterstock

Yet even when a company claims that its offering delivers more total value, not all customers will respond positively. There is always a segment of buyers who care only about the price. Other buyers suspect the company is exaggerating its product quality and services. One company installed its software system in one or two plants operated by a customer. The substantial and well-documented cost savings convinced the customer to buy the software for its other plants.

The key to perceived-value pricing is to deliver more value than the competitor and to demonstrate this to prospective buyers. Basically, a company needs to understand the customer's decision-making process. The company can try to determine the value of its offering in several ways: managerial judgements within the company, consumer ratings data, value of similar products, focus groups, surveys, experimentation, analysis of historical data and conjoint analysis.[49] Table 16.3 shows six key considerations in developing value-based pricing.

Value pricing

In recent years, several companies have adopted **value pricing**. They win loyal customers by charging a fairly low price for a high-quality offering. Value pricing is thus not a matter of simply setting lower prices: it is a matter of re-engineering the company's operations to become a low-cost producer without sacrificing quality, to attract a large number of value-conscious customers. Among the best practitioners of value pricing are IKEA, airlines such as EasyJet and Ryanair, and supermarket chains Tesco and ASDA.

Table 16.3 A framework of questions for practising value-based pricing

1	What is the market strategy for the segment? (What does the supplier want to accomplish? What would the supplier like to have happen?)
2	What is the differential value that is *transparent* to target customers? ('Transparent' means that target customers easily understand how the supplier calculates the differential value between its offering and the next-best alternative, and that the differential value can be verified with the customer's own data.)
3	What is the price of the next-best alternative offering?
4	What is the cost of the supplier's marketing offering?
5	What pricing tactics will be used initially or eventually? ('Pricing tactics' are changes from a price that a supplier has set for its marketing offering – such as discounts – that motivate customers to take actions that benefit the supplier.)
6	What is the customer's expectation of a 'fair' price?

Source: J. C. Anderson, M. Wouters and W. Van Rossum (2010) Why the highest price isn't the best price, *MIT Sloan Management Review*, Winter 69–76.

Value pricing can change the manner by which a company sets prices too. One company that sold and maintained switch boxes in a variety of sizes for telephone lines found that the probability of failure – and thus maintenance costs – was proportional to the number of switches customers had in their boxes rather than to the dollar value of the installed boxes. The number of switches could vary in a box, though. Therefore, rather than charging customers based on the total spent on their installation, the company began charging based on the total number of switches needing servicing.[50]

An important type of value pricing is **everyday low pricing** (EDLP), which takes place at the retail level. A retailer that holds to an EDLP pricing policy charges a constant low price with little or no price promotions and special sales. These constant prices eliminate week-to-week price uncertainty and the 'high–low' pricing of promotion-orientated competitors. In **high–low pricing**, the retailer charges higher prices on an everyday basis but then runs frequent promotions in which prices are temporarily lowered below the EDLP level.[51] The two different pricing strategies have been shown to affect consumer price judgements – deep discounts (EDLP) can lead customers to perceive lower prices over time than can frequent, shallow discounts (high-low), even if the actual averages are the same.[52]

In recent years, high–low pricing has given way to EDLP at widely different venues, including hardware stores such as Bauhaus (an international chain with more than 220 outlets across Europe and with a head office in Zug, Switzerland) and kitchen companies such as Kvik (part of the Swedish group Ballingslöv), but in European grocery retailing, so-called 'hard discounters' such as Aldi, Lidl and Netto have been committed to a long-term strategy of offering everyday low prices on major brands since the beginning of the 1990s. Having enjoyed annual growth of around 7 per cent since 1991, these discounters have come to comprise a major force in European retailing, and now command high market shares in, for example, the UK, Germany, Belgium and Austria.[53]

Some retailers have even based their entire marketing strategy around what could be called *extreme* everyday low pricing. Partly fuelled by an economic downturn, and partly by changes in consumer habits (where shoppers reject price premiums yet are willing to pay more where they perceive value), once-unfashionable 'dollar stores' are gaining in popularity.

Flying Tiger shops

In recent years, Flying Tiger shops have been breaking the boundaries for what is possible to buy for 10, 20, 50 or 100 Danish kroner (DKK). €1 equals approximately DKK8. The word 'tiger' sounds like 'ti'er', which is short for DKK10. This ultra-discount chain does not consist of DKK10 stores in the strict sense of the word – Flying Tiger shops sell many items over DKK10.

The Flying Tiger chain has developed a successful formula for drawing in customers: build small, easy-to-navigate stores; keep overheads low by maintaining only a limited inventory; spend sparingly on store décor and get a lot of free word-of-mouth publicity. This has made customers aware that Tiger stocks kitchenware, office ware, beauty aids, make-up, toys, games, films, socks, underwear, reading glasses, spices, candles and many other products. Among these, some are surplus stock of well-known brands, but most of the products are bought directly from the factory to keep costs down. A majority of Flying Tiger shoppers are women, who shop in Flying Tiger for small presents for Christmas stockings, for children's birthday parties, or on impulse. But there are also customers who shop for low-priced everyday necessities – particularly in the provinces.

While Flying Tiger started in 1995 (named just 'Tiger' at the time) in stylish Copenhagen, the Flying Tiger chain now has over 600 Flying Tiger shops, many of which are located in European countries, including Denmark, England, Germany, Greece, Iceland, Latvia, Lithuania, the Netherlands, Spain, Sweden and many others. Flying Tiger aims at having 1,500 stores by 2020.[54]

The most important reason why retailers adopt EDLP is that constant sales and promotions are costly and have eroded consumer confidence in the credibility of everyday shelf prices. Consumers also have less time and patience for such time-honoured traditions as watching for supermarket specials and clipping coupons. Yet there is no denying that promotions create excitement and draw shoppers. For this reason, EDLP is not a guarantee of success. As supermarkets face heightened competition from their counterparts and from alternative channels, many find that the key to drawing shoppers is using a combination of high–low and everyday-low pricing strategies, with increased advertising and promotions.

Going-rate pricing

In **going-rate pricing**, the firm bases its price largely on competitors' prices, charging the same as, more than or less than major competitor(s). In oligopolistic industries (i.e. industries dominated by a small number of sellers) that sell a commodity such as steel, paper or fertiliser, all firms normally charge the same price. The smaller firms 'follow the leader', changing their prices when the market leader's prices change rather than when their own demand or costs change. Some firms may charge a slight premium or slight discount, but they preserve the amount of difference. Thus minor petrol stations usually charge a few pence less per gallon than the major oil companies, without letting the difference increase or decrease.

Going-rate pricing is quite popular. Where costs are difficult to measure or competitive response is uncertain, firms feel the going price is a good solution because it is thought to reflect the industry's collective wisdom.

Marketing in action

Private labels

Consumers are frequently faced with judging the quality of various products when determining what to buy, in what amount. It may, however, be difficult for consumers to assess the importance of various quality-aspects in relation to each other and in relation to requirements rooted in the intended use of the products. Therefore, consumers are often faced with uncertainty when making judgements of the quality of products. In that respect, consumers have for years used product brands to infer the quality of many products, and supermarkets wishing to market their own brands (private labels) have faced difficult times. However, it seems that the days of branded **fast-moving consumer goods (FMCG)** overshadowing the cheap private labels are numbered. Based on a large survey comprising 27,000 consumers in 51 countries, an AC Nielsen report finds that 60 per cent of all Europeans have increased their purchase of private-label products. And, even more important, 90 per cent say that they will continue purchasing the same amount of private labels even when the economy has fully recovered. These findings are consistent with results from Lightspeed Research revealing that nearly every other UK consumer buys more private-label products. This being said, it should also be noted, however, that research carried out by Nenycz-Thiel and Romaniuk suggests that advertised national brands enjoy a higher level of knowledge among non-users than do private labels. This difference may mainly be attributed to a lower level of out-of-store advertising for private labels.

Clearly, an advantage of private labels today is that supermarkets have managed simultaneously to close the quality gap and hold the price gap between branded FMCG manufacturers and private labels. In addition, increasing globalisation, the emergence of the internet (making information and price comparisons readily available), and the consequent increasing market shares of private labels have contributed to their increased popularity.

While consumers seem to be impressed by the quality of supermarkets' premium brand names, they are less confident about the products' prestige. Most consumers find that supermarket brands are less suitable than named brands when purchasing gifts. A similar picture is found when consumers are asked to buy food for others. In such situations, only 21 per cent would buy a premium supermarket product, while 69 per cent would buy a named brand. And only 9 per cent would buy something from a regular supermarket range.

Own-label brands still lack 'the cool factor or the posh factor' of other brands, says Ralph Risk, marketing director for EMEA at Lightspeed. 'Supermarkets have to be very careful not to degrade the image of premium own-label goods and their brand values by giving it too much discount, or making the cost too cheap. I think it is a balancing act to encourage people to purchase them without actually damaging the brand by making it look like it is a cheaper brand.'

To compete with private labels, manufacturers of branded FMCG goods may wish to launch value versions of branded goods or to open their own stores. Alternatively, branded goods manufacturers may cooperate with retailers to create a lower-priced branded option – in fact, many large manufacturers have developed products as private labels, suggesting that the relationship between branded goods manufacturers and private labels should not be understood as competitive, or they may seek to innovate and improve their products at a rate that prevents labels from keeping up and copying the design.

Questions

1 Elaborate on the introduction of private labels. Why is it working so well for supermarkets nowadays?
2 Private labels do very well when the economy turns sour. What competitive actions can be taken by FMCG managers when the economy is on the rise? Explain.

Sources: M. Nenycz-Thiel and J. Romaniuk (2014) The real difference between consumers' perception of private labels and national brands, *Journal of Consumer Behaviour*,13(4), 262–269; Retail Industry Snapshot (2014) Dairy firm Nilgiri's to launch smaller, pure convenience stores, expand private label portfolio to boost margins, 13 April; R. Baker (2012) Brands under pressure from own labels, *Marketing Week*, 23 May; M. Barnett (2010) Premium lines offer quality at a lower price, *Marketing Week*, 16 December; J. K. Jørgensen (2011) Supermarkeder storsælger egne mærker, *EPN*, 3 March; M. Hubert (2009) Quo vadis manufacturers? Private label strategy: How to meet the store brand challenge, *International Journal of Retail and Distribution Management*, 37(11), 1,008.

Sainsbury's has developed a powerful private-label programme
Source: Rido/123RF

Auction-type pricing

Auction-type pricing is growing more popular, especially with the growth of the internet. There are thousands of electronic marketplaces selling everything from pigs to used vehicles and cargo to chemicals. One major purpose of auctions is to dispose of excess inventories or used goods. Companies need to be aware of the three major types of auction and their separate pricing procedures:

- **English auctions (ascending bids):** one seller and many buyers. On sites such as Yahoo! Shopping Auctions, auctionata and eBay, the seller puts up an item and bidders raise the offer price until the top price is reached. The highest bidder gets the item. English auctions (the term commonly used for these kinds of auction – but known also as 'ascending-price' auctions) are used today for selling antiques, cattle, property, and used equipment and vehicles.
- **Dutch auctions (descending bids):** one seller and many buyers, or one buyer and many sellers. In the first kind, an auctioneer announces a high price for a product and then slowly decreases the price until a bidder accepts the price. In the other, the buyer announces something he or she wants to buy, and potential sellers compete to get the sale by offering the lowest price. Each seller sees what the last bid is and decides whether to go lower. FreeMarkets.com – later acquired by Ariba – helped Royal Mail Group plc, the UK's public postal service company, save approximately £2.5 million, in part via an auction where 25 airlines bid for its international freight business.[55]
- **Sealed-bid auctions:** would-be suppliers can submit only one bid and cannot know the other bids. Governments often use this method to procure supplies (see Chapter 8). A supplier will not bid below its cost but cannot bid too high for fear of losing the job. The net effect of these two pulls can be described in terms of the bid's expected profit. Using expected profit for setting price makes sense for the seller that makes many bids. The seller who bids only occasionally or who needs a particular contract badly will not find it advantageous to use expected profit. This criterion does not distinguish between a €1,000 profit with a 0.10 probability and a €125 profit with a 0.80 probability. Yet the firm that wants to keep production going would prefer

the second contract to the first. Recent research suggests that English open auctions are likely to result in higher prices than sealed-bid auctions because bidders can infer other bidders' information by observing their bids.[56]

As more and more firms use online auctions for industrial buying, they need to recognise the possible effects they can have on their suppliers. If the increased savings a firm obtains in an online auction translate into decreased margins for an incumbent supplier, the supplier may feel the firm is opportunistically squeezing out price concessions.[57] Online auctions with a large number of bidders, greater economic stakes and less visibility in pricing have been shown to result in greater overall satisfaction, more positive future expectations and fewer perceptions of opportunism.

Step 6: selecting the final price

Pricing methods narrow the range from which the company must select its final price. In selecting that price, the company must consider additional factors, including the impact of other marketing activities, company pricing policies, gain-and-risk-sharing pricing and the impact of price on other parties.

Impact of other marketing activities

The final price must take into account the brand's quality and advertising relative to the competition. In a classic study, Farris and Reibstein examined the relationships among relative price, relative quality and relative advertising for 227 consumer businesses and found the following:

- Brands with average relative quality but high relative advertising budgets were able to charge premium prices. Consumers were willing to pay higher prices for known products than for unknown products.
- Brands with high relative quality and high relative advertising obtained the highest prices. Conversely, brands with low quality and low advertising charged the lowest prices.
- The positive relationship between high prices and high advertising held most strongly in the later stages of the product life cycle for market leaders.[58]

Company pricing policies

The price must be consistent with company pricing policies. At the same time, companies are not averse to establishing pricing penalties under certain circumstances.[59]

Banks charge fees for too many withdrawals in a month or for early withdrawal of a certificate of deposit. Dentists, hotels, car rental companies and other service providers charge penalties for no-shows who miss appointments or reservations. Although these policies are often justifiable, marketers must use them judiciously so as not to alienate customers unnecessarily.

Many companies set up a pricing department to develop policies and establish or approve decisions. The aim is to ensure that salespeople quote prices that are reasonable to customers and profitable to the company. With consumers stubbornly resisting higher prices, companies are trying to figure out how to increase revenue without really raising prices. Increasingly, the solution has been through the addition of fees for what had once been free features. Although some consumers abhor 'nickel-and-dime' pricing strategies, small additional charges can add up to a substantial source of revenue. The telecommunications (and airline) industry in general has been aggressive at adding fees for set-up, change-of-service, service termination, directory assistance, regulatory assessment, number portability, and cable hook-up and equipment, costing consumers billions of euro.

Gain-and-risk-sharing pricing

Buyers may resist accepting a seller's proposal because of a high perceived level of risk. The seller has the option of offering to absorb part or all the risk if it does not deliver the full promised value. Aircraft manufacturer Bombardier Aerospace was able to secure a contract for the delivery of 27 regional and turboprop planes to Scandinavian Airlines (SAS), by giving SAS more than €106.4 million in cash and credit compensation for future aircraft orders. The compensation was due to the fact that the year before, SAS had to ground the airline's entire fleet of 27 Bombardier Dash 8 Q400 aircraft after suffering three landing accidents.[60]

Impact of price on other parties

Management must also consider the reactions of other parties to the contemplated price.[61] How will distributors and dealers feel about it? If they do not make enough profit, they may not choose to bring the product to market. Will the sales force be willing to sell at that price? How will competitors react? Will suppliers raise their prices when they see the company's price? Will the government intervene and prevent this price from being charged?

Marketers need to know the laws regulating pricing. EU competition law states that sellers must set prices without talking to competitors: price fixing is illegal to protect consumers against deceptive pricing practices. Also, it is illegal to exploit a dominant market position in order to directly or indirectly impose unfair purchase or selling prices or other unfair trading conditions.

Very often, companies must take into account the many variations in their surroundings when setting price(s). This is considered in the next section.

Adapting the price

Companies usually do not set a single price, but rather develop a pricing structure that reflects variations in geographical demand and costs, market-segment requirements, purchase timing, order levels, delivery frequency, guarantees, service contracts and other factors. As a result of discounts, allowances and promotional support, a company rarely realises the same profit from each unit of a product that it sells. Here we will examine several price-adaptation strategies: geographical pricing, price discounts and allowances, promotional pricing and differentiated pricing.

Geographical pricing (cash, countertrade, barter)

In geographical pricing, the company decides how to price its products to different customers in different locations and countries. Should the company charge higher prices to distant customers to cover the higher shipping costs, or a lower price to win additional business? How should it account for exchange rates and the strength of different currencies?

Another question is how to get paid. This issue is critical when buyers lack sufficient hard currency to pay for their purchases. Many buyers want to offer other items in payment, a practice known as **countertrade**. Countertrade may account for 15–25 per cent of world trade and takes several forms:

- **Barter.** The buyer and seller directly exchange goods, with no money and no third party involved.
- **Compensation deal.** The seller receives some percentage of the payment in cash and the rest in products. A British aircraft manufacturer sold planes to Brazil for 70 per cent cash and the rest in coffee.
- **Buyback arrangement.** The seller sells plant, equipment or technology to another country and agrees to accept, as partial payment, products manufactured with the supplied equipment. For example, a chemical company builds a plant for an Indian company and accepts partial payment in cash and the remainder in chemicals manufactured at the plant.
- **Offset.** The seller receives full payment in cash but agrees to spend a substantial amount of the money in that country within a stated time period. For example, PepsiCo sells its cola syrup to Russia for roubles and agrees to buy Russian vodka at a certain rate for sale in the US.

Price discounts and allowances

Most companies will adjust their list price and give discounts and allowances for early payment, volume purchases and off-season buying (see Table 16.4). Companies must do this carefully or they will find their profits much lower than planned.

Discount pricing has become the modus operandi of a surprising number of companies offering both products and services. Some product categories tend to self-destruct by always being on sale. Salespeople, in particular, are quick to give discounts in order to close a sale. But word can get around fast that the company's list price is 'soft', and discounting becomes the norm. The discounts undermine the value perceptions of the offerings.

Table 16.4 Price discounts and allowances

Cash discount	A price reduction to buyers who pay bills promptly. A typical example is '2/10, net 30', which means that payment is due within 30 days and that the buyer can deduct 2 per cent by paying the bill within 10 days.
Quantity discount	A price reduction to those who buy large volumes. A typical example is '€10 per unit for fewer than 100 units; €9 per unit for 100 or more units'. Quantity discounts must be offered equally to all customers and must not exceed the cost savings to the seller. They can be offered on each order placed or on the number of units ordered over a given period.
Functional discount	Discount (also called trade discount) offered by a manufacturer to trade-channel members if they will perform certain functions, such as selling, storing and record keeping. Manufacturers must offer the same functional discounts within each channel.
Seasonal discount	A price reduction to those who buy merchandise or services out of season. Hotels, motels and airlines offer seasonal discounts in slow selling periods.
Allowance	An extra payment designed to gain reseller participation in special programmes. Trade-in allowances are granted for turning in an old item when buying a new one. Promotional allowances reward dealers for participating in advertising and sales support programmes.

Some companies with overcapacity are tempted to give discounts or even begin to supply a retailer with a store-brand version of their product at a deep discount. Because the store brand is priced lower, however, it may start making inroads on the manufacturer's brand. Manufacturers should stop to consider the implications of supplying products to retailers at a discount, because they may end up losing long-run profits in an effort to meet short-run volume goals.

At the same time, discounting can be a useful tool if a company can gain concessions in return, such as when the customer agrees to sign a longer contract, is willing to order electronically, thus saving the company money, or agrees to buy in truckload quantities.

Sales management needs to monitor the proportion of customers who are receiving discounts, the average discount and the particular salespeople who are over relying on discounting. Higher levels of management should conduct a **net price analysis** to arrive at the 'real price' of the offering. The real price is affected not only by discounts but also by many other expenses that reduce the realised price (see promotional pricing section). Suppose the company's list price is €3,000. The average discount is €300. The company's promotional spending averages €450 (15 per cent of the list price). Co-op advertising money of €150 is given to retailers to back the product. The company's net price is €2,100, not €3,000.

Promotional pricing

Companies can use several pricing techniques to stimulate early purchase:

- **Loss-leader pricing.** Supermarkets and department stores often drop the price on well-known brands to stimulate additional store traffic. This pays if the revenue on the additional sales compensates for the lower margins on the loss-leader items. Manufacturers of loss-leader brands typically object because this practice can dilute the brand image and bring complaints from retailers who charge the list price. Manufacturers have tried to restrain intermediaries from loss-leader pricing through lobbying for retail price maintenance laws, but these laws have been revoked.
- **Special-event pricing.** Sellers will establish special prices in certain seasons to draw in more customers. Every August, there are back-to-school sales.
- **Cash rebates.** Car companies and other consumer goods companies offer cash rebates to encourage purchase of the manufacturers' products within a specified time period. Rebates can help clear inventories without cutting the stated list price.

- **Low-interest financing.** Instead of cutting its price, the company can offer customers low-interest financing. Bang & Olufsen used no-interest financing to try to attract more customers.
- **Longer payment terms.** Sellers, especially mortgage lenders and car manufacturers/dealers, stretch loans over longer periods and thus lower the monthly payments. Consumers often worry less about the cost (the interest rate) of a loan and more about whether they can afford the monthly payment.
- **Warranties and service contracts.** Companies can promote sales by adding a free or low-cost warranty or service contract.
- **Psychological discounting.** This strategy sets an artificially high price and then offers the product at substantial savings: for example, 'Was €359, now €299'. Most governments fight such misleading discount tactics. Discounts from normal prices are a legitimate form of promotional pricing.

Promotional-pricing strategies are often a zero-sum game. If they work, competitors copy them and they lose their effectiveness. If they don't work, they waste money that could have been put into other marketing tools, such as building up product quality and service or strengthening product image through advertising.

Differentiated pricing

Companies often adjust their basic price to accommodate differences in target consumers, products, locations and so on. Designer Donna Karan creates women's clothes in different price classes. The Donna Karan main line is expensive, but also the ultimate in relaxed chic, whereas the lower-priced line, DKNY, is more affordable. A woman's black dress from the DKNY line may cost €215, while a black dress from the Donna Karan Collection may cost as much as €2,700.[62]

Price discrimination occurs when a company sells a product or service at two or more prices that do not reflect a proportional difference in costs. In first-degree price discrimination, the seller charges a separate price to each customer depending on the intensity of his or her demand. In second-degree price discrimination, the seller charges less to buyers who buy a larger volume. In third-degree price discrimination, the seller charges different amounts to different classes of buyers, as in the following cases:

- **Customer-segment pricing.** Different customer groups pay different prices for the same product or service. For example, museums often charge a lower admission fee to students and senior citizens.
- **Product-form pricing.** Different versions of the product are priced differently, but not proportionately to their costs. For example, Evian prices a 48-ounce bottle of its mineral water at €1.50. It takes the same water and packages 1.7 ounces in a moisturiser spray for €4.00. Through product-form pricing, Evian manages to charge €2.50 an ounce in one form and about €0.03 an ounce in another.
- **Image pricing.** Some companies price the same product at two different levels based on image differences. A perfume manufacturer can put the perfume in one bottle, give it a name and image, and price it at €10. It can put the same perfume in another bottle with a different name and image and price it at €30.
- **Channel pricing.** Coca-Cola carries a different price depending on whether the consumer purchases it in a fine restaurant, a fast-food restaurant or a vending machine.
- **Location pricing.** The same product is priced differently at different locations even though the cost of offering it at each location is the same. A theatre varies its seat prices according to audience preferences for different locations.
- **Time pricing.** Prices are varied by season, day or hour. Public utilities vary energy rates to commercial users by time of day and weekend versus weekday. Restaurants charge less to 'early bird' customers, and some hotels charge less on weekends.

The airline and hospitality industries use yield management systems and **yield pricing**, by which they offer discounted but limited early purchases, higher-priced late purchases, and the lowest rates on unsold inventory just before it expires. Airlines charge different fares to passengers on the same flight, depending on the seating class; the time of day (morning or night flight); the day of the week (workday or weekend); the season; the person's employer, past business or status (youth, military, senior citizen); and so on.

That is why on a flight from Oslo to Rome you might have paid €93 and be sitting across from someone who has paid €526. At any given moment the global airline market has more than 7 million prices. And in a system that tracks the difference in prices and the price of competitors' offerings, airlines collectively change 75,000 different prices a day. It is a system designed to punish procrastinators by charging them the highest possible prices.

The phenomenon of offering different pricing schedules to different consumers and dynamically adjusting prices is exploding.[63] Many companies are using software packages that provide real-time controlled tests of actual consumer response to different pricing schedules and research indicates that it may be beneficial for a retailer to invest in dynamic pricing technology.[64] Constant price variation, however, can be tricky where consumer relationships are concerned. Research shows it tends to work best in situations where there is no bond between the buyer and the seller. One way to make it work is to offer customers a unique bundle of products and services to meet their needs precisely, making it harder for them to make price comparisons.

The tactic most companies favour, however, is to use variable prices as a reward for good behaviour rather than as a penalty. Customers are also getting more savvy about how to avoid buyer's remorse from overpaying. They are changing their buying behaviour to accommodate the new realities of dynamic pricing – where prices vary frequently by channels, products, customers and time.

Some forms of price discrimination (in which sellers offer different price terms to different people within the same trade group) are illegal. However, price discrimination is legal if the seller can prove that its costs are different when selling different volumes or different qualities of the same product to different retailers. Predatory pricing – selling below cost with the intention of destroying competition – is unlawful.[65] Even if legal, some differentiated pricing may meet with a hostile reaction. Coca-Cola considered using wireless technology to raise its vending machine drinks prices on hot days and lower them on cold days. Customers so disliked the idea that Coke abandoned it.

For price discrimination to work, certain conditions must exist. First, the market must be segmentable and the segments must show different intensities of demand. Second, members in the lower-price segment must not be able to resell the product to the higher-price segment. Third, competitors must not be able to undersell the firm in the higher-price segment. Fourth, the cost of segmenting and policing the market must not exceed the extra revenue derived from price discrimination. Fifth, the practice must not breed customer resentment and ill will. Sixth, of course, the particular form of price discrimination must not be illegal.[66]

While this section has examined several price-adaptation strategies, the next section reviews circumstances where companies may initiate and respond to price changes.

Initiating and responding to price changes

Initiating price cuts

Several circumstances might lead a firm to cut prices. One is excess *plant capacity*: the firm needs additional business and cannot generate it through increased sales effort, product improvement or other measures. Companies sometimes initiate price cuts in a *drive to dominate the market through lower costs.* Either the company starts with lower costs than its competitors, or it initiates price cuts in the hope of gaining market share and lowering costs.

Cutting prices to keep customers or beat competitors often encourages customers to demand price concessions, however, and trains salespeople to offer them. A price-cutting strategy can lead to other possible traps:

- **Low-quality trap.** Consumers assume quality is low.
- **Fragile market-share trap.** A low price buys market share but not market loyalty. The same customers will shift to any lower-priced firm that comes along.
- **Shallow-pockets trap.** Higher-priced competitors match the lower prices but have longer staying power because of deeper cash reserves.
- **Price-war trap.** Competitors respond by lowering their prices even more, triggering a price war.

Customers often question the motivation behind price changes.[67] They may assume the item is about to be replaced by a new model; the item is faulty and not selling well; the firm is in financial trouble; the price will come down even further; or the quality has been reduced. The firm must monitor these attributions carefully.

Initiating price increases

A successful price increase can raise profits considerably. For example, if the company's profit margin is 3 per cent of sales, a 1 per cent price increase will increase profits by 33 per cent if sales volume is unaffected. This situation is illustrated in Table 16.5. The assumption is that a company charged €10 and sold 100 units and had costs of €970, leaving a profit of €30, or 3 per cent on sales. By raising its price by 10 cents (a 1 per cent price increase), it boosted its profits by 33 per cent, assuming the same sales volume.

A major circumstance provoking price increases is *cost inflation*. Rising costs unmatched by productivity gains squeeze profit margins and lead companies to regular rounds of price increases. Companies often raise their prices by more than the cost increase, in anticipation of further inflation or government price controls, in a practice called *anticipatory pricing*.

Another factor leading to price increases is *overdemand*. When a company cannot supply all its customers, it can raise its prices, ration supplies to customers, or both. The price can be increased in the following ways, each of which has a different impact on buyers:

- **Delayed quotation pricing.** The company does not set a final price until the product is finished or delivered. This pricing is prevalent in industries with long production lead times, such as industrial construction and heavy equipment.
- **Escalator clauses.** The company requires the customer to pay today's price and all or part of any inflation increase that takes place before delivery. An **escalator clause** bases price increases on some specified price index. Escalator clauses are found in contracts for major industrial projects, such as aircraft construction and bridge building.
- **Unbundling.** The company maintains its price but removes or prices separately one or more elements that were part of the former offer, such as free delivery or installation. Car companies sometimes add antilock brakes and passenger-side airbags as supplementary extras to their vehicles.
- **Reduction of discounts.** The company instructs its sales force not to offer its normal cash and quantity discounts.

Although there is always a chance that a price increase can carry some positive meanings to customers – for example, that the item is 'hot' and represents unusually good value – consumers generally dislike higher prices. In passing price increases on to customers, the company must avoid looking like a price 'gouger'.[68] Consumer concern and dissatisfaction with high petrol, food and prescription drug prices, and Amazon.com's dynamic pricing experiment whereby prices varied by purchase occasion, have become front-page news. The more similar the products or offerings from a company, the more likely consumers are to interpret any pricing differences as unfair. Product customisation and differentiation, and communications that clarify differences, are thus critical.[69]

Generally, consumers prefer small price increases on a regular basis to sudden, sharp increases. Their memories are long, and they can turn against companies they perceive as price gougers. Price hikes without corresponding investments in the value of the brand increase vulnerability to lower-priced competition. Consumers may be willing to 'trade down' because they can no longer justify to themselves that the higher-priced brand is worth it.

Several techniques help consumers avoid sticker shock and a hostile reaction when prices rise: one is that a sense of fairness must surround any price increase, and customers must be given advance notice so they can do forward buying or shop around. Sharp price increases need to be explained in understandable terms. Making low-visibility price moves first is also a good technique: eliminating discounts, increasing minimum order sizes and curtailing production of low-margin

Table 16.5 Profits before and after a price increase

	Before	**After**
Price	€10	€10.10 (a 1% price increase)
Units sold	100	100
Revenue	€1,000	€1,010
Costs	2€970	−€970
Profit	€30	€40 (a 33 1/3% profit increase)

products are some examples; and contracts or bids for long-term projects should contain escalator clauses based on such factors as increases in recognised national price indexes.[70]

Given strong consumer resistance to price hikes, marketers go to great lengths to find alternative approaches that will allow them to avoid increasing prices when they would otherwise have done so. Here are a few popular ones:

- **Shrinking the amount of product instead of raising the price.** Hershey Foods maintained its chocolate bar price but trimmed its size; Nestlé maintained its size but raised the price.
- **Substituting less expensive materials or ingredients.** Many confectionery companies substituted synthetic chocolate for real chocolate to fight price increases in cocoa.
- **Reducing or removing product features.** Full-service air carriers such as British Airways have changed their services by simplifying fare structures and introducing ticketless travel.
- **Removing or reducing product services.** These services might include installation or free delivery.
- **Using less expensive packaging material or larger package sizes.**
- **Reducing the number of sizes and models offered.**
- **Creating new economy brands.** Jewel Osco food stores introduced 170 generic items selling at 10–30 per cent less than national brands.

When setting the price, it is important that the company pays attention to competitors' price changes and responds to these when appropriate. How a firm should respond to a price cut initiated by a competitor is considered in the next section.

Responding to competitors' price changes

In general, the best response to competitors' price changes varies with the situation. The company must consider the product's stage in the life cycle, its importance in the company's portfolio, the competitor's intentions and resources, the market's price and quality sensitivity, the behaviour of costs with volume, and the company's alternative opportunities.

In markets characterised by high product homogeneity, the firm can search for ways to enhance its augmented product. If it cannot find any, it may need to meet the price reduction. If the competitor raises its price in a homogeneous product market, other firms might not match it if the increase will not benefit the industry as a whole. Then the leader will need to roll back the increase. In non-homogeneous product markets, a firm has more latitude. It needs to consider the following issues: (1) Why did the competitor change the price? To steal the market, to utilise excess capacity, to meet changing cost conditions, or to lead an industry-wide price change? (2) Does the competitor plan to make the price change temporary or permanent? (3) What will happen to the company's market share and profits if it does not respond? Are other companies going to respond? (4) What are the competitors' and other firms' responses likely to be to each possible reaction?

Market leaders often face aggressive price cutting by smaller firms trying to build market share. Using price, Fuji has attacked Kodak, Schick has attacked Gillette and AMD has attacked Intel. Brand leaders also face competition from lower-priced, private-label store brands. The brand leader can respond in several ways. The 'Marketing in practice' box highlights some possible responses.

An extended analysis of alternatives may not always be feasible when the attack occurs. The company may have to react decisively within hours or days, especially in those industries where price changes occur with some frequency and where it is important to react quickly, such as the meatpacking, lumber or oil industries. It would make better sense to anticipate competitors' possible price changes and prepare contingent responses.

Marketing in practice

How to fight low-cost rivals

London Business School's Nirmalya Kumar spent five years studying 50 incumbents and 25 low-cost businesses to better understand the threats posed by disruptive, low-cost competitors. He notes that successful price warriors, such as Germany's Aldi supermarkets, India's Aravind Eye Hospitals and Israel's Teva Pharmaceuticals, are changing the nature of competition all over the world by employing several key tactics, such as focusing on just one or a few consumer segments, delivering the basic product or providing one benefit better than rivals do, and backing low prices with super-efficient operations.

Kumar believes ignoring low-cost rivals is a mistake because they eventually force companies to vacate entire market segments. He does not see price wars as the answer either: slashing prices usually lowers profits for incumbents without driving the low-cost entrants out of business. In the race to the bottom, he says, the challengers always come out ahead of the incumbents. Instead, he offers three possible responses that will vary in their success depending on different factors, as outlined in Figure 16.7.

The first approach to competing against cut-price players is to differentiate the product or service through various means:

- design 'cool' products (Apple, Bang & Olufsen);
- continually innovate (Gillette, 3M);
- offer unique product mix (Sharper Image, Whole Foods);
- brand a community (Harley-Davidson, Red Bull);
- sell experiences (Four Seasons, Starbucks).

Kumar cautions that three conditions will determine the success of a differentiation response:

1 **Companies must not use differentiation tactics in isolation.** Bang & Olufsen has competed effectively against low-cost electronics manufacturers in part because of its strong design capabilities, but also because the company continually introduces new products, cultivates an upscale brand image and supports modern-looking retail outlets.

2 **Companies must be able to persuade consumers to pay for added benefits.** Charging a small premium for greater services or benefits can be a powerful defence.

3 **Companies must first bring costs and benefits in line.** HP's resurgence in the PC industry can be attributed in part to its success in cutting Dell's cost advantage from 20 per cent to 10 per cent.

Kumar cautions that unless sizeable numbers of consumers demand additional benefits, companies may need to yield some markets to price warriors. For example, British Airways has relinquished some short-haul routes to low-cost rivals EasyJet and Ryanair. Kumar also believes strategies that help an incumbent firm coexist with low-cost rivals can work initially, but over the long haul consumers migrate to low-cost options as they become more familiar with them.

Another approach that many companies have tried in responding to low-cost competitors is to introduce a low-cost venture themselves. However, Kumar asserts that companies should set up low-cost operations only if: (1) the traditional operation will become more competitive as a result; and (2) the new business will derive some advantages that it would not have gained as an independent entity.

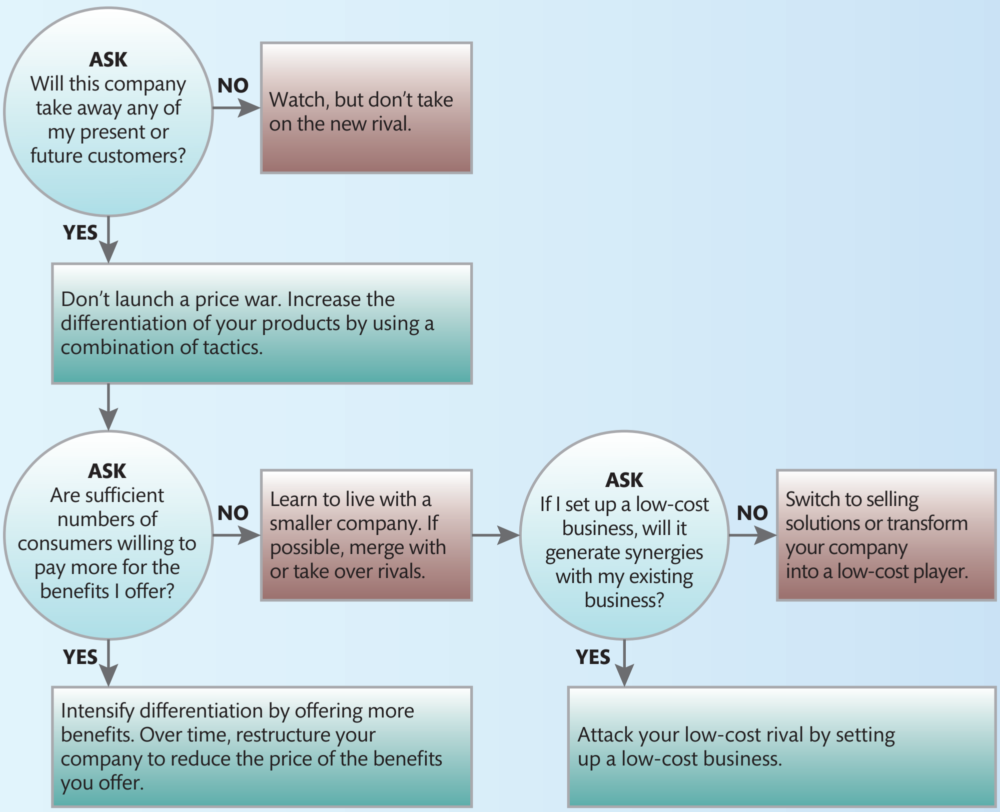


Figure 16.7 A framework for responding to low-cost rivals

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A dual strategy succeeds only if companies can generate synergies between the existing businesses and the new ventures, as financial service providers HSBC and ING did. The low-cost venture probably includes a unique brand name or identity, adequate resources and a willingness to endure some cannibalisation between the two businesses.

If there are no synergies between traditional and low-cost businesses, companies should consider two other options. They can switch from selling products to selling solutions, or even convert themselves into low-cost players. In the former approach, Kumar believes that by offering products and services as an integrated package, companies can expand the segment of the market that is willing to pay more for additional benefits. Selling solutions requires managing customers' processes and increasing their revenues or lowering their costs and risks.

And if all else fails, the best solution may be reinvention as a low-cost player. After all, Ryanair was an unprofitable, high-cost traditional airline before it completely – and quite successfully – transformed itself into a low-cost carrier.

Source: N. Kumar (2006) Strategies to fight low-cost rivals, *Harvard Business Review*, December.

SUMMARY

1 Despite the increased role of non-price factors in modern marketing, price remains a critical element of the marketing mix. Price is the only element that produces revenue; the others produce costs.

2 Consumer attitudes about pricing took a dramatic shift in the recent economic downturn as many found themselves unable to sustain their lifestyles. Consumers began to buy more for need than desire and to trade down more frequently in price. They shunned conspicuous consumption, and sales of luxury goods suffered. Even purchases that had never been challenged before were scrutinised.

3 In setting pricing policy, a company follows a six-step procedure. It selects its pricing objective. It estimates the demand curve – the probable quantities it will sell at each possible price. It estimates how its costs vary at different levels of output, at different levels of accumulated production experience and for differentiated marketing offers. It examines competitors' costs, prices and offers. It selects a pricing method. It selects the final price.

4 Companies do not usually set a single price, but rather a pricing structure that reflects variations in geographical demand and costs, market-segment requirements, purchase timing, order levels and other factors. Several price-adaptation strategies are available: (1) geographical pricing; (2) price discounts and allowances; (3) promotional pricing; and (4) discriminatory pricing.

5 After developing pricing strategies, firms often face situations in which they need to change prices. A price decrease might be brought about by excess plant capacity, declining market share, a desire to dominate the market through lower costs, or economic recession. A price increase might be brought about by cost inflation or overdemand. Companies must carefully manage customer perceptions in raising prices.

6 Companies must anticipate competitor price changes and prepare contingent responses. A number of responses are possible in terms of maintaining or changing price or quality.

7 The firm facing a competitor's price change must try to understand the competitor's intent and the likely duration of the change. Strategy often depends on whether a firm is producing homogeneous or non-homogeneous products. A market leader attacked by lower-priced competitors can seek to better differentiate itself, introduce its own low-cost competitor, or transform itself more completely.

APPLICATIONS

Marketing debate

Is the right price a fair price? Prices are often set to satisfy demand or to reflect the premium that consumers are willing to pay for a product or service. Some critics shudder, however, at the thought of €1.50 bottles of water, €150 running shoes and €400 concert tickets.

Take a position: prices should reflect the value that consumers are willing to pay *versus* prices should primarily just reflect the cost involved in making a product or service.

Marketing discussion

Think of the various pricing methods described in this chapter – mark-up pricing, target-return pricing, perceived-value pricing, value pricing, going-rate pricing and auction-type pricing. As a consumer, which method do you personally prefer to deal with? Why? If the average price were to stay the same, which would you prefer: (1) for firms to set one price and not deviate; or (2) for firms to employ slightly higher prices most of the year, but slightly lower discounted prices or specials for certain occasions?

FURTHER READING

G. Müller and T. T. Nagle (2017) *The Strategy and Tactics of Pricing: A Guide to Growing More Profitably*, 6th edn, Abingdon, UK: Taylor & Francis Ltd.

This book explains how to manage markets strategically and how to grow more profitably. It discusses how to make strategic pricing decisions that proactively manage customer perceptions of value, motivate purchasing decisions and shift demand curves. It covers both theoretical frameworks and actionable principles of pricing analysis.

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Part 4 Case study

Source: Sorbis/Shutterstock

Burberry

Within luxury branding, customers' perceptions drive everything and brands can be taken off the most-desired lists if they do not conform to the up-market image. The business is built on brand names that instil luxury and confidence that they are part of the elite and customers will pay for that brand experience. Burberry fell from the luxury brand category when the brand became associated with values of a lower-class grouping called 'Chavs'. The turnaround since that time has been amazing, with the Duchess of Cambridge now among the many A-listers and royalty that embraces this brand. How did Burberry reinvent the brand and rank eighth in the top luxury global brands of 2018 with a brand value of $5.7 billion? This ranking is courtesy of the market research by Kantard Millward Brown, using the BrandZ model to take into account a brand's earnings, its potential future earnings and the quality of the brand in the mind of the consumer, to arrive at a final 'brand value'.

Burberry is a tale of reinvention of a brand that was declining in 2006 when American Angela Ahrendts became CEO. She began a transformation of what was a suffering and stuffy brand that made raincoats for Britain's upper classes but which was worn at football matches and in pubs across the UK. In May 2014, she left to join Apple and the company continued to develop her vision under the design leadership of Christopher Bailey, who in turn was succeeded by Marco Gobbetti in 2017 with a brief to continue the transformation, and revenues grew to £2.7 billion in 2018. According to Gobbetti, the first steps implemented to re-energise the brand are showing promising early signs. Ahrendts' original vision was to transform the company through a new brand vision, digital leadership and by inspiring employees. Gobbetti has added the goal of seeing that the company is highly cash generative.

- **Brand vison**: A brand vision offers a clear and consistent message about the value of the brand. A historical lack of brand vision had left Burberry vulnerable and struggling in its market. Ahrendts aligned the company around the iconic trench coat that made Burberry famous. What she created was a closely connected creative thinking culture encouraging cross-functional collaboration, intuition and a meritocratic ethos, united by a brand vision – Protect, Explore and Inspire. It took factory closures, it took lay-offs, there was a leadership shake-up and a re-invention of the brand to give Burberry a top 10 luxury brand ranking.
- **Digital leadership**: The company also prides itself on digital first and exploiting what it calls the digital tsunami – so, though known globally for its luxury retail experience, it went digital. The company has fully embraced and invested in digital, both online and offline, a point of differentiation from many of its competitors. It also created a top-range website with a click-to-chat function. Instore iPads allowing customers to shop online in stores now comprise almost one-third of its online business. Sales associates are armed with bid data featuring information on consumer shopping behaviour, what shops they visit, what they typically place in their shopping basket and what they and other Burberry customers have recorded in social media.
- **Involving everyone**: A key strategic aim of Burberry is, by continually developing, inspiring and motivating its global employees through its engagement programmes, to foster a dynamic and inclusive culture. The company's 'Inspired People' programme engages employees, empowers their leaders and strengthens capabilities and team working to achieve positive and sustainable change across every part of the company's operations.

Sources: Millward Brown, www.millwardbrown.com/brandz/rankings-and-reports/top-global-brands/2018; Burberry Annual Report 2017/18, https://www.burberryplc.com/content/dam/burberry/corporate/Investors/Results_Reports/2018/Burberry_AnnualReport_FY17-18.pdf.

Questions

1 Study the company's 2017/18 Annual Report and assess how Burberry is energising its brand, with reference to appropriate material in Chapter 14 and the article by Zoe Wood and Julia Kollewe (2017) Burberry to reinvent itself as a super luxury British brand, *The Guardian*, 9 November, https://www.theguardian.com/business/2017/nov/09/burberry-to-reinvent-itself-as-a-super-luxury-british-brand.

2 How are Big Data and AI driving success in the fashion world? See Bernard Marr & Co case study on https://www.bernardmarr.com/default.asp?contentID=1282.

3 The designer Christopher Bailey transformed the tone of the brand (see articles by Jess Cartner-Morley, Christopher Bailey (2017) How Burberry's creative force transformed the brand, *The Guardian*, 31 October, https://www.theguardian.com/business/2017/oct/31/christopher-bailey-burberry-transformed-fashion-brand; and (2018) Christopher Bailey bows out from Burberry under a bold rainbow, *The Guardian*, 18 February, https://www.theguardian.com/fashion/2018/feb/18/christopher-bailey-bows-out-from-burberry-under-a-bold-rainbow). How might Burberry continue to build a breakaway brand?

4 How would you advise Burberry to set its pricing policy and how should it respond to competitive price pressure?

PART 5
Communicating value

Market offerings need to be designed, developed and launched and effectively and efficiently communicated to targeted audiences, and this is achieved with a mix of tools usually termed the marketing communications mix.

Part 5: Communicating value explores four important themes:

1. **Non-personal marketing (mass communication).**
2. **Personal communication.**
3. **Exploring the impact of social media.**
4. **Exploring the quest of integrating marketing communications.**

Marketing communications are tailored to resonate with national cultures and value sets. Advertising seeks to achieve 'top-of-the-mind awareness', according to IKEA, and can feature a variety of media (press, the internet, posters, TV and radio). The rise of web-based advertising has caused a significant shift from traditional 'pull strategies' to modern 'push strategies', as web-based activities and particularly social media facilitate a customer 'call to action'.

An important tool in a modern marketing communications platform mix is social media activity, as this brings a company's value offerings directly into the real targeted customers' lives.

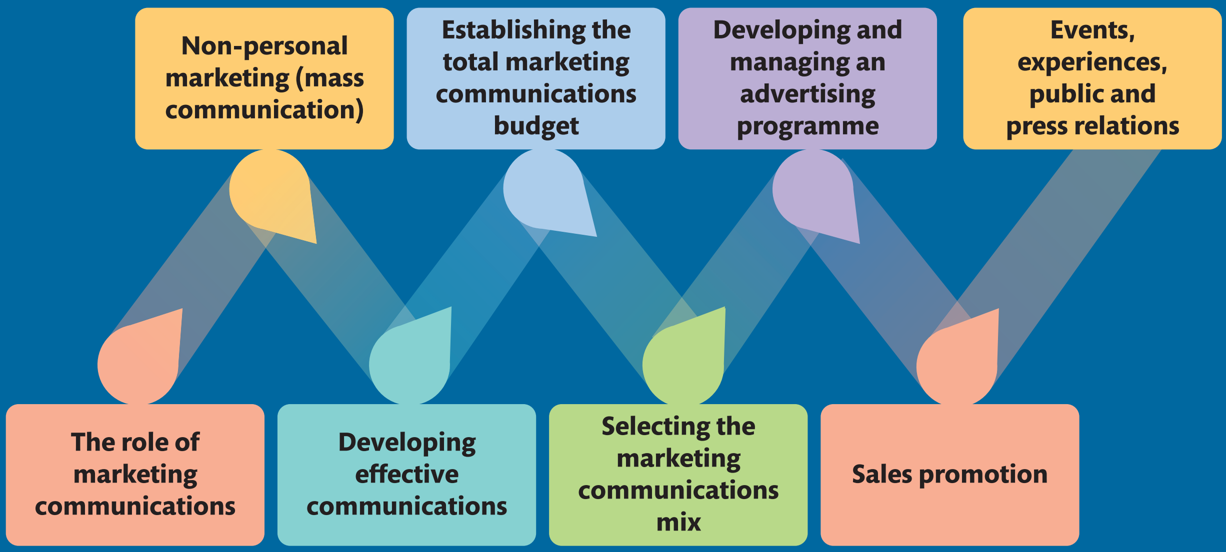
CHAPTER 17
Designing and managing non-personal marketing communications

In this chapter, you will learn about the following topics:

1. The role of marketing communications
2. How marketing communications work
3. The major steps for developing effective marketing communications
4. The marketing communications mix
5. How the marketing communications budget is established
6. The steps required to develop an advertising programme
7. How sales promotion decisions are made
8. How companies can exploit public relations potential

The iconic Andrex Labrador Retriever puppy has been the focus of the Andrex brand's mass and personal communications since 1972, designed to emphasise the attractiveness of Andrex's super-soft luxury toilet tissue
Source: © Justin Kase z12z/Alamy.

Chapter Journey



Modern marketing calls for more than developing a good market offering and making it accessible. Companies must also communicate with present and potential customers, stakeholders and the general public. For most, the question is not whether to communicate but rather what to say, how and when to say it, to whom and how often. However, communication becomes more difficult as more companies seek to attract an increasingly empowered consumer's divided attention. Consumers are now taking a more active role in the communication process. They are deciding what communications they want to receive and how they want to inform others about the products they choose to purchase and experience. To reach and influence target customers effectively, holistic marketers are creatively using multiple communication methods.

Although there has been an increase in marketers' use of personal communications in recent years (due to the rapid penetration of the internet), impersonal mass media can still improve the fortunes of a brand or company.[1]

Kimberly-Clark, the owner of the leading Andrex brand, is the world's largest toilet-tissue manufacturer. Since 1972, Andrex has featured an iconic Labrador Retriever puppy in its mass marketing communications strategy. The memorable image has been used to convey key value attributes. The luxury two-ply tissue is soft, strong and very long. The appeal of the bouncy, friendly puppy has enabled Kimberley-Clark to develop a powerful sales marketing programme. The Labrador image has its own website, which offers a collection of items including fridge magnets, shoulder bags, toys, a calendar, mouse mat, screen saver and competitions and interactive games. A succession of live puppies were used in the advertisements until 2011, when the live dogs were replaced by CGI puppies. Reflecting the British attraction to anything cuddly, Madame Tussauds inducted the puppy into its waxworks in 2011.[2]

According to the classic marketing mix (product, price, promotion and place), communications are achieved through the channels of the promotional mix. Traditional marketing is essentially about a one-way approach to targeted audiences by means of non-personal messages broadcast through mass communication channels. Digital technology has led to the rapid development of channels and techniques that provide for personal, two-way communication. This has profoundly changed the way companies conduct marketing communications.

Conducted correctly, marketing communications are valuable. This chapter describes how the traditional one-way or non-personal channels and techniques work. The main channels are advertising, sales promotion, events and experiences and public relations (including press relations). Chapter 18 covers the importance of the two-way or personal channels and techniques and examines the potential of direct marketing, personal selling, interactive marketing, word of mouth (WOM) and social media.

The role of marketing communications

Marketing communications are the means by which firms seek to engage and excite people, to persuade them to purchase and experience the market offerings they promote (see Figure 17.1). Both firms and customers evaluate their trading relationship and, if all is well, customers will recommend and act as evangelisers for the firm. In a sense, marketing communications represent the 'voice' of the company and its brands.

The changing marketing communications environment

Marketing communications also perform many functions for customers (see Figure 17.2). They can inform or show how and why a market offering is used, by what kind of person and where and when. Customers can discover who develops and supplies the product and judge the reputation of the company's brand. Communications enable companies to link their brands to other people, places, events, brands, experiences, feelings and things. They can contribute to brand equity – by establishing the brand in long-term memory and creating a powerful brand image – as well as drive sales and affect shareholder value.[3]

Although marketing communications can play a number of crucial roles, they must do so in an increasingly difficult environment. Technology has profoundly changed the way customers process information, and whether they choose to do so at all. The rapid diffusion of powerful broadband internet connections, multipurpose mobile smartphones and inexpensive tablets has forced marketers to rethink a number of their traditional practices. Furthermore, the emergence of social media has redefined the digital media landscape and created new online marketing communications platforms. These dramatic changes have eroded the effectiveness in terms of impact and use of the classical, impersonal 'show and tell' communication tools.

Figure 17.1 The aim of marketing communications
Source: rassco/Shutterstock.

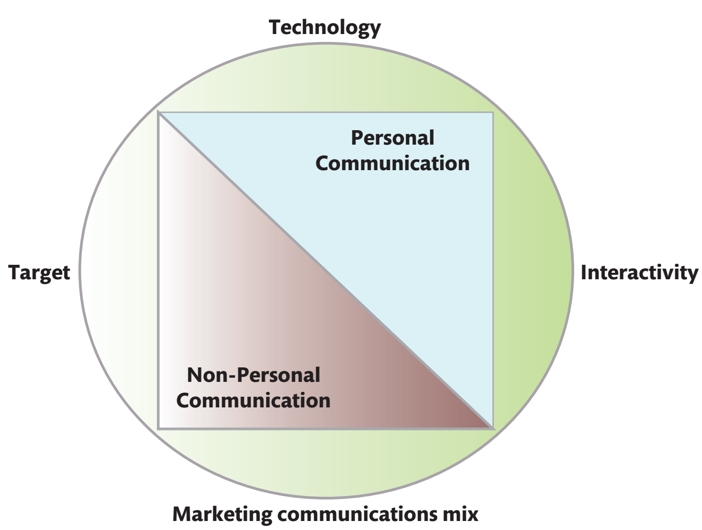


Figure 17.2 Modern marketing communications
Source: AJM Management Development.

Go forth and tell: the importance of effective communication
Source: Serif.

While historically marketers have focused on delivering a particular message to a pre-determined audience, a form of communication that was mostly one-way, the explosive growth of the internet has given people a new, two-way interactive method of relating to the media. Understanding the importance of social media requires a paradigm shift for many firms. Target audiences are now talking online, exchanging views about companies and their products and seeking to influence the elements that make up the content of these offerings.

This chapter and Chapter 18 evaluate the complexity and challenges of the modern marketing communications mix. This requires looking at the interaction between impersonal (mass) and personal communication mixes against a background that is dominated by digital technology and social media platforms. This chapter reviews non-personal communication modes and Chapter 18 addresses the complexities introduced by the explosive development of personal communication initiatives in the light of rapid technological progress and the explosive growth of social media channels.

Non-personal marketing (mass communication)

Three forces have caused the decline of TV advertising, which used to be the most powerful means of communicating effectively with customers. One is the fragmentation of target audiences, the second is the advent of digital technology and the internet, and the third is the explosion of social media. As a result, traditional prime-time TV advertisement ratings and press advertisement circulations have shown a downward trend over the last two decades.

What is new is the proliferation of media and entertainment options – from several TV channels and radio stations, thousands of magazines and webzines to numerous websites, blogs, video games, mobile phone screens and social media. Marketers have a wide selection of media to use and consumers have a choice about whether and how they want to receive commercial content. Additionally, technology now enables consumers to skip TV advertisements, which further lessens the effectiveness of the traditional 10-second TV advertising spot.

However, as some marketers flee the traditional media options, they still encounter challenges. **Commercial clutter** (i.e. confusion or noise caused by multiple messages in multiple media) is rampant. As consumers become increasingly selective both in their choice of media and in the messages that appeal, marketers are continually being challenged in their attempts to gain consumer attention. The average city dweller is now exposed to between 3,000 and 5,000 **advertising messages** a day. Advertisements are on the back of bus tickets, parking vouchers and shopping bags. Brand logos are designed to be worn on the outside of clothing or shoes (e.g. the logos of Timberland and Adidas). Advertisements in almost every medium and form have been on the ascendancy, and some consumers feel they are becoming increasingly invasive.[4]

Marketing communications, brand equity and sales

Marketing communications mix

The **marketing communications mix** consists of nine major modes of communication:

1 **Advertising:** any paid form of non-personal presentation of ideas, goods or services by an identified sponsor.
2 **Sales promotion:** a variety of short-term incentives to encourage trial or purchase of a product/service (market offering).
3 **Events and experiences:** company-sponsored activities and programmes designed to create daily or special brand-related interactions.
4 **Public relations and publicity:** a variety of programmes designed to present or protect a company's image or its individual market offerings.
5 **Direct marketing:** use of mail, telephone, fax, email or the internet to communicate directly with or solicit response or dialogue from specific customers and prospects.
6 **Personal selling:** face-to-face interaction with one or more prospective purchasers for the purpose of making presentations, answering questions and procuring orders.
7 **Interactive marketing:** online activities and programmes designed to engage customers or prospects and directly or indirectly raise awareness, improve image or elicit sales of market offerings (value packages, i.e. combinations of products and service attributes).
8 **Word-of-mouth marketing:** people-to-people oral, written or electronic communications that relate to the merits or experiences of purchasing and consuming market offerings.
9 **Social media marketing:** online people-to-people electronic communications that relate to the merits or experiences of purchasing and consuming market offerings.

Non-personal modes 1–4 are covered in this chapter and personal modes 5–9 in Chapter 18.

Marketing communications effects

The manner in which brand associations are formed is important. For example, some consumers may have a strong, favourable and unique brand association for Land Rover and identify the vehicle with characteristic concepts of environmental pursuits such as 'outdoors', 'active' and 'rugged' because of exposure to TV advertisements that show the vehicle driving over rugged terrain at different times of the year. Others may prefer a Land Rover because they seek a practical and comfortable vehicle for country roads.

Marketing activities must be integrated to deliver a consistent message to achieve the appropriate strategic positioning. The starting point in planning communications is an audit of all the potential interactions that customers in the target market may have with the company and all its market offerings. For example, someone interested in purchasing a new tablet computer might talk to others, see television advertisements, read articles, look for information on the internet and in social media and look at tablets in a local computer shop.

Marketers need to assess which experiences and impressions will have the most influence at each stage of the buying process. This will help them to allocate the budget for communications

Driving on the edge!
Source: Charlie Magee Photography.

more efficiently and to design and implement the right programmes. Armed with these insights, marketers can judge communications according to their ability to affect experiences and impressions, build brand equity and drive brand sales. For example, how well does a proposed advertising campaign contribute to awareness or to creating, maintaining or strengthening brand associations? Does sponsorship cause customers to have more favourable brand judgements and feelings? How effective is sales promotion in clearing slow-moving stock?

From the perspective of building brand equity, marketers should be 'media neutral' and evaluate *all* the different possible communication options according to *effectiveness* criteria (how well does it work?) as well as efficiency considerations (how much does it cost?). This broad view of brand-building activities is crucial when marketers are considering strategies to improve brand awareness.

Anything that causes the consumer to notice and pay attention to a brand – such as sponsorship and advertising – can increase **brand awareness**, at least in terms of brand recognition. To enhance *brand recall*, more intense and elaborate processing may be necessary to build customer loyalty.

The communication process models

Marketers should understand the fundamental elements of effective communications. Two models are useful: a macro- and a micro-model.

Macro-model of the communication process

Figure 17.3 shows a macro-model with nine elements. Two represent the major parties in a communication – sender and receiver. Two represent the major communication tools – message and media. Four represent major communication functions – encoding, decoding, response and feedback. The last element in the system is noise (random and competing messages that may interfere with the intended communication). The model emphasises the key factors in effective communication. Senders must know what audiences they want to reach and what responses they seek to achieve. They must present (encode) their messages so the target audience can decode (understand) them; then transmit the message through media that reach the target audience and develop feedback channels to monitor responses. The more the sender's field of experience overlaps that of the receiver, the more effective the message is likely to be. Note that selective attention, distortion and retention processes (concepts first introduced in Chapter 7) may be operating during communication.

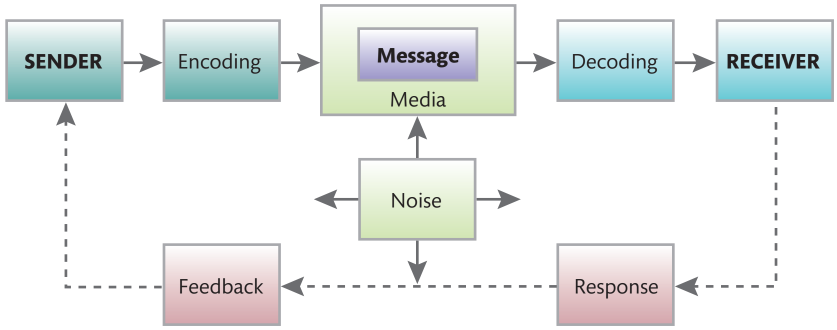


Figure 17.3 Elements in the communication process

Micro-model of the communication process

Micro-models concentrate on customers' specific responses to communications. Figure 17.4 summarises four classic *response hierarchy models.*

The models assume that the buyer passes through a cognitive, affective and behavioural stage, in that order. This 'learn–feel–do' sequence is appropriate when the audience has high involvement with a product category perceived to have high differentiation, such as a perfume or house. An alternative sequence, 'do–feel–learn', is relevant when the audience has high involvement but perceives little or no differentiation within the product category, such as an airline ticket or personal computer. A third sequence, 'learn–do–feel', is relevant when the audience has low involvement and perceives little differentiation within the market offering category, as with salt or petrol. By choosing the right sequence, the marketer can fine tune marketing communications.[5]

Assuming that the buyer has high involvement with the product category and perceives a high differentiation within it, the *hierarchy-of-effects model* (in the second column of Figure 17.4) sheds

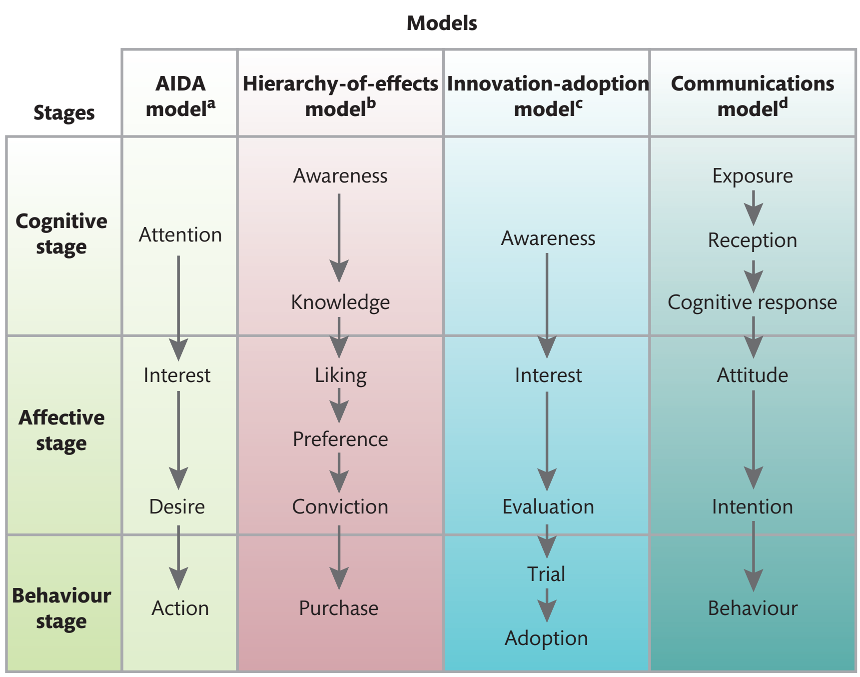


Figure 17.4 Response hierarchy models

Source: [a] E. K. Strong (1925) *The Psychology of Selling*, New York: McGraw-Hill, 9; [b] R. J. Lavidge and G. A. Steiner (1961) A model for predictive measurements of advertising effectiveness, *Journal of Marketing*, October, 61; [c] E. M. Rogers (1962) *Diffusion of Innovation*, New York: Free Press, 79–86; [d] various sources.

valuable light on the development of a marketing communications campaign. Consider the example of a small university named Logos:

- **Awareness.** If most of the target audience is unaware of the object, the communicator's task is to build awareness. Suppose Logos university seeks applicants from Europe but has no significant recognition on the continent. The university might set the objective of making 70 per cent of European students aware of its name within one year by a press and/or TV campaign.
- **Knowledge.** The target audience might have some brand awareness but not know much about Logos. If knowledge is weak, Logos may decide to select brand knowledge as its main communications objective.
- **Liking.** If target members know the brand, how do they feel about it? If they look unfavourably on Logos, the communicator needs to find out why. If the unfavourable view is based on real problems, the university will need to attend to these and then communicate anew. Good public relations call for 'good deeds followed by good words'.
- **Preference.** The target audience might quite like Logos but not prefer it to other universities. In this case, the communicator must try to build consumer preference by comparing customer-perceived value (CPV) performance where it can claim to be superior to competitors.
- **Conviction.** A target audience might prefer a particular market offering but not develop a conviction about choosing it. In this case the communicator's job is to persuade European students to select Logos.
- **Purchase.** Finally, some members of the target audience might have conviction but fail to select Logos. In this case, the task is to lead these prospects to take the final step, perhaps by employing 'below-the-line' marketing activity such as press and public relations. Logos might invite selected potential students to visit the campus and attend some classes, or it might offer scholarships.

To achieve a successful communications campaign, marketers must attempt to increase the likelihood that each of the above steps occurs successfully. For example, from an advertising standpoint, the ideal advertising campaign would ensure that:

- the right customer is exposed to the right message at the right place and at the right time;
- the advertisement causes the customer to pay attention to it but does not distract from the intended message;
- the advertisement properly reflects the customer's level of understanding and appreciation of the CPV of the branded market offering;
- the advertisement correctly positions the brand in terms of desirable and deliverable points-of-difference and points-of-parity;
- the advertisement motivates consumers to consider purchase of the market offering;
- the advertisement creates strong brand associations with all these stored communications effects so that they can have an impact when consumers are considering buying.

Developing effective communications

Effective communications should accomplish four things: establish a *connection*, promise a *reward*, inspire *action* and stick in the *memory*. Figure 17.5 shows the eight key steps in developing effective communications: identifying the target audience, determining the objectives, designing the communications, selecting the channels, establishing the budget, deciding on the media mix, measuring results and managing integrated marketing communications.

Identifying the target audience

The process must start with a clear target audience in mind: potential buyers of the company's market offerings, current users, deciders or influencers; individuals, groups, particular publics or the general **public**. It is useful to identify the target audience in terms of any of the market segments identified in Chapter 10 that relate to usage and loyalty. Is the target new to the category or a current user? Is the target loyal to the brand, loyal to a competitor, or someone who switches between brands? If a brand user, are they a heavy or a light one? Communication strategy will differ depending on the answers. An *image analysis* can provide further insight by profiling the target audience in terms of brand knowledge.

Deciding the communications mix objectives

Marketers can set communications objectives at any level of the hierarchy-of-effects model. In most cases, companies intend to:

- create awareness;
- impart knowledge – inform existing and potential customers about the unique attributes of their market offerings;
- shape attitudes and engage and interact with existing and potential customers;
- encourage existing and potential customers to purchase;
- build a strong brand awareness and secure a strong brand recall rating.

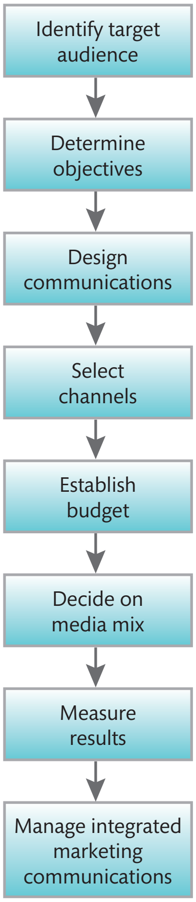


Figure 17.5 Steps in developing effective communications

Designing the communications

Formulating the communications to achieve the desired response will require solving three problems: what to say (message strategy), how to say it (creative strategy) and who should say it (message source).

Message strategy

In determining message strategy, management searches for appeals, themes or ideas that will connect with the brand positioning and help to establish points-of-parity or points-of-difference. Some of these may be related directly to purchase and use experience (the quality, economy or value of the brand), whereas others may relate to more extrinsic considerations (the brand as being contemporary, popular or traditional).

Buyers expect one of four types of reward from a market offering: rational, sensory, social or ego satisfaction.[6] Buyers might visualise these rewards from results-of-use experience, product-in-use experience or incidental-to-use experience. Analysing the four types of reward with the three types of experience generates twelve types of message. For example, the appeal 'gets clothes cleaner' is a rational-reward promise following results-of-use experience. The phrase 'real beer taste in a great light beer' is a sensory-reward promise connected with product-in-use experience.

Creative strategy

Communications effectiveness depends on how a message is being expressed, as well as on the content of the message. *Creative strategies* are the way marketers translate their messages into a specific communication. They can be broadly classified as either *informational* or *transformational appeals*. Each of these two general categories covers several different specific creative approaches.

Informational appeals

An **informational appeal** elaborates on market offering quality and payment attributes or benefits. An advertisement may provide a solution (Nurofen stops the toughest headache pain), demonstrate a clear benefit (Cillit Bang 'and the dirt is gone'), offer product comparison (Sky TV offers the best satellite programmes) and testimonials from celebrity endorsers, such as famous film stars or sports personalities (Jane Fonda recommending the use of L'Oréal's anti-ageing creams and George Clooney endorsing Nespresso coffee). Informational appeals assume rational processing of the communication on the part of the consumer.

It would be logical to assume that presentations that praise a market offering would be more effective than two-sided arguments that also mention shortcomings. Yet two-sided messages may be more appropriate, especially when negative associations must be overcome.[7]

Finally, the order in which arguments are presented is important. In a one-sided message, presenting the strongest argument first has the advantage of arousing attention and interest. This is important in media where the audience often does not pick up the whole message. With a captive audience, a climactic presentation might be more effective. In the case of a two-sided message, if the audience is initially opposed, the communicator might start with the other side's argument and conclude with their strongest argument.

Transformational appeal

A **transformational appeal** elaborates on a non-market offering-related benefit or image. It might depict what kind of person uses a brand. Cosmetics companies vary their pitch to appeal to female and male customers. Transformational appeals often attempt to stir up emotions that will motivate purchase.

Communicators use negative appeals such as fear, guilt and shame to get people to do things (brush their teeth, have an annual health check-up) or stop doing things (smoking, alcohol abuse, overeating). Fear appeals work best when they are not too strong, when source credibility is high and when the communication promises to relieve, in a believable and efficient way, the fear it arouses. Messages are most persuasive when they reflect what the audience believes; if the messages are too discrepant, audiences will counter-argue and disbelieve them.[8]

Emotional appeals such as humour, love, pride and joy resonate with target audiences.[9] Motivational or 'borrowed-interest' devices – such as the presence of cute babies, attractive puppies (such as in the Andrex advertisements), popular music or provocative sex appeal – are often employed to attract consumer attention and raise their involvement with an advertisement.

Borrowed-interest techniques are thought to be necessary in the tough new media environment characterised by low-involvement consumer processing and much competing advertisement and programming clutter. These borrowed-interest approaches can attract attention and create more liking and belief in the sponsor, they may also detract from comprehension, wear out their welcome fast and overshadow the product.[11] Benetton, a retailer of colourful and fashionable clothes, attracted considerable attention (but much of it negative) when it posted a series of shocking images featuring graphic scenes of new-born babies, oil-infested seabirds, a man dying of Aids and copulating horses. Attention-getting tactics are often too effective and distract from brand claims. The advertisements were considered to be notoriously insensitive and damaged the company's brand image. A real challenge in arriving at the best creative strategy is discovering how to 'break through the clutter' or 'noise' in the marketplace to attract the attention of customers – but still deliver the intended message effectively.

The magic of advertising is to bring concepts on a piece of paper to life in the minds of the target customer. In a print advertisement, the communicator must decide on headline, copy, illustration and colour.[12] For a radio message, the communicator must choose words, voice qualities and vocalisations. If the message is to be carried on television or in person, all these elements plus body language (non-verbal clues) must be planned. Presenters need to pay attention to facial expressions, gestures, dress, posture and hairstyle. If the message is carried by the product or its packaging, the communicator must pay attention to colour, texture, scent, size and shape.

Message source

Many communications do not use a source beyond the company itself. Others use known or unknown people. Messages delivered by attractive or popular sources can achieve higher attention and recall, which is why advertisers often use celebrities as spokespeople. Celebrities are likely to be effective when they are credible or personify a key market-offering attribute. The retired England international footballer and current BBC TV presenter Gary Lineker has successfully advertised Walkers Crisps for years.[13]

What *is* important is the spokesperson's credibility as exemplified in their perceived level of expertise, trustworthiness and likeability.[14] *Expertise* is the specialised knowledge that the communicator possesses to back the claim. *Trustworthiness is* related to how objective and honest the source is perceived to be. Friends are trusted more than strangers or salespeople, and those who are not paid to endorse a market offering are viewed as more trustworthy than those who are[15] *Likeability* describes the source's attractiveness. Qualities such as candour, humour and naturalness make a source more likeable.

Luxury goods and celebrities?

Brands that produce or sell luxury goods often use celebrities. They choose celebrities whom they perceive as sharing the same values as their products; celebrities who offer the glamour to portray their products as aspirational to the general public. The perfume and cosmetic industries generally use glamorous or beautiful people to show how effective their products are. These celebrities have generally been huge celebs, from supermodels to Hollywood stars.

Another key trick is to pick up on somebody who is popular or hot at the moment. L'Oréal is expert at hand-picking people 'of the moment', a classic example being the singer Cheryl Tweedy. Garnier, which is owned by L'Oréal, also pulled off a coup by signing the popular UK TV presenter Davina McCall.[16]

The most highly credible source would score high on all three dimensions – candour, humour and naturalness. Pharmaceutical companies want doctors to testify about product benefits because doctors have high credibility. The 'Marketing insight' box focuses on the use of testimonials.

Marketing insight

Celebrity endorsements as a strategy

To reinforce its prestigious image, Chanel signed up Nicole Kidman to add a quality mystique to its famous No. 5 perfume.

The choice of the celebrity is critical. The celebrity should have high recognition, high positive affect and high appropriateness to the product. Paris Hilton, Kate Moss and Britney Spears have high recognition but negative affect among many groups. Robbie Williams has high recognition and high positive affect but might not be appropriate for advertising a World Peace Conference. The TV actor Hugh Laurie (of the US soap *House*) and model Claudia Schiffer could successfully advertise a large number of products because they have extremely high ratings for familiarity and likeability (known as the Q factor in the entertainment industry). Hugh Grant's charity work includes the Marie Curie Cancer Care Great Daffodil Appeal (to show his gratitude for the care they gave to his late mother), Make Poverty History and UNICEF. Athletes such as Jessica Ennis-Hill commonly endorse athletic products, beverages, clothing and even financial products.

Celebrities show up everywhere in the advertising of market offerings to children. Familiar cartoon characters are widely used on cereal packets and children's soft drinks. This lasting attraction can be given a boost by the inclusion of celebrity endorsements, even though the young audience does not always know who the celebrity is.[17]

Celebrities can play a more strategic role for their brands, not only endorsing a product but also helping design, position and sell merchandise and services. But using celebrities poses certain risks. The celebrity might demand a larger fee at contract renewal time or withdraw from the role. They might lose popularity or, even worse, get caught in a scandal or embarrassing situation that then reflects negatively on the brand.

If a person has a positive attitude towards a source and message, or a negative attitude towards both, a state of congruity is said to exist. What happens if the person holds one attitude towards the source and the opposite one towards the message? Suppose a customer hears a likeable celebrity praise a brand she dislikes. Osgood and Tannenbaum argue that attitude change will take place in the direction of increasing the amount of congruity between the two evaluations.[18] The consumer will end up respecting the celebrity somewhat less or respecting the brand somewhat more. If a person encounters the same celebrity praising other disliked brands, they will eventually develop a negative view of the celebrity and maintain negative attitudes towards the brands. The principle of congruity implies that communicators can use their good image to reduce some negative feelings towards a brand but in the process might lose some esteem with the audience.

Research at the UK's University of Bath suggests that celebrity endorsements are becoming less effective for many market offerings.[19] Another study has shown that both endorser image and brand image serve as mediators in the equity and creation process of celebrity market-offering endorsement.[20] UK supermarkets are shifting their advertising strategies away from campaigns featuring celebrities in favour of price promotions.

Global adaptations

Multinational companies wrestle with a number of challenges in developing global communications programmes. They must decide whether the market offering is appropriate for a country and make sure the market segment they address is both legal and customary. Then decide whether the style of the advertisement is acceptable and whether advertisements should be created at headquarters or be locally specific.[21]

- **Product.** Many items are restricted or forbidden in certain parts of the world. Beer, wine and spirits cannot be advertised or sold in many Muslim countries. Tobacco products are subject to strict regulation in many countries.
- **Market segment.** In Norway and Sweden, for example, TV advertisements may not be directed at children under 12. Sweden lobbied hard to extend that ban to all EU member countries in 2001 but failed. To play it safe, McDonald's advertises itself as a family restaurant in Sweden.
- **Style.** Comparative advertisements, acceptable and even common in the US and Canada, are less commonly used in the UK, unacceptable in Japan and illegal in India and Brazil. The EU

seems to have a very low tolerance for comparative advertising, with a Comparative Advertising Directive that prohibits criticising rivals in advertisements.

- **Local or global.** Today, more and more multinational companies are attempting to build a global brand image by using the same advertising in all markets.

Companies that market their products to different cultures or in different countries must be prepared to vary their messages. In advertising its haircare products in different countries, Helene Curtis adjusts its messages. Middle-class British women wash their hair frequently, whereas the opposite is true among Spanish women. Japanese women avoid washing their hair too often for fear of removing protective oils. Car advertisements screened on UK TV often feature cars that are left-hand drive and thereby are at risk of reducing the impact and positive recall.

Selecting the communications channels

Selecting efficient means to carry the message becomes more difficult as channels of communication become more fragmented and cluttered. Think of the challenges in the pharmaceutical industry. The industry has had to expand its range of channels to include advertisements in medical journals, direct mail free samples and even telemarketing. Pharmaceutical companies sponsor clinical conferences in which physicians are paid to spend a weekend listening to leading colleagues extol the virtues of their drug portfolios. Pharmaceuticals use all these channels in the hope of building physician preference for their branded therapeutic agent. They are also using new technologies to reach doctors through handheld devices, online services and videoconferencing equipment.

Communications channels may be personal and non-personal and in each category there are many sub-channels. The best advice is to focus on connecting the company's cause to its targeted audience's values rather than telling people to value the company's cause – and reach people when they are in the best place, time and state of mind to get the best impact for the marketing communications budget. Put another way, a successful mantra is *concentrate* and *inundate* rather than *spray and pray*.

Non-personal (mass) communications channels

Non-personal channels are directed to several people and include advertising, sales promotions, events and experiences, and public relations.

- **Advertising:** includes print media (newspapers and magazines), broadcast media (radio and television), network media (telephone, cable, satellite, wireless), electronic media (audiotape, videodisk, internet platforms) and display media (billboards, signs, posters). Most non-personal messages are placed on paid media.
- **Sales promotions:** include consumer promotions (such as samples, coupons and premiums), trade promotions (such as advertising and display allowances) and business and sales force promotions (contests for sales representatives).
- **Events and experiences:** include sports, arts, entertainment and 'good cause' events as well as less formal activities that create novel brand interactions with consumers.
- **Public relations:** are directed internally to employees of the company or externally to consumers, other firms, the government and media.

Much of the recent growth of non-personal channels has occurred in *events and experiences*. A company can build its brand image by creating or sponsoring events. Events marketers who once heavily favoured sports events are now using other venues such as art museums, zoos or ice shows to entertain clients and employees.

Companies continually seek better ways to quantify the benefits of sponsorship and demand greater accountability from event owners and organisers. They are also creating events designed to surprise the public and create a buzz. Many amount to **guerrilla marketing** tactics that run the risk of backfiring with unintended consequences. The increased use of attention-getting events is a response to the fragmentation of the media: people can turn to hundreds of cable channels, thousands of magazine titles and millions of web pages. Events can create attention, although whether they have a lasting effect on brand awareness, knowledge or preference will vary considerably, depending on the quality of sponsored products, the event itself and its execution.

Guerrilla marketing – getting noticed

Guerrilla marketing is a marketing tactic in which a company uses surprise and/or unconventional interactions in order to promote a product or service. Guerrilla marketing is different from traditional marketing in that it often relies on personal interaction, has a smaller budget and focuses on smaller agencies that are responsible for getting the word out in a particular location rather than through widespread media campaigns.

Guinness advertisers add small, customised wraps to pool cues in bars, offering a clever reminder to pool players to grab a brew. This guerrilla marketing strategy is attractive and also does a great job of targeting Guinness's key audiences by working off existing bar paraphernalia.[22]

Establishing the total marketing communications budget

One of the most difficult marketing decisions is determining how much to spend on communication. Expenditure might be 40–45 per cent of sales in the cosmetics industry and 5–10 per cent in the industrial equipment industry. Within a given industry, there are low- and high-spending companies. How do companies decide their budget? The traditional methods are described briefly below.

Affordable method

Many companies set the budget at what they think the company can afford. This method ignores the role of communication as an investment and its potential impact on sales volume. It leads to an uncertain annual budget, which makes long-range planning difficult.

Percentage-of-sales method

Others set their budget at a specified percentage of sales (either current or anticipated) or of the sales price. Car manufacturers typically budget based on the planned car price. Oil companies set the appropriation at a small fraction of a euro for each litre of petrol sold under their own label.

Supporters of the percentage-of-sales method see a number of advantages. First, expenditure will vary with what the company can afford. This satisfies financial managers, who believe expenses should be closely related to the movement of corporate sales over the business cycle. Second, it encourages management to think of the relationship between the cost of communications, selling price and profit per unit. Third, it encourages stability when competing firms spend approximately the same percentage of their sales on communication.

In spite of these advantages, the percentage-of-sales method has little to justify it. It views sales as the determinant of communication rather than as the result. It leads to a budget set by the availability of funds rather than by market opportunities. It discourages experimentation with counter-cyclical campaigns or aggressive spending. Dependence on year-to-year sales fluctuations

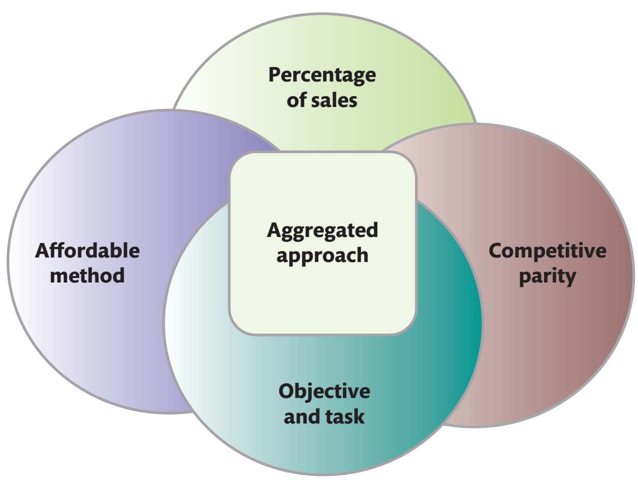


Figure 17.6 Setting the communications budget: a complex decision in most cases
Source: AJM Management Development.

interferes with long-range planning. There is no real logical basis for choosing a specific percentage. Finally, it does not encourage building the marketing communications budget by determining what each product (market offering) and territory deserves.

Competitive parity method

Some companies set their budgets to achieve share-of-voice parity with competitors. There are two supporting arguments. One is that competitors' expenditures represent the collective wisdom of the industry. The other is that maintaining competitive parity prevents communication wars. Neither argument is valid. There are no grounds for believing that competitors know better. Company reputations, resources, opportunities and objectives differ so much that budgets are hardly a guide. Furthermore, there is no evidence that budgets based on competitive parity discourage such wars.

Objective-and-task method

The objective-and-task method calls upon marketers to develop budgets by defining specific objectives, determining the tasks that must be performed to achieve these objectives and estimating the costs of performing these tasks. The sum of these costs is the proposed budget. The objective-and-task method has the advantage of requiring management to declare its assumptions about the relationship between the amount spent, exposure levels, trial rates and regular usage.

Recommended approach

In practice, the overall budget will contain programmes costed on the affordable, competitive parity and percentage-of-sales methods. However, firms should aim to set their overall budget from product/market need levels and then aggregate communication costs. Companies offering several market offerings will probably include all four of the conventional approaches in some degree. In most cases it is wise to adopt a bottom-up approach rather than a top-down one.

A major question is how much weight communications should receive in relation to alternatives such as market-offering improvement, lower prices or better service. The answer depends on where the company's products are in their life cycles, whether they are commodities or highly differentiable products, whether they are routinely needed or must be 'sold'. Communications budgets tend to be higher when there is low channel support, considerable change in the marketing programme over time, many hard-to-reach customers, more complex customer decision making, differentiated market offerings and non-homogeneous customer needs.

Selecting the marketing communications mix

Companies should allocate the budget over the eight major mix modes of impersonal communication – advertising, sales promotion, public relations and publicity, events and experiences, direct marketing, interactive marketing, word-of-mouth marketing, and personal selling. Within the same industry, companies can differ considerably in their media and channel choices. The Avon cosmetics company concentrates its budget on personal selling, whereas Revlon spends heavily on advertising. The 'Marketing in action' box shows how Baileys has used a variety of marketing communication vehicles. Companies are always searching for ways to gain efficiency by replacing one communication tool with others. Many are replacing some field sales activity with advertisements, direct mail and internet channels.

Marketing in action

Baileys cream liqueur brand

Baileys, an innovative iconic brand that entered the spirits industry in 1974, enjoyed consistent growth for 30 years before suffering a serious decline that began in 2008. The female-orientated brand had grown tired and lost market appeal. Brands need to be able to move with shifting social and cultural values. Baileys had become too production orientated and had misread the times.

In 2012, Diageo appointed a new global brand director, Garbhan O'Bric, charged with the task of recovering the brand's appeal and profitability. O'Bric decided to try to capture some of the breakthrough magic of the brand and sought a debrief from the launch marketing director. It was clear that the company needed to update the brand's appeal to women. This required a new approach to communicating the ethos of the Baileys experience and securing an emotional engagement.

After a heavy investment in key global markets (in China, Nigeria, Kenya, the UK, Germany, Italy, Mexico, North America and Brazil) on the issues that defined how women identify themselves today, their fears, hopes and aspirations, Baileys adopted a focused holistic marketing approach. The marketing budget was dramatically increased. A new bottle was introduced that is taller, slimmer, with lifted shoulders to achieve a new elegance. Innovation was encouraged and resulted in the development and launch of new flavours.

The digital agency R/GA was appointed to rethink the role of Baileys in women's lives in a digital age. The chosen strategy ran the risk of losing some male consumers but O'Bric felt that it was better to have a strong and permanent relationship with a few profitable targeted customers than run the risk of achieving a diluted relationship with many.

The recalibration of the brand has enabled Baileys to arrest the decline in sales and achieve growth, especially in its largest market in North America. Western Europe and particularly the UK remain challenging markets owing to commercial difficulties in re-engaging the brand and the current depressed business environment.

Sources: G. Charles (2013) Garbhan O'Bric, *Marketing*, May; Baileys website www.baileys.com (accessed October 2018).

Characteristics of the mix

The main non-personal communication tools are briefly introduced below and discussed in greater detail in the rest of Chapter 17. Each have unique characteristics and costs. The major personal marketing communications tools are reviewed in Chapter 18.

Advertising

The purpose of advertising is largely to encourage consumers to buy a brand. Controversy still reigns over how this occurs, e.g. attitude shift *vs* salience, but it is uncontroversial that exposure to a brand's advertising should increase the propensity (likelihood) to buy that brand. Advertising reaches geographically dispersed buyers. It can build up a long-term image for a product (for example, Cadbury's Dairy Milk advertisements) or trigger quick sales (e.g. yogurt). Certain forms of advertising such as TV can require a large budget, whereas other forms such as newspapers do not. Just the presence of advertising might have an effect on sales: consumers might believe that a heavily advertised brand must offer 'good value'[23] Because of the many forms and uses of advertising, it is difficult to make generalisations about it.[24] Yet a few observations are worthwhile:

- **Pervasiveness.** Advertising permits the seller to repeat a message many times. It also allows the buyer to receive and compare the messages of various competitors. Large-scale advertising says something positive about the seller's size, power and success.
- **Amplified expressiveness.** Advertising provides opportunities for dramatising the company and its market offerings through the artful use of print, sound and colour.
- **Impersonality.** The audience does not feel obligated to pay attention or respond to advertising. Advertising is a monologue in front of, not a dialogue with, the audience.

Sales promotion

Companies use sales promotion tools – coupons, contests, premiums and so on – to draw a stronger and quicker buyer response, including short-run effects such as highlighting product offers and boosting sagging sales. Sales promotion tools offer three distinctive benefits:

1. **Communication.** They gain attention and may lead the consumer to the product.
2. **Incentive.** They incorporate some concession, inducement or contribution that gives value to the consumer.
3. **Invitation.** They include a distinct invitation to engage in the transaction now.

Public relations and publicity

Marketers tend to underuse public relations, yet a well-conceived programme integrated with other communications mix elements can be most effective, especially if a company needs to challenge consumers' misconceptions.

The appeal of public relations and publicity is based on three distinctive qualities:

1 **High credibility.** News stories and features are more authentic and credible to readers than advertisements are.
2 **Ability to catch buyers off guard.** Public relations can reach prospects who prefer to avoid salespeople and advertisements.
3 **Dramatisation.** Public relations has the potential for dramatising a company's market communication activities.

Events and experiences

There are many advantages to events and experiences, among which are:

1 **Relevance.** A well-chosen event or experience can be seen as highly relevant because the consumer gets personally involved.
2 **Involvement.** Their live, real-time quality means that events and experiences are more actively engaging for consumers.
3 **Implicitness.** Events are an indirect 'soft sell'.

Refinery29

Experiential marketing, sometimes used interchangeably with 'live marketing' and 'event marketing', engages consumers using branded experiences. These could include an event, part of an event, or a pop-up activation that is not tied to any event. Experience marketing, on the other hand, relies on an active participant's engagement with content produced by a brand. This is a type of marketing that can elicit the creation of a brand experience. This can be accessible through events and other media that a brand commissions, with a specific purpose of creating a tangible and engaging experience for the individual. This can in turn produce an 'experience' for a particular brand that is perceived by the individual through direct engagement with the content. It can produce physical and emotionally resonant experiences for the targeted individual through a proactive engagement with the brand and the experience it wishes to produce.

For about three years now, lifestyle brand Refinery29 has hosted the 29Rooms event: what it calls 'an interactive funhouse of style, culture, and technology'. As the name suggests, it consists of 29 individually branded and curated rooms – and attendees can experience something different in each one. The rooms are designed and created with brand partners, who range from personalities such as artists and musicians, to consumer-facing companies such as Dunkin' Donuts, Dyson and Cadillac.

Each year, 29Rooms has a different theme. In 2018 the theme was 'Fashion and Religion'. Attendees, it seems, are encouraged to enter each room and use the surroundings to create something – one room, for instance, invites participants to put on punching gloves and hit punching bags that each produce a different sound when contacted to create a symphony of sorts. A truly hands-on experience, indeed.[25]

Factors in setting the mix

Companies must consider several factors in developing their non-personal communications mix: type of market offering, consumer readiness to make a purchase and stage in the traditional product life cycle.

Type of market

Communications mix allocations vary between consumer and business markets. Consumer marketers tend to spend comparatively more on sales promotion and advertising; business marketers tend to spend comparatively more on personal selling. In general, personal selling is used more with complex, expensive and risky purchases and in markets with fewer and larger sellers (hence, business markets).

Although marketers use advertising less than sales calls in business-to-business markets, advertising still plays a significant role:

- Advertising can provide an introduction to the company and its product portfolio.
- If the market offering has new features, advertising can explain them.
- Reminder advertising is more economical than sales calls.
- Advertisements offering brochures and carrying the company's phone number and web address are an effective way to generate leads for sales representatives.
- Sales representatives can use copies of the company's advertisements to legitimise their company and its product offerings.
- Advertising can remind customers how to use and benefit from market offerings and reassure them about their purchase.

A number of studies have underscored advertising's role in business-to-business markets. Corporate advertising can improve a company's reputation and improve the sales force's chances of obtaining a favourable first hearing and early adoption of the product.[26] It can also help to position or reposition a business-to-business market offering.

Buyer readiness stage

Marketing communication tools vary in cost effectiveness at different stages of buyer readiness. Figure 17.7 shows the relative cost effectiveness of three communication tools. Advertising and publicity play the most important roles in the awareness-building stage. Customer comprehension is primarily affected by advertising and personal selling. Customer conviction is influenced mostly by personal selling. Closing the sale is influenced mostly by personal selling and sales promotion. Reordering is also affected mostly by personal selling and sales promotion, and somewhat by reminder advertising.

Product life cycle stage

Communication tools also vary in cost effectiveness at different stages of the product life cycle (see Chapter 14). In the introduction stage, advertising, events and experiences, and publicity have the highest cost effectiveness, followed by personal selling to gain distribution coverage, and sales promotion and direct marketing to induce trial. In the growth stage, demand has its own momentum through word of mouth. In the maturity stage, advertising, events and experiences, and personal selling all become more important. In the decline stage, sales promotion continues to be strong, other communication tools are reduced and salespeople give the product only minimal attention (see Figure 17.7).

Developing and managing an advertising programme

Advertising is any paid form of non-personal communication of market offerings by an identified sponsor. Its task is not to change what people think about a brand, which is always hard to

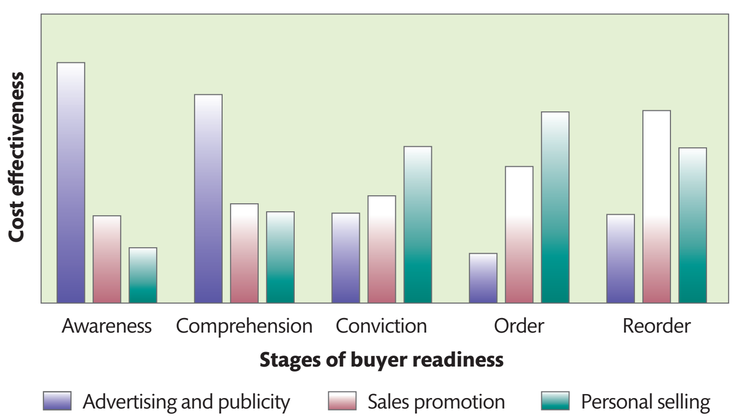


Figure 17.7 Cost effectiveness of three different communication tools at different buyer readiness stages

achieve, but to have them simply think *about* a brand. Advertisements are a cost-effective way to communicate messages. Even in today's challenging media environment, good advertisements can generate sales. Advertisements for Olay Definity anti-ageing products and Head & Shoulders Intensive Treatment Shampoo helped both brands enjoy double-digit sales gains in recent years.

In developing an advertising programme, marketing managers must always start by identifying the target market and buyers' motives. Then they can make the five major decisions, known as 'the five Ms' (see Figure 17.8). The magic comes from design skill in harnessing and packaging a broad range of creative skills to create entertainment, empathy and outreach.

Setting objectives

The advertising objectives must flow from prior decisions on target markets and brand positioning.

An **advertising goal** (or objective) is a communication targeted at a pre-selected audience at a specific time to stimulate increased sales. Goals can be classified according to whether their aim is to inform, persuade, remind or reinforce. They correspond to different stages in the *hierarchy-of-effects* model.

- **Informative advertising:** aims to create brand awareness and knowledge of new market offerings or upgraded existing ones.
- **Persuasive advertising:** aims to create liking, preference, conviction and purchase of a market offering. Some persuasive advertising uses comparative advertising, which makes an explicit comparison of the attributes of two or more brands. The UK supermarket ASDA ran a TV advertisement in which it claimed to offer more and better price reductions than a rival supermarket.
- **Reminder advertising:** aims to stimulate repeat purchase of market offerings. Expensive, four-colour cosmetic advertisements in magazines such as the UK's *Radio Times* and the Sunday newspaper supplements are intended to remind people to purchase such items as skin creams.
- **Reinforcement advertising:** aims to convince current purchasers that they made the right choice. Advertisements for vacuum cleaners often depict satisfied customers enjoying the special quality and cost attributes of their new machine.

The advertising objective should emerge from studying the current marketing situation. If the market offering class is mature, the company is the market leader and brand usage is low, the objective is to stimulate more usage. If the product class is new, the company is not the market leader but the brand is superior to the leader, then the objective is to convince the market of the brand's superiority.

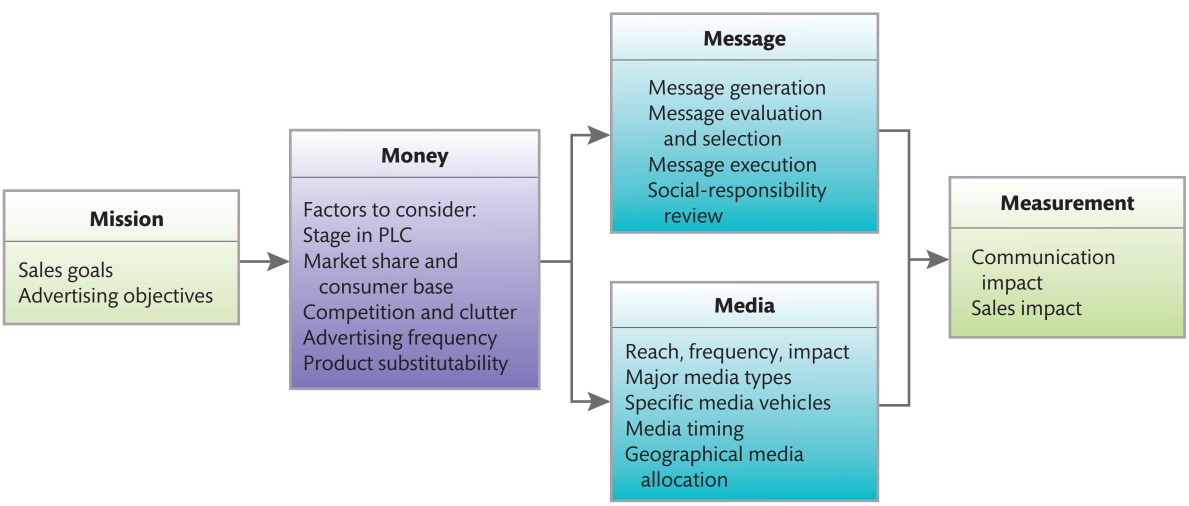


Figure 17.8 The five Ms of advertising

Deciding on the advertising budget and developing the advertising campaign

The UK's Lord Leverhulme, the founder of modern day Unilever, is accredited as once quipping 'Half my advertising is wasted. I just don't know which half'.[27] How does a company know it is spending the right amount? Large consumer-packaged-goods firms tend to overspend on advertising as a form of insurance against not spending enough. On the other hand, business-to-business companies tend to underspend as they underrate the power of advertising as a means to boost their images.

Although advertising is often treated as a current expense, it is really an investment in building brand equity and customer loyalty. When a company spends €5 million on capital equipment, it may treat the equipment as a five-year depreciable asset and write off only one-fifth of the cost in the first year. When it spends €5 million on advertising to launch a new market offering, it is common for management to want to write off the entire cost in the first year.

Factors affecting budget decisions

Here are five specific factors to consider when *setting* the advertising budget:

1. **Stage in the product life cycle.** New market offerings typically merit large advertising budgets to build awareness and to gain consumer trial. Established brands are usually supported with lower advertising budgets, measured as a ratio to sales.
2. **Market share and consumer base.** High-market-share brands usually require less advertising expenditure as a percentage of sales to maintain share. To build share by increasing market size requires larger expenditures.
3. **Competition and clutter.** In a market with a large number of competitors and high advertising spending, a brand must advertise more heavily to be noticed. Even simple distractions ('noise') from advertisements not directly competitive to the brand create a need for heavier advertising.
4. **Advertising frequency.** The number of repetitions needed to convey the brand's message to consumers has an obvious impact on the advertising budget.
5. **Product substitutability.** Brands in less-well-differentiated or commodity-like classes such as beer, soft drinks, banks and airlines require heavy advertising to establish a differential image.

Generally speaking, managers allocate less to advertising as brands move to the more mature phase of the product life cycle, when a brand is well differentiated from the competition, when managers are rewarded on short-term results, as retailers gain more power and when managers have less experience with the company.

Advertising elasticity

Advertising is a complex blend of art and science, and becoming ever more so. The advertising world is changing apace, and beyond the move to consumer engaged, digitally enabled, social media, advertising will be revolutionised by several fundamental changes. This will make it more difficult to assess advertising performance. Audience fragmentation, new media form factors and the phenomenal growth of social media will combine to make things more complex for marketers.

Advertising elasticity is simply the change in volume divided by the change in the associated advertising spend. It is essentially a metric for measuring return on advertising. Wright argues that advertising spend should be set based on advertising elasticity as a percentage of gross profit. The predominant response function for advertising is often concave but can be S-shaped. When consumer response is S-shaped, some positive amount of advertising is necessary to generate any sales impact, but sales increases flatten out.[28]

One classic study found that increasing TV advertising budgets had a measurable effect on sales only half the time. The success rate was higher on new products or line extensions than on established brands, and when there were changes in copy or in media strategy (such as an expanded target market). When advertising was successful in increasing sales, its impact lasted up to two years after peak spending. Moreover, the long-term incremental sales generated were approximately double the incremental sales observed in the first year of an advertising spending increase.[29]

A key question facing marketers is how to obtain the best return from their real-time media costs and space spend. Competition in many markets in the digital age is leading many agencies and advertisers to automate their advertising through programmatic media buying. This is a quest to bring media processes up to date, and free up people to focus their time on higher-value, creative solutions. Buying advertising programmatically enables marketers to reach only those audiences they wish to target and promises a real and viable solution to the conventional belief that 50 per cent of 'ad spend' is wasted.

Other studies reinforce these conclusions. In a 2004 Information Resource Incorporated (IRI) study of 23 brands, advertising often did not increase sales for mature brands or categories in decline. A review of academic research found that advertising elasticities were estimated to be higher for new (0.3) than for established products (0.1).[30] In designing and evaluating a campaign, marketers need to combine both art and science creatively to develop the message strategy or positioning of an advertisement: what message it conveys about the brand, its creative strategy and how the brand claims are expressed in it. Advertisers typically take three steps: message generation and evaluation; creative development and execution; and social-responsibility review.

Message generation and evaluation

Many advertisements have a sameness about them. The result is that only a weak link forms between the brand and the message. Advertisers are always seeking 'the big idea' that connects with consumers rationally and emotionally, sharply distinguishes the brand from competitors and is broad and flexible enough to translate to different media, markets and time periods. Fresh insights are important for avoiding using the same appeals and positioning as competitors. A good advertisement normally focuses on one or two core selling propositions. As part of refining the brand positioning, the advertiser needs market research to determine which appeal works best with its target audience and then to prepare a *creative brief*. This is a development of the *positioning statement* and includes: the key message, target audience, communications objectives (to do, to know, to believe), key brand benefits, supports for the brand promise and media.

How many alternative themes should the advertiser create before making a choice? The more themes explored, the higher the probability of finding a highly successful one. The use of computers has substantially reduced the costs of advertisement development. Many alternative approaches can be created in a short time by drawing still and video images from computer files. Marketers can also cut costs dramatically by using consumers as their creative team – a strategy sometimes called 'open-source' or 'crowdsourcing'. However, this technique can be either pure genius or a regrettable failure. Other marketers caution that the open-source model does not work for every company or every market offering.

Consumers see more advertising messages in a day than ever before; it is rare that they see one that is interesting enough for them to note. When they do they have the opportunity to tell a lot of people about it very quickly through social networks. The magic of advertising is to make sure that a message is both remarkable and likely to convince most people to buy the brand. Unilever has deployed this approach consistently. In the UK, leading department stores and supermarkets produce entertaining and informative TV advertisements in the run up to Christmas.

Creative development and execution

Visual images, sound and motion can be combined to affect viewers' emotions and senses. The advertisement's *impact* depends not only on what it says, but particularly on *how* it says it. Execution can be decisive. Every advertising medium has advantages.

Television advertisements

TV is generally acknowledged as a potent advertising medium and reaches a broad spectrum of consumers. The wide *reach* translates to low cost per exposure. TV advertising has two particularly important strengths. First, it can be an effective means of vividly demonstrating market offering attributes and persuasively explaining their corresponding consumer benefits. Secondly, it can dramatically portray user and usage imagery, brand personality and other intangibles. Because of its fleeting nature, however, and the distracting creative elements often found in advertisements, it can sometimes fail to impact effectively. Moreover, the high volume of advertising and non-programming material on TV creates *clutter* ('noise') and advertisements can easily be forgotten or ignored. Despite high production and placement costs, research has shown that the number of viewers who said that they paid attention to TV advertisements has dropped significantly in recent years. Olson and Thjømøe researched the impact of TV sponsoring and TV spot ads and found that 10 seconds of TV sponsoring works almost equally as well as 30 second spots across all measures and brands.[31] Nevertheless, properly designed and executed TV advertisements can improve brand equity and affect sales and profits.

Print advertisements

Print media offer a stark contrast to broadcast advertisements. Magazines and newspapers can provide detailed information and effectively communicate user and usage imagery. However, the static nature of the visual images in print media makes dynamic presentations or demonstrations difficult and this places a strong emphasis on the importance of quality copy writing. The two main print media – magazines and newspapers – share many advantages and disadvantages. Although newspapers are timely and pervasive, magazines are typically more effective at building user and usage imagery. Although advertisers have some flexibility in designing and placing newspaper advertisements, poor reproduction quality and short shelf-life can diminish their impact

Format elements, such as size, colour and illustration, also affect a print advertisement's impact. Larger ones gain more attention, though not necessarily by as much as their difference in cost. Four-colour illustrations increase both effectiveness and cost. New electronic eye-movement studies show that consumers can be led through an advertisement by the strategic placement of dominant elements. These are devices to focus the eye on the core values of the offering , such as the softness and length of the Andrex toilet tissue featured in the opening vignette and the Toblerone's use of the cogs of a Swiss watch to promote the brand's key points of difference – namely, its quality and triangular shape.

Researchers studying print advertisements report that the *picture, headline* and *copy* matter in that order. The picture must be interesting enough to draw attention. The headline must reinforce the picture and lead the person to read the copy. The copy must be engaging and the brand's name sufficiently prominent. Hatzithomas et al found that culture-relevant humour greatly aided recall rates.[32] Even then, less than 50 per cent of the exposed audience will notice even a really outstanding advertisement. About 30 per cent might recall the headline's main point, about 25 per cent will remember the advertiser's name and fewer than 10 per cent will read most of the body copy. Many advertisements fail to achieve even these results.

As consumers embrace new digital formats and platforms, print can appear to be falling by the wayside. Or is it? What do you think? The 'Marketing in action' box summarises the main ways marketers find that consumers process print advertisements.

Marketing in action

Print advertisement evaluation criteria

In judging the effectiveness of a print advertisement, in addition to considering the communication strategy (target market, communications objectives, message and creative strategy), marketers should be able to answer 'yes' to the following questions about the practical elements:

1 Is the message clear at a glance? Can you quickly tell what the advertisement is all about?
2 Is the benefit in the headline?
3 Does the illustration support the headline?
4 Does the first line of the copy support or explain the headline and illustration?
5 Is the advertisement easy to read and follow?
6 Is the market offering easily identified?
7 Is the brand or sponsor clearly identified?

Source: Based on P. W. Burton and S. C. Purvis (2002) *Which Ad Pulled Best*, 9th edn, Lincolnwood, IL: NTC Business Books.

Radio advertising

Radio is a pervasive medium. Perhaps its main advantage is flexibility – stations are highly targeted in terms of demographic, psychographic and geographic segmentation – and advertisements are relatively inexpensive to produce. Radio is a particularly effective medium at morning and evening commuting times. It can be especially useful for small local businesses and can assist larger national and international firms to achieve a balance between broad and localised market coverage.[33] The obvious disadvantage of radio is the lack of visual images and the relatively passive nature of the consumer processing that results.[34] Nevertheless, radio advertisements can be extremely creative. Some see the lack of visual images as a plus because they feel that the clever use of music, sound and other creative devices can tap into the listener's imagination to create powerful, popular messages that are easily recalled.

Legal and social issues

Advertisers and their agencies must be sure that advertising does not infringe social and legal norms. Public policy makers have developed a substantial body of laws and regulations to govern advertising. The problem is how to tell the difference between deception and exaggerations that are not meant to be believed and are permitted by law.[35] To be socially responsible, advertisers must be careful not to offend the general public as well as any ethnic groups, racial minorities or special interest groups.

Managing media matters

Media selection

Media selection involves finding the most cost-effective media to deliver the desired number and type of exposures to the target audience. The advertiser seeks a specified advertising objective and response from the target audience – for example, a target level of customer trial. This level depends on, among other things, level of brand awareness. Suppose the rate of consumer trial increases at a diminishing rate with the level of audience awareness, as shown in Figure 17.9(a). If the advertiser seeks a product trial rate of T^*, it will be necessary to achieve a brand awareness level of A^*.

The next task is to find out how many exposures, E^*, will produce a level of audience awareness of A^*. The effect of exposures on audience awareness depends on the exposures' reach, frequency and impact:

- **Reach (R):** the number of different persons or households exposed to a particular media schedule at least once during a specified time period.
- **Frequency (F):** the number of times within the specified time period that an average person or household is exposed to the message.
- **Impact (I):** the qualitative value of an exposure through a given medium (thus a food advertisement in the UK's *Good Housekeeping* magazine would have a higher impact than in the UK's *Radio Times* magazine).

Figure 17.9(b) shows the relationship between audience awareness and reach. Audience awareness will be greater, the higher the exposure's reach, frequency and impact. The relationship between reach, frequency and impact is captured in the following concepts:

- **Total number of exposures (E).** This is the reach multiplied by the average frequency: that is, $E = R \times F$, also called the gross rating points (GRP). If a given media schedule reaches 80 per cent of homes with an average exposure frequency of 3, the media schedule has a GRP of 240 (80×3). If another media schedule has a GRP of 300, it has more weight, but it is not possible to tell how this weight breaks down into reach and frequency.
- **Weighted number of exposures (WE).** This is the reach multiplied by average frequency multiplied by average impact: that is, $WE = R \times F \times I$.

Reach is most important when launching new products, or extensions of well-known brands, or infrequently purchased brands, or prospecting an undefined target market. Frequency is most important where there are strong competitors, a complex story to tell, high consumer resistance or a short purchase cycle. Many advertisers believe that a target audience needs a large number of exposures; others, that after people see the same advertisement a few times they act on it, get irritated by it or stop noticing it. Think of an advertisement that has recently irritated you. Was the advertisement effective? How would you change it if you had the opportunity to advise the client

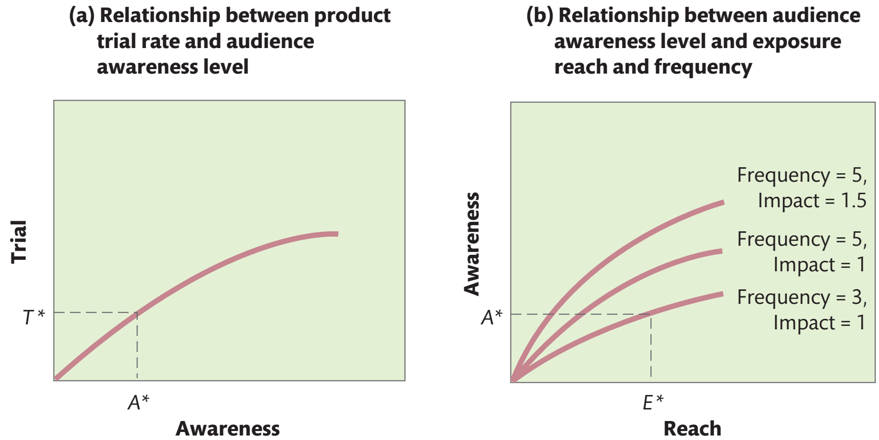


Figure 17.9 Relationship among trial, awareness and the exposure function

company? Another reason for repetition is forgetting. The higher the forgetting rate associated with a brand market-offering message, the higher the warranted level of repetition. However, advertisers should not rest on a tired advertisement but insist on fresh effort from their **advertising agency**.[36]

The media planner must also know the capacity of the major advertising media types to deliver reach, frequency and impact. The major advertising media along with their costs, advantages and limitations are profiled in Table 17.1. Media planners make their choices by considering the following variables:

- **Target audience media habits.** Radio and television are the most effective non-personal media for reaching teenagers.
- **Product characteristics.** Media types have different potential for demonstration, visualisation, explanation, believability and colour. Women's dresses are best shown in colour, for example.

Table 17.1 Profiles of major advertising media

Medium	Advantages	Limitations
Newspapers	Flexibility; timeliness; good local market coverage; highly believed	Short life; poor print quality; small 'pass-along' audience
TV	Combines sight, sound and motion; appealing to the senses; high attention; high reach	High absolute cost; high clutter; fleeting exposure; less audience selectivity
Direct mail	Audience selectivity; flexibility; no advertisement competition within the same medium; personalisation	Relatively high cost; 'junk mail' image
Radio	Mass use; high geographic and demographic selectivity; low cost	Audio presentation only; lower attention than television; non-standardised rate structures; fleeting exposure
Magazines	High geographic and demographic selectivity; credibility and prestige; high-quality reproduction; long life; good pass-along readership	Long advert purchase lead time; some waste circulation; no guarantee of position
Outdoor	Long advert purchase lead time; some waste circulation; no guarantee of position	Limited audience selectivity; creative limitations
Newsletters	Very high selectivity; full control; interactive opportunities; relative low costs	Costs could run away
Brochures	Flexibility; full control; can dramatise messages	Overproduction could lead to runaway costs
Telephone	Many users; opportunity to give a personal touch	Relative high cost unless volunteers are used
Internet	High selectivity; interactive possibilities; relatively low cost	Relatively new media with a low number of users in some countries

- **Message characteristics.** Timeliness and information content will influence media choice. A message announcing a major sale tomorrow will require radio, TV or newspaper advertising. A message containing a great deal of technical data might require specialised magazines or mailings.
- **Cost.** Television is very expensive, whereas newspaper advertising is relatively inexpensive. What counts is the cost per thousand exposures.

Given the abundance of media, the planner must first decide how to allocate the budget to the major media types. Customers are increasingly time starved. Attention is a scarce currency, and advertisers need strong devices to capture it.[37]

Place advertising

Place advertising, or **out-of-home advertising**, is a broad category including many creative and unexpected methods to capture consumers' attention. The rationale is that it is more effective to reach people where they work, play and, of course, shop. The main options include ambient advertising, billboards, digital screens, public spaces, point of purchase and transport advertising.

Billboards

Billboards have been transformed and now use colourful, digitally produced graphics, backlighting, sounds, movement, and unusual – even three-dimensional – images. In Belgium, eBay posted 'Moved to eBay' stickers on empty storefronts; and in Germany, imaginary workers toiling inside vending machines, ATMs and photo booths were justification for a German job-hunting website to proclaim, 'Life is too short for the wrong job'.

Billboards can capture the attention of large audiences
Source: Chirs P. Batson/Alamy.

Billboards

In Europe alone there are between 2 and 8 million billboards displayed at any given time, and this number is constantly growing. Billboard advertising makes an instant impression, getting the message across in seconds. Billboards enable advertisers, large or small, to reach huge audiences every day. Traditional print billboards are in evidence all over Europe. The digital boards are now increasingly to be found on key sites that have high viewing potential.

With more than £1 billion having been spent on phone-screen repairs in the past three years, O_2 introduced a scheme where people on selected tariffs qualified for a free screen replacement as part of its 'More for you' brand banner. To promote the offer, VCCP used special-build, 48-sheet billboards that looked as if they had fallen from the wall and shattered. The work was part of an integrated campaign, which also included large lenticular screens that gave the appearance of a screen cracking as commuters walked past.

Sources: European Commission, Community Research and Development Information Service, https://cordis.europa.eu/result/rcn/92567_en.html (accessed October 2018); S. Burne James (2017) O2 runs 'broken' billboards to show off screen replacement offer, *Campaign*, 4 September, https://www.campaignlive.co.uk/article/o2-runs-broken-billboards-show-off-screen-replacement-offer/1443552.

A billboard advertisement with a difference!
Source: Patrick Stollarz/AFP/Getty Images.

Digital billboards

These are frequently to be seen at public transport stations and in high-street locations.

Digital screens

Technology is developing rapidly and appears to be in the next phase of development, where brands can offer truly interconnected campaigns with robust data analysis. Several brands have run campaigns that have made the most of new interactive platforms outdoors and taken advantage of the ability to achieve engagement by changing creative messages in real time.

Public spaces or ambient advertising

Advertisers are placing advertisements in unconventional places such as cinemas and airport lounges, as well as sports arenas, office and hotel lifts, parks and other public places. Billboard-type poster advertisements are appearing everywhere. Advertisements on buses, subways and metro and commuter trains have become valuable ways to reach consumers. 'Street furniture' – bus shelters, kiosks and public areas – is another fast-growing option. McDonald's runs an outdoor campaign in Sweden that encourages consumers to recycle empty cans in return for burgers.

Advertisers can buy space in stadia, arenas and on rubbish bins, bicycle racks, parking meters, airline snack packages, airport luggage carousels, lifts and petrol pumps. Volkswagen has used fuel pump nozzles to communicate the fuel efficiency of its Golf TDI model.

Product placement

Product placement has been threatening to expand from films to all types of TV shows. From 2011, product placement has been approved on UK TV. Marketers pay high fees so that their goods will make cameo appearances in films and on television. Sometimes placements are the result of a larger network advertising deal, but at other times they are the work of small product-placement shops that maintain ties with prop masters, set designers and production executives. For example, 7 Up, Aston Martin, Finlandia, Visa and Omega all initiated major promotional campaigns based on product-placement tie-ins with the James Bond film *Die Another Day*.

Some firms (such as Chanel and Louis Vuitton) get product placement at no cost by supplying their products to the film company. Adidas, too, often supplies shoes, jackets, bags, etc.[38]

Marketers are finding inventive ways to advertise during real-time television broadcasts. Sports fans are familiar with virtual logos added digitally to the playing field. Invisible to spectators at the event, these advertisements look just like painted-on logos to viewers at home.

Advertorials are print advertisements that offer editorial content reflecting favourably on the brand and are difficult to distinguish from newspaper or magazine content.[39] Many companies include advertising inserts in with their monthly bills.

Point of purchase

There are many ways to communicate with consumers at the **point of purchase** (POP). In-store advertising includes advertisements on shopping trolleys, aisles and shelves, as well as promotion options such as in-store demonstrations and live sampling. POP radio provides FM-style programming and commercial messages to many stores and shops. Programming includes a store-selected music format, consumer tips and commercials. The appeal of POP advertising lies in the fact that many consumers make the bulk of their final brand decisions in the retail store.

Evaluating alternative media

Advertisements appear virtually anywhere. The main advantage of non-traditional media is that they can often reach a very precise and captive audience in a cost-effective manner. Advergames have been found to be a powerful and successful promotion strategy that reinforce brand recognition and foster positive associations towards food products. The message must be simple and direct. In fact, outdoor advertising is often called the '15-second sell'. It is more effective at enhancing brand awareness or brand image than creating new brand associations.

The challenge with non-traditional media is demonstrating their reach and effectiveness through credible, independent research. Unique advertising placements designed to break through clutter may also be perceived as invasive and obtrusive. Consumer backlash often results when people see advertisements in traditionally advertisement-free spaces, such as in dentists' and doctors' waiting rooms.

Not everyone is alienated by the proliferation of advertising. Branded merchandise is so much a part of teenagers' lives that they don't think twice about it. Perhaps because of its sheer pervasiveness, some consumers seem to be less bothered by non-traditional media now than in the past. However, consumers must be favourably affected in some way to justify the marketing expenditures for non-traditional media. There will always be scope for creativity to attract consumers to brands.

The media planner must search for the most cost-effective vehicles within each chosen media type. These choices are critical, as it can cost as much to run an advertisement once on network TV as to make it. In making choices, the planner must rely on measurement services that provide estimates of audience size, composition and media cost. Audience size has several possible measures:

- **Circulation:** the number of physical units carrying the advertising.
- **Audience:** the number of people exposed to the vehicle. (If the vehicle has pass-on readership, then the audience is larger than the circulation.)
- **Effective audience:** the number of people with target audience characteristics exposed to the vehicle.
- **Effective advertising-exposed audience:** the number of people with target audience characteristics who actually saw the advertisement.

Media planners calculate the cost per thousand persons reached by a vehicle. Each magazine is ranked by cost per thousand. The magazines themselves often put together a 'reader profile' for their advertisers, summarising the characteristics of the magazine's readers with respect to age, income, residence, marital status and leisure activities.

Marketers need to apply several adjustments to the cost-per-thousand measure. First, they should adjust the measure for *audience quality*. For a baby lotion advertisement, a magazine read by 1 million young mothers has an exposure value of 1 million; if read by 1 million teenagers, it would have an exposure value of almost zero. Second, adjust the exposure value for the *audience-attention probability*. Readers of *Vogue* may pay more attention to advertisements than do readers of *The*

Economist. Third, adjust for the magazine's *editorial quality* (prestige and trustworthiness). People are more likely to believe a TV or radio advertisement and to become more positively disposed towards the brand when the advertisement is placed within a programme they like. Fourth, adjust for the magazine's *advertising placement* policies and extra services (such as regional or occupational editions and lead-time requirements).

Media professionals are increasingly using more sophisticated measures of effectiveness and employing them in mathematical models to arrive at the best media mix. Many advertising agencies use computer software to select the initial media and then make further improvements based on subjective factors.

In choosing media, the advertiser faces both a macro-scheduling and a micro-scheduling problem. The *macro-scheduling problem* involves scheduling the advertising in according to seasons and the business cycle. The *micro-scheduling problem* calls for allocating advertising expenditures within a short period to obtain maximum impact. Suppose the firm decides to buy 30 radio spots in the month of September. Figure 17.10 shows several possible patterns. The left side shows that advertising messages for the month can be concentrated ('burst' advertising), dispersed continuously throughout the month, or dispersed intermittently. The top side shows that the advertising messages can be beamed with a level, rising, falling or alternating frequency.

The most effective pattern depends on the communications objectives in relationship to the nature of the market offering, target customers, distribution channels and other marketing factors. The timing pattern should consider three factors. *Buyer turnover* expresses the rate at which new buyers enter the market; the higher this rate, the more continuous the advertising should be. *Purchase frequency* is the number of times during the period that the average buyer buys the product; the higher the purchase frequency, the more continuous the advertising should be. The *forgetting rate* is the rate at which the buyer forgets the brand; the higher the forgetting rate, the more continuous the advertising should be.

In launching a new market offering, the advertiser must choose among continuity, concentration, flighting and pulsing.

- **Continuity:** exposures appear evenly throughout a given period. Generally, advertisers use continuous advertising in expanding market situations, with frequently purchased items and in tightly defined buyer categories.
- **Concentration:** making the advertising spend in a single period. This makes sense for seasonal purchases such as certain fruit, vegetables, holidays and Christmas presents.
- **Flighting:** advertising for a period, followed by a period with no advertising, followed by a second period of advertising activity. It is useful when funding is limited, the purchase cycle is relatively infrequent, or items are seasonal.

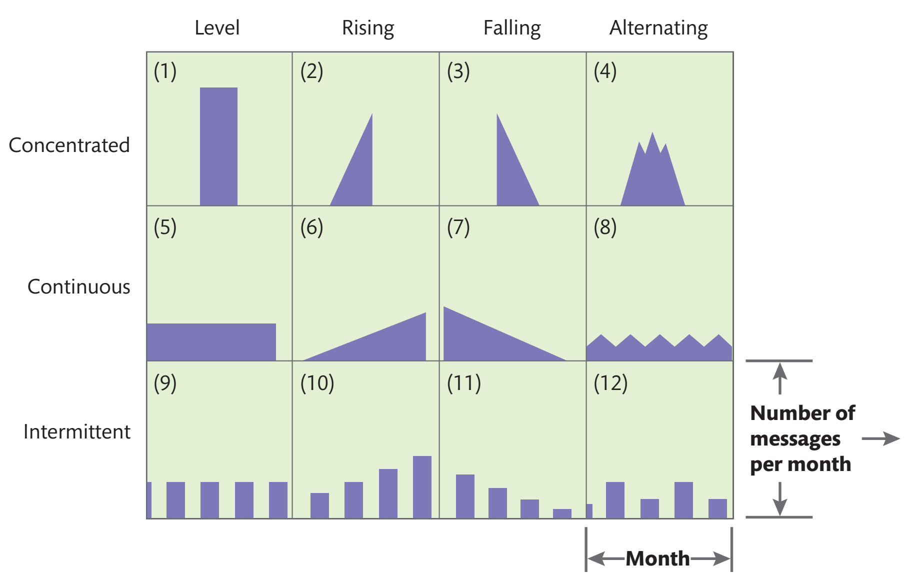


Figure 17.10 Classification of marketing timing patterns

- **Pulsing:** continuous advertising at low-weight levels reinforced periodically by waves of heavier activity. It draws on the strength of continuous advertising and flights to create a compromise scheduling strategy. Those who favour pulsing believe the audience will learn the message more thoroughly, and at a lower cost to the firm.

A company must decide how to allocate its advertising budget over space as well as over time. Marketers make 'national buys' when they place advertisements on national TV networks or in nationally circulated magazines, and make 'spot buys' when they buy TV time in just a few markets or in regional editions of magazines. These markets are called *areas of dominant influence* (ADIs) or *designated marketing areas* (DMAs).

Evaluating advertising effectiveness

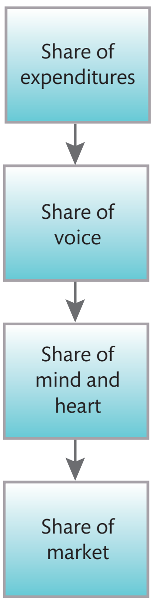


Figure 17.11 Formula for measuring sales impact of advertising

Most advertisers try to measure the communication effect of an advertisement – that is, its potential effect on awareness, knowledge or preference. They would also like to measure the advertisement's sales effect (see Figure 17.11).

Communication-effect research

Communication-effect research, called **copy testing**, seeks to determine whether an advertisement is communicating effectively. Marketers should perform this both before an advertisement is put into media and after it is printed or broadcast.

There are three major methods of pre-testing. The *consumer feedback method* asks consumers questions such as these:

1. What is the main message you get from this advertisement?
2. What do you think they want you to know, believe or do?
3. How likely is it that this advertisement will influence you to undertake the action?
4. What works well in the advertisement and what works poorly?
5. How does the advertisement make you feel?
6. Where is the best place to reach you with this message?

Portfolio tests ask consumers to view or listen to a mix of advertisements. Consumers are then asked to recall all the advertisements and their content, aided or unaided by the interviewer. Recall levels indicate an advertisement's ability to have its message understood and remembered.

Laboratory tests use equipment to measure reactions to an advertisement; or consumers may be asked to indicate their moment-to-moment liking or interest while viewing sequenced material.[40] These tests measure attention-getting power but reveal nothing about impact on beliefs, attitudes or intentions.[41]

Many advertisers use post-tests to assess the overall impact of a completed campaign.

Pre-test critics maintain that agencies can design advertisements that test well but may not necessarily perform well in the marketplace. Proponents of pre-testing maintain that useful diagnostic information can emerge but that pre-tests should not be used as the sole decision criterion.

Sales-effect research

What sales are generated by an advertisement that increases brand awareness by 20 per cent and brand preference by 10 per cent? The fewer or more controllable additional factors such as features and price are, the easier it is to measure advertising's effect on sales. The sales impact is easiest to measure in direct marketing situations and hardest in brand or corporate image-building advertising.

Companies are generally interested in finding out whether they are overspending or underspending on advertising. A company's *share of advertising expenditures* produces a *share of voice* (proportion of company advertising that relates to that market offering) that earns a *share of consumer*s' minds and hearts and, ultimately, a *share of market*. Researchers try to measure the sales impact through analysing historical or experimental data. The *historical approach* involves correlating past sales to past advertising expenditures using advanced statistical techniques. Others use an *experimental design* to measure advertising's sales impact.

Assessing the impact of advertising

The Millward Brown International agency helps advertisers discover whether advertising is benefitting their brand. As a result of the digital revolution, marketers can measure, analyse and research to an unprecedented level, often in real time. Finance executives often query the effect of advertising on return on investment. Most studies confirm that it has a positive effect, contributing most in the year of expenditure and up to three years after.

Sales promotion

Sales promotion is a key ingredient in the communications mix. Strictly speaking, it should be termed *sales promotion* and not just *promotion* as the latter is a collective term for the complete marketing communications mix. It consists of a collection of incentive tools, mostly short term, designed to stimulate quicker or greater purchase of particular market offerings by consumers or the trade.[42]

Whereas advertising offers a *reason* to buy, sales promotion offers an *incentive* to buy. Sales promotion includes tools for *consumer promotion* (samples, coupons, cash refund offers, money off, premiums, prizes, patronage rewards, free trials, warranties, tie-in promotions, cross-promotions, point-of-purchase displays and demonstrations); *trade promotion* (money off, advertising and display allowances, and free goods); and *business* and *sales force promotion* (trade shows and conventions, sales force contests and speciality advertising).

Setting objectives

Sales promotion tools vary in their specific objectives. A free sample stimulates consumer trial, whereas a free management advisory service aims at cementing a long-term relationship with a retailer. Sellers use incentive-type promotions to attract new users, to reward loyal customers and to increase the repurchase rates of occasional users. Sales promotions often attract brand switchers, who are primarily looking for low price, CPV or premiums.

Sales promotion in markets of high brand similarity can produce a high sales response in the short run but little permanent gain in brand preference over the longer term. In markets of high brand dissimilarity, they may be able to alter market shares permanently. In addition to brand switching, consumers may engage in stockpiling – purchasing earlier than usual (purchase acceleration) or purchasing extra quantities. However, sales may then hit a post-sales-promotion dip.

A number of sales promotion benefits flow to manufacturers and consumers. Manufacturers can adjust to short-term variations in supply and demand and test how high a list price they can charge, because they can always discount it. Promotions induce consumers to try new market offers and lead to more varied retail formats, such as everyday low pricing and promotional pricing. For retailers, promotions may increase sales of complementary categories (cake mix promotions may drive cake decoration sales) as well as induce store switching. They promote greater consumer awareness of prices. They help all market-offering providers sell more than normal at the list price and adapt programmes to different consumer segments.

Advertising versus sales promotion

A decade ago, the advertising-to-sales-promotion ratio was about 60:40. Today, in many consumer-packaged-goods companies, sales promotion still accounts for a sizeable share of the traditional combined advertising and promotion spend but is rapidly losing out to internet-based digital marketing.[43] Sales promotion expenditure remains important and regularly appears in the full communications mix.

Several factors contributed to this rapid growth, particularly in consumer markets. Promotion became popular with top management as an effective sales tool; the number of brands increased; competitors used promotions frequently; many brands were seen as similar; consumers became more price-value orientated and the trade demanded more deals from manufacturers. However, the rapid growth of sales promotion created clutter. Incessant price reductions, coupons, deals and premiums may devalue the product in buyers' minds. It is risky to overuse sales promotion for a well-known brand on promotion.

Buy-one-get-one-free promotions (BOGOFs)

Market-proven promotions to stimulate sales include three for the price of two, and the second for free, etc. BOGOFs tempt consumers as they fear that they may miss the opportunity to get such a good deal tomorrow. These promotions:

- stimulate impulse purchases and lure customers with free goods;
- increase the number of items usually bought, motivating consumers to purchase in bulk;
- are a powerful way for companies to shift slow-moving stock.

Who really benefits from BOGOF deals? Why do you think that they are losing their popularity with manufacturers and retailers?[44]

Loyal brand buyers tend not to change their buying patterns as a result of competitive promotions. Advertising appears to be more effective at deepening brand loyalty, although added-value promotions can be distinguished from price promotions. Certain types of sales promotion may actually be able to enhance brand image.

Price promotions may not build permanent total category volume. Small market share competitors find it advantageous to use sales promotion because they cannot afford to match the market leaders' large advertising budgets. Neither can they obtain shelf-space without offering trade allowances or stimulate consumer trial without offering incentives. The result is that many consumer-packaged-goods companies feel they are forced to use more sales promotion than they wish. They blame the heavy use of sales promotion for decreasing brand loyalty, increasing consumer price sensitivity, brand–quality–image dilution, and a focus on short-run marketing planning.[45]

Major decisions

In using sales promotion a company must establish its objectives, select the tools, develop the programme, pre-test, implement and control it and evaluate the results.

Establishing objectives

Sales promotion objectives derive from broader communication plans. For consumers, objectives include encouraging purchase of larger-sized units, building trial among non-users and attracting switchers away from competitors' brands. Ideally, promotions with consumers would have short-run sales impact as well as long-run brand equity effects. For retailers, objectives include persuading retailers to carry new items and higher levels of inventory, encouraging off-season buying, encouraging stocking of related items, offsetting competitive promotions, building brand loyalty and gaining entry into new retail outlets. For the sales force, objectives include encouraging support of a new market offering, encouraging more prospecting and stimulating off-season sales.

Selecting consumer promotion tools

The promotion planner should consider the type of market, sales promotion objectives, competitive conditions and each tool's cost effectiveness. The main consumer promotion tools are summarised in Table 17.2. *Manufacturer promotions* are, for instance in the motor industry, rebates, gifts to motivate test drives and purchases, and high-value trade-in credit. *Retailer promotions* include price cuts, feature advertising, retailer coupons and retailer contests or premiums.[46]

A distinction can also be made between sales promotion tools that are *consumer franchise building* and those that are not. The former establish a selling message along with the offer, such as free samples, frequency awards, coupons when they include a selling message, and premiums when they are related to an offering. Sales promotion tools that typically are *not* brand building include 'money-off' packs, consumer premiums not related to a product, contests and sweepstakes, consumer refund offers and trade allowances. Consumer franchise-building promotions offer the best of both worlds – they build brand equity and generate sales.

Selecting trade promotion tools

Manufacturers use a number of trade promotion tools. They give money to the trade: (1) to persuade the retailer or wholesaler to carry the brand; (2) to persuade the retailer or wholesaler to carry more units than the normal amount; (3) to induce retailers to promote the brand by featuring display and price reductions; and (4) to stimulate retailers to push the product.

Table 17.2 Major consumer promotion tools

Samples: offer of a free amount of a product or service delivered door to door, sent in the mail, picked up in a store, attached to another product or featured in an advertising offer.

Coupons: certificates entitling the bearer to a stated saving on the purchase of a specific product: mailed, enclosed in other products or attached to them, or inserted in magazine and newspaper ads.

Cash refund offers (rebates): provide a price reduction after purchase rather than at the retail shop. The consumer sends a specified 'proof of purchase' to the manufacturer, which 'refunds' part of the purchase price by mail.

Price packs (money-off deals): offers to consumers of savings off the regular price of a product, flagged on the label or package. A reduced-price pack is a single package sold at a reduced price (such as two for the price of one). A banded pack is two related products banded together (such as a toothbrush and toothpaste).

Premiums (gifts): merchandise offered at a relatively low cost or free as an incentive to purchase a particular product. A with-pack premium accompanies the product inside or on the package. A free in-the-mail premium is mailed to consumers, who send in a proof of purchase, such as a box top or bar code. A self-liquidating premium is sold below its normal retail price to consumers who request it.

Frequency programme: a programme providing rewards related to the consumer's frequency and intensity in purchasing the company's products or services.

Prizes (contests, sweepstakes, games): offers of the chance to win cash, trips or merchandise as a result of purchasing something. A contest calls for consumers to submit an entry to be examined by a panel of judges who will select the best entries. A sweepstake asks consumers to submit their names to a draw. A game presents consumers with something every time they buy – bingo numbers, missing letters – that might help them win a prize.

Patronage awards: values in cash or in other forms that are proportional to patronage of a certain vendor or group of vendors.

Free trials: inviting prospective purchasers to try the product without cost in the hope that they will buy.

Product warranties: explicit or implicit promises by sellers that the product will perform as specified or the seller will fix it or refund the customer's money during a specified period.

Tie-in promotions: two or more brands or companies team-up on coupons, refunds and contests to increase pulling power.

Cross-promotions: using one brand to advertise another, non-competing brand.

Point-of-purchase (POP) displays and demonstrations: POP displays and demonstrations take place at the point of purchase or sale.

The growing power of large retailers has increased their ability to demand trade promotions at the expense of consumer promotion and advertising. The company's sales force and its brand managers are often at odds over trade promotion. The sales force says local retailers will not keep the company's products on the shelf unless they receive more trade promotion money, whereas brand managers want to spend the limited funds on consumer promotion and advertising.

Manufacturers face several challenges in managing trade promotions. First, they often find it difficult to persuade retailers to do what they agreed. Manufacturers are increasingly insisting on proof of performance before paying any allowances. Second, some retailers are *forward buying* – that is, buying a greater quantity during the deal period than they can immediately sell. In the light of these problems, many manufacturers feel that trade promotions have become a nightmare. They contain several offers, are complex to administer and often lead to lost revenues.

Nestlé personalised KitKat promotion

Nestlé's sales promotion ran from 1 February until 29 March 2017 across KitKat four-finger and chunky single bars, multi-packs and two-finger biscuit packs. Consumers were able to enter online via an on-pack code that featured personalised messages and photos from winning entries printed on a unique KitKat wrapper. Nestlé's confectionery business unit head told reports that the promotion tapped into the current trend for personalisation, and gave consumers the chance to win a personalised KitKat four-finger pack for themselves or to give to a friend or loved one. More than 55,000 printed personalised packs were made available.

The launch benefited from £1 million media spend across digital and social media. It followed Nestlé's KitKat promotion in 2015 in collaboration with Google using its 'Have A Break' theme, whereby consumers could watch YouTube videos by scanning QR codes on packaging with smartphones. A previous limited-edition run featured variations of the famous strapline, including 'Sporty Break', 'Lunch Break', 'Office Break' and 'Me Time Break'.

Source: T. Corbin (2012) Nestlé launches personalised KitKat promotion, *Packaging News*, 31 January, https://www.packagingnews.co.uk/news/markets/food/nestle-launches-personalised-kitkat-promotion-31-01-2017.

Pre-testing, implementing, controlling and programme evaluation

Although most sales promotion programmes are designed on the basis of experience, pre-tests can determine whether the tools are appropriate, the incentive size optimal and the presentation method efficient. Consumers can be asked to rate or rank different possible offers, or trial tests can be run in limited geographic areas.

Marketing managers must prepare implementation and control plans that cover lead time and sell-in time for each individual promotion. *Lead time* is the time necessary to prepare the programme prior to launching it. *Sell-in time* begins with the promotional launch and ends when approximately 95 per cent of the deal merchandise is in the hands of consumers.

Manufacturers can evaluate the programme using sales data, consumer surveys and experiments. Sales (scanner) data help analyse the types of people who took advantage of the promotion, what they bought before the promotion and how they behaved later towards the brand and other brands. Sales promotions work best when they attract competitors' customers, who then switch. *Consumer surveys* can uncover how many recall the promotion, what they thought of it, how many took advantage of it and how the promotion affected subsequent brand choice behaviour. *Experiments* vary such attributes as incentive value, duration and distribution media: for example, coupons can be sent to half the households in a consumer panel. Scanner data can track whether the coupons led more people to buy the product and when.

Additional costs beyond the cost of specific promotions include the risk that they might decrease long-run brand loyalty. Second, promotions can be more expensive than they appear. Some are inevitably distributed to the wrong consumers. Third are the costs of special production runs, extra sales force effort and handling requirements. Finally, certain promotions irritate retailers, who may demand extra trade allowances or refuse to cooperate.

Events, experiences, public and press relations

Setting objectives

Sponsorship of sporting events, arts festivals, fairs and annual and charity events involves becoming part of a personally relevant moment in consumers' lives that can broaden and deepen a company's relationship with the target market.

British Airways sponsors the Run Gatwick event

British Airways supports a number of sporting, cultural and charitable activities around the world that complement its business and marketing objectives. In May 2018, British Airways was the headline sponsor of the grand inaugural Run Gatwick event that took place on 13 May. The event was unveiled with a photoshoot featuring the world female record-holder Paula Radcliffe.

The inaugural event supported Flying Start, the global charity partnership between British Airways and Comic Relief. The event included the International Half Marathon and 5K, plus the Corporate 5K and a family run for children aged 4 to 15 years.

European runners were able to take part as British Airways offered flights to Gatwick airport from a number of European destinations.

Source: British Airways Media Centre (2018) http://mediacentre.britishairways.com/pressrelease/details/86/2018-247/9739.

Daily encounters with brands may also affect consumers' brand attitudes and beliefs. *Atmospheres* are 'packaged environments' that create or reinforce leanings towards market offering purchase. Law offices decorated with Oriental rugs and oak furniture communicate 'stability' and 'success'. A five-star hotel will feature elegant chandeliers, marble columns and other tangible signs of luxury. Small brands, of necessity, are more likely to take less obvious and less expensive paths in sponsorship and communications.

Table 17.3 outlines the potential advantages of sponsorships; however, despite these the success of an event can still be unpredictable and beyond the control of the sponsor. Although many consumers will credit sponsors for providing the financial assistance to make an event possible, others may resent the commercialisation of events.

Major sponsorship experiences

Successful sponsorships require choosing the appropriate events, designing the optimal programme and measuring the effects. Professional advice on sponsorship is available in most European countries.

Choosing events

Because of the number of opportunities and their huge cost, many marketers are becoming more selective about choosing sponsorship events. The event must meet the marketing objectives and communication strategy defined for the brand. The audience must match the target market. The event must have sufficient awareness, possess the desired image and be capable of creating the desired effects. Consumers must see favourable attributions for the sponsor's engagement. An ideal event is unique, lends itself to ancillary marketing activities and reflects or enhances the sponsor's brand or corporate image. As marketing managers are keen to be identified with excellent, prestigious and global activities, many are attracted by events such as the Olympics and World Cup competitions.

More firms are also using their names to sponsor the arenas, stadiums and other venues that hold the events. In Europe, the Premier League football club Arsenal plays at the Emirates stadium in London, and Bayern Munich plays in the Allianz Arena in Munich.

Table 17.3 Main reasons why marketers recommend sponsoring events

- **To identify with a particular target market or lifestyle.** Customers can be targeted geographically, demographically, psychographically or behaviourally according to events.
- **To increase awareness of company or product name.** Sponsorship often offers sustained exposure to a brand, a necessary condition to build brand recognition and enhance brand recall.
- **To create or reinforce perceptions of key brand-image associations.** Events themselves have associations that help to create or reinforce brand associations. Coca-Cola and McDonald's were major sponsors of the 2018 FIFA World Cup.[47]
- **To enhance corporate image.** Sponsorship can improve perceptions that the company is likeable and prestigious. Vodafone in the Netherlands made a short film that documents a deaf girl hearing music at a concert for the first time, as part of Vodafone's global #firsts sponsorship campaign. Dutch composer Kyteman created a special low-frequency song that she would be able to hear.
- **To create experiences and evoke feelings.** The feelings engendered by an exciting or rewarding event may indirectly link to the brand.
- **To express commitment to the community, green or social issues.** Cause-related marketing sponsors non-profit organisations and charities. Ben & Jerry's (now owned by Unilever) has been a consistent champion of green and social issues.
- **To entertain key clients or reward key employees.** Many events, such as the UK Wimbledon tennis championships, include lavish hospitality tents and other special services or activities for sponsors and their guests only. These engender goodwill and establish valuable business contacts. From an employee perspective, events can also build participation and morale or be used as an incentive.
- **To permit merchandising or promotional opportunities.** Many marketers include contests or sweepstakes, in-store merchandising, direct response or other marketing activities at an event.

Designing sponsorship programmes

Many marketers believe it is the marketing programme accompanying an event sponsorship that ultimately determines its success. At least two to three times the amount of the sponsorship expenditure should be spent on related marketing activities.

Event creation is a particularly important skill in publicising fund-raising drives for non-profit organisations. Fund-raisers have developed a large repertoire of special events, including anniversary celebrations, art exhibitions, auctions, benefit evenings, bingo games, book and cake sales, contests, dances, dinners, fairs, fashion shows, parties in unusual places, 'phonathons', jumble sales, tours and 'walkathons'. No sooner is one type of event created, such as a 'walkathon', then competitors spawn new versions, such as 'readathons', 'bikeathons' and 'jogathons'.

Measuring sponsorship activities

As with public relations, measurement of events is difficult. The *supply-side* measurement method focuses on potential exposure to the brand by assessing the extent of media coverage, while the *demand-side* method focuses on reported exposure from consumers.

Supply-side methods approximate the amount of time or space devoted to media coverage of an event: for example, the number of seconds the brand is clearly visible on a television screen, or column inches of press clippings covering an event that mention the brand. These potential 'impressions' translate into an equivalent value in advertising expenditure according to the fees associated in actually advertising in the particular media vehicle. Some industry consultants have estimated that 30 seconds of TV logo exposure during a televised event can be worth 6 per cent, 10 per cent or as much as 25 per cent of a 30-second paid TV advertisement.

Although supply-side exposure methods provide quantifiable measures, equating media coverage with advertising exposure ignores the content of the respective communications. The advertiser uses media space and time to communicate a strategically designed message. Media coverage and telecasts only expose the brand and don't necessarily embellish its meaning in any direct way. Although some public relations professionals maintain that positive editorial coverage can be worth 5–10 times the equivalent advertising value, sponsorship rarely provides such favourable treatment.

The demand-side method identifies the effect sponsorship has on consumers' brand knowledge. Marketers can survey event spectators to measure sponsor recall of the event as well as resulting attitudes and intentions towards the sponsor:

- **direct tracking of sponsorship-related promotions:** web data, call-centre data, online event statistics, other consumer engagements etc.;
- **qualitative research:** on-site/in-market, pre/post and participant/non-participant, using a proprietary model for brand equity transfer and subsequent impact on purchase intent; and
- **quantitative analysis:** analysis to link sponsorship to brand awareness, sales and retention and to optimise tactics in sponsorship activation that maximise ROI.

Creating experiences

A large part of local marketing is experiential, which not only communicates features and benefits but also connects a marketing offering with unique and interesting experiences.

Technology has become important to people when attending live events. It is affecting every part of that life experience, from planning through to complementing and enhancing the event itself and capturing and sharing the excitement of attending. 'The idea is not to sell something, but to demonstrate how a brand can enrich a customer's life'.[48] The 'Marketing insight' box describes the concept of customer experience management.

Marketing insight

Experiential marketing

Schmitt[49] has developed the concept of customer experience management (CEM), the process of strategically managing a customer's entire experience with a market offering or company. According to Schmitt , brands can help to create five different types of experience: sense, feel, think, act and relate. In each case, Schmitt distinguishes between hard-wired and acquired experiential response levels. He maintains that marketers can provide experiences for customers through a set of experience providers:

- communications: advertising, public relations, annual reports, brochures, newsletters and catalogues;
- visual/verbal identity: names, logos, signage and transportation vehicles;
- product presence: product design, packaging and point-of-sale displays;
- co-branding: event marketing and sponsorships, alliances and partnerships, licensing and product placement in films or on TV;
- environments: retail and public spaces, trade booths, corporate buildings, office interiors and factories;
- websites and electronic media: corporate sites, product or service sites, automated emails, online advertising and social media.
- people: salespeople, customer service representatives, technical support and senior managers.

The CEM framework has five basic steps:

1. Analysing the experiential world of the consumer: gaining insights into the sociocultural context of consumers or the context of business customers.
2. Building the experiential platform: developing a strategy that includes the positioning for the kind of experience the brand stands for ('what'), the value proposition of what relevant experience to deliver ('why') and the overall implementation theme that will be communicated ('how').
3. Designing the brand experience: implementing the experiential platform in the look and feel of logos and signage, packaging, retail spaces, advertising, online and social media activity.
4. Structuring the customer interface: implementing the experiential platform in the dynamic and interactive interfaces, including face to face, in stores, during sales visits, at the check-in desk of a hotel, or in social media.
5. Engaging in continuous innovation: implementing the experiential platform in new product development, creative marketing events for customers and fine tuning the experience at every touchpoint.

Schmitt cites Pret a Manger as an example of an attractive brand experience, customer interface and ongoing innovation.

Sources: B. H. Schmitt (2003) *Customer Experience Management: A Revolutionary Approach to Connecting with Your Customers*, New York: John Wiley and Sons.

Pine and Gilmore argue that marketers are on the threshold of the 'experience economy'– a new economic era in which all businesses must orchestrate memorable events for their customers.[50]

They assert:

- If you charge for stuff, then you are in the *commodity business*.
- If you charge for tangible things, you are in the *goods business*.
- If you charge for the activities you perform, then you are in the *service business*.
- If you charge for the time customers spend with you, then and only then are you in the *experience business*.

Citing a range of companies, Pine and Gilmore maintain that saleable experiences come in four varieties: entertainment, education, aesthetic and escapist. Some companies promote their brands by encouraging prospects and customers to visit their factories and/or corporate museums.

Major decisions in marketing public relations

As well as relating to customers, a company must also relate positively to suppliers and dealers and relevant interested publics. A **public** is any group that has an actual or potential interest in or impact on a company's ability to achieve its objectives. **Public relations** (PR) include a variety of programmes to promote or protect a company's image or individual market offerings.

Professional companies take concrete steps to manage successful relationships with key publics. Most have a public relations department that monitors the attitudes of their publics and distributes information and communication to build goodwill. They perform the following five functions:

1. Press relations: presenting news and information about the organisation in the most positive light.
2. Market offering publicity: to support specific market offerings.
3. Corporate communications: promoting understanding of the organisation.
4. Lobbying: contacting legislators and government officials.
5. Counselling: advising management about public issues and company standpoints.

Sometimes PR must spearhead marketing communication efforts to help when a brand gets into trouble. In 2018, the UK Trustee Savings Bank suffered damage to its brand reputation as a result of a massive IT failure. Facebook and Twitter were rocked by a leakage of confidential personal data but soon recovered much of their brand status.

Marketing public relations

Many companies are turning to **marketing public relations** (MPR) to support corporate or market offering/product promotion and image making. MPR, as with financial PR and community PR, serves a special constituency.

The old name for MPR was **publicity**, the task of securing editorial space – as opposed to paid space – in print and broadcast media to promote or 'hype' a product, service, idea, place, person or organisation. As Table 17.4 illustrates, MPR goes beyond simple publicity and plays an important role.

As the power of mass advertising weakens, marketing managers are turning to MPR to build awareness and brand knowledge for both new and established lines. MPR is also effective in blanketing local communities and reaching specific groups, and can be more cost effective than advertising. Nevertheless, it must be planned jointly with advertising.[51] Dulux's 'let's colour' global advertising campaign donated over half a million litres of paint to more than 300 projects across 20 countries. Marketing managers need to acquire more skill in using MPR resources.

Clearly, creative public relations can affect public awareness at a fraction of the cost of advertising. The company does not pay for media space or time, but only for staff to develop and circulate the stories and manage certain events. An interesting story picked up by the media can be worth more than an advertising spend. Some experts say consumers are five times more likely to be influenced by editorial copy than by advertising.

Major decisions in marketing press relations

In considering when and how to manage press relations (PR), companies need to establish the marketing objectives, choose the PR messages and vehicles, implement the plan carefully and evaluate the results. The main tools of PR are described in Table 17.5.

Establishing objectives

PR can build *awareness* by placing stories in the media to bring attention to a product, service, person, organisation or idea. It can build *credibility* by communicating the message in an editorial context. It can help boost sales force and dealer *enthusiasm* with stories about a new marketing offer before it is launched. It can hold down promotion cost because PR costs less than direct mail and media advertising. When PR practitioners reach their target publics through the mass media, PR is increasingly borrowing the techniques of direct response and social media marketing to reach audience members individually.

Table 17.4 Main public relations roles

- **Launching new products.** The commercial success of Dyson's vacuum cleaners owes much to strong publicity.
- **Repositioning a mature product.** Glasgow had extremely bad press until the 'Glasgow – Smiles Better' campaign.
- **Building interest in a product category.** Companies and trade associations have used MPR to rebuild interest in declining commodities such as eggs, milk, beef and potatoes, and to expand consumption of such products as tea, pork and orange juice.
- **Influencing specific target groups.** Supermarkets throughout Europe sponsor special local events to build goodwill.
- **Defending products that have encountered publicity problems.** PR professionals must be adept at managing crises, e.g if a food brand is contaminated.
- **Building the corporate image in a way that reflects favourably on its brand offerings.** Sir Richard Branson's activities have helped to create an innovative image for the Virgin Group.

Table 17.5 Major PR tools

Publications: Companies rely extensively on published materials to reach and influence their target markets. These include annual reports, brochures, articles, company newsletters and magazines, and audio-visual materials.
Events: Companies can draw attention to new products or other company activities by arranging special events such as news conferences, seminars, outings, trade shows, exhibits, contests and competitions, and anniversaries that will reach the target publics.
Sponsorships: Companies can promote their brands and corporate name by sponsoring sports and cultural events and highly regarded causes.
News: One of the major tasks of PR professionals is to find or create favourable news about the company, its products and its people, and to get the media to accept press releases and attend press conferences.
Speeches: Increasingly, company executives must field questions from the media or give talks at trade associations or sales meetings, and these appearances can build the company's image.
Public service activities: Companies can build goodwill by contributing money and time to good causes.
Identity media: Companies need a visual identity that the public immediately recognises. The visual identity is carried by company logos, stationery, brochures, signs, business forms, business cards, buildings, uniforms and dress codes.

Telefonica's European sponsorship activities

The Spanish telecoms company Telefónica has four flagship brands (O_2, Movistar, Telefónica and Vivo) and takes part in many activities through sponsoring sporting, cultural and social events in its key markets. In the UK, the company owns the O_2 music and conference venue in London and sponsors the England rugby union team.

During the 2017 to 2018 football season, the company's Movistar telecoms brand was part of Real Madrid's social network activity before, during and after each match and granted customers access to events attended by the club's players. The arrangement included a technological aspect, as Telefonica's LUCA business unit offered big data analysis services to the club.

Sources: https://www.telefonica.com/en/web/about_telefonica/our_brands; https://www.telefonica.com/en/web/about_telefonica/sponsorships (accessed October 2018).

London Arena
Source: PhotoLondonUK/Shutterstock.

Implementation and evaluation

MPR's profit contribution is difficult to measure because it is used along with other communication tools. The easiest measure of MPR effectiveness is the number of *exposures* carried by the media. Publicists supply the client with a clippings book showing all the media that carried news about the firm's items and a summary statement.

Vattenfall AB

From its humble roots as a local royal institution and Sweden's electrical company founded in 1909, Vattenfall has become an international brand with 33,000 employees and is now Europe's largest heating firm and fourth-largest electricity firm. This transformation was challenging because it meant mergers and acquisitions with local brands from Germany, Poland, Finland and Denmark, some as old as from the 1880s. Suspicion, lack of awareness and other obstacles required a number of marketing actions, but events and PR played a crucial role. Vattenfall's joint sponsorship and event strategy concentrated in three areas (with themes) – sports (outdoor life and teamwork), human care (life of future generations) and environment (sustainable development and wildlife). These sponsorships and events were set in local markets as well as across all markets. Broader sponsorship included the National Geographic Society and the World Childhood Foundation. Vattenfall garnered considerable publicity by also sponsoring a number of local events, such as the Brandenburg Gate commemorations in Germany, heated bus stops in Poland and the 2006 European Athletics (track and field) Championships in Gothenburg, Sweden. Through focused and highly integrated activities, Vattenfall was able to enjoy high public awareness, a competitive local image, top financial market performance and a huge increase in customer satisfaction.

Source: see Vattenfall website, http://corporate.vattenfall.com/about-vattenfall/ (accessed October 2018).

This measure is not very satisfactory because it contains no indication of how many people actually read, heard or recalled the message and what they thought afterwards; nor does it contain information about the net audience reached, because publications overlap in readership. Publicity's goal is reach, not frequency, so it would be more useful to know the number of unduplicated exposures. A better measure is the *change in product awareness, comprehension* or attitude resulting from the MPR campaign (after allowing for the effect of other promotional tools). For example, how many people recall hearing the news item? How many told others about it (a measure of word of mouth)? How many changed their minds after hearing it?

SUMMARY

1 Modern marketing calls for more than developing a good product, pricing it attractively and making it accessible to target customers. Companies must also communicate with present and potential stakeholders and with the general public.

2 The marketing communications mix consists of nine major modes of communication: advertising, sales promotion, public relations and publicity, events and experiences, direct marketing, interactive marketing, word-of-mouth marketing, social media marketing and personal selling.

3 The communications process consists of nine elements: sender, receiver, message, media, encoding, decoding, response, feedback and noise. To get their messages through, marketers must encode them in a way that takes into account how the target audience usually decodes messages. They must also transmit the message through efficient media that reach the target audience and develop feedback channels to monitor response to the message.

4 Developing effective communications involves eight steps: (1) identify the target audience; (2) determine the communications objectives; (3) design the communications; (4) select the communications channels; (5) establish the total communications budget; (6) decide on the communications mix; (7) measure the communications results; and (8) manage the integrated marketing communications process.

5 In identifying the target audience, the marketer needs to close any gap that exists between current public perception and the image sought. Communications objectives may involve category need, brand awareness, brand attitude or brand purchase intention. Formulating the communication requires solving three problems: what to say (message strategy), how to say it (creative strategy) and who should say it (message source). Communications channels may be personal (advocate, expert and social channels) or non-personal (media, atmospheres and events). The objective-and-task method of setting the promotion budget, which calls upon

marketers to develop their budgets by defining specific objectives, is the most desirable.

6 In deciding on the marketing communications mix, marketers must examine the distinct advantages and costs of each communication tool and the company's market rank. They must also consider the type of product market in which they are selling, how ready consumers are to make a purchase and the product's stage in the product life cycle. Measuring the effectiveness of the marketing communications mix involves asking members of the target audience whether they recognise or recall the communication, how many times they saw it, what points they recall, how they felt about the communication and their previous and current attitudes towards the product and the company.

7 Advertising is any paid form of non-personal presentation and promotion of ideas or market offerings by an identified sponsor. Advertisers are to be found in charitable, non-profit and government circles as well as commercial firms.

8 Developing an advertising programme is a five-step process: (1) set advertising objectives; (2) establish a budget; (3) choose the advertising message and creative strategy; (4) decide on the media; and (5) evaluate the effect on sales.

9 Sales promotion consists of a diverse collection of incentive tools, mostly short term, designed to stimulate quicker or greater purchase of particular market offerings by consumers or the trade. Sales promotion includes tools for consumer promotion, trade promotion, and business and sales force promotion (trade shows and conventions, contests for sales representatives and speciality advertising). In using sales promotion a company must establish its objectives, select the tools, develop the programme, pre-test the programme, implement and control it, and evaluate the results.

10 Events and experiences are a means to become part of special and more personally relevant moments in consumers' lives. Involvement with events can broaden and deepen the relationship with a target market, but only if managed properly.

11 Public relations (PR) involves a variety of programmes designed to promote or protect a company's image or its individual market offerings. Many companies today use marketing public relations (MPR) to support the marketing department in corporate or promotion and image making. MPR can affect public awareness at a fraction the cost of advertising and is often more credible. The main tools of PR are publications, events, news, speeches, public-service activities and identity media.

APPLICATIONS

Marketing debate

Has TV advertising lost power? Long deemed the most successful medium, television advertising has been increasingly criticised for being too expensive and, even worse, no longer as effective as it used to be. Critics maintain that consumers tune out from too many advertisements and that it is difficult to make a strong impression. The future, claim some, is with online advertising. Supporters of TV advertising disagree, contending that the multi-sensory impact of TV is unsurpassed and that no other media option offers the same potential impact.

Take a position: TV advertising has faded in importance *versus* TV advertising is still the most powerful advertising medium.

Marketing discussion

Pick a brand and go to its website. Locate as many forms of communication as you can. Conduct an informal communications audit. What do you notice? How consistent are the different communications? How is the brand using internet and mobile phone platforms to reach targeted consumers?

FURTHER READING

P. De Pelsmacker, M. Geuens and J. Van Den Per4gh (2017) Marketing Communications: A European Perspective, Sixth Edition, Harlow, PEARSON EDUCATION LIMITED.

The intention of this research is twofold: first, to conceptualise integrated marketing communication (IMC) by adopting a more inclusive and broader organisational perspective, and second, to empirically develop and validate a new measurement scale to assess firm-wide IMC.

This research produced the firm-wide IMC scale, a 25-item Likert-format measure exhibiting adequate dimensionality, reliability and construct (convergent, discriminant and nomological) validity.

The need for a more holistic approach emerged from both the academic literature and the practitioner arena. However, previous attempts to measure integration have involved the adoption of a narrow marketing communications-centred approach. Thus, the value and uniqueness of this paper lies in its novel definition of IMC as a four-dimensional construct and the development of a theoretically consistent, valid and reliable measurement tool for the assessment of integration based on a firm-wide organisational approach.

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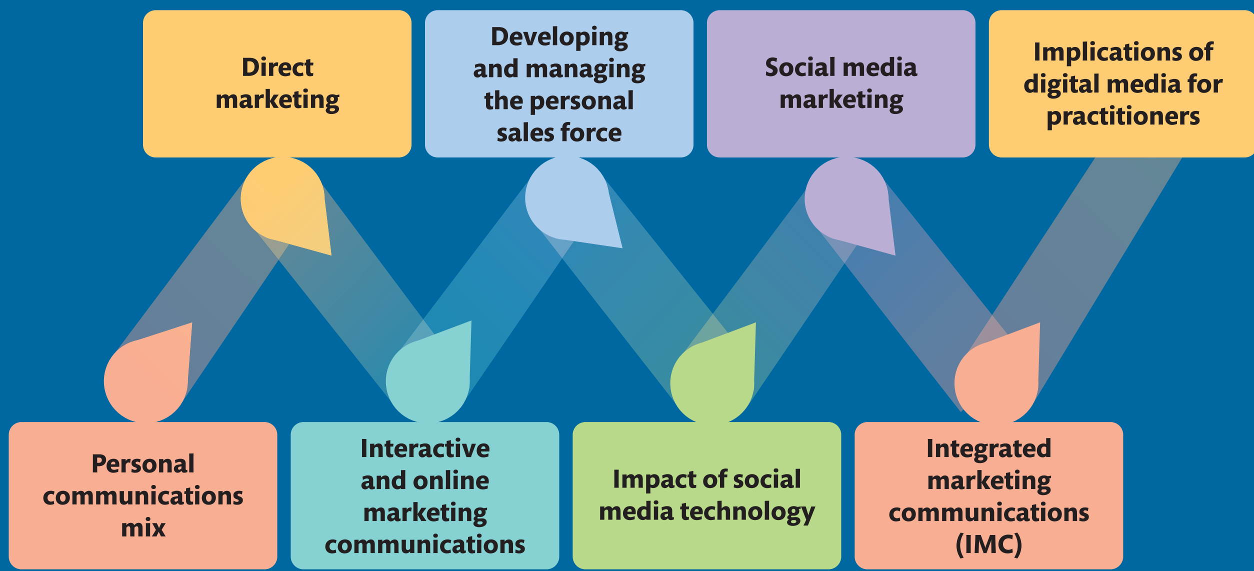
CHAPTER 18
Managing personal communications

In this chapter, you will learn about the following topics:

1. Personal communications mix
2. Direct marketing (mail, telephone, fax, email or the internet)
3. Personal selling (face-to-face interaction)
4. Interactive marketing (online activities and programmes)
5. Word-of-mouth marketing (people-to-people, oral, written or electronic communications)
6. Social media marketing
7. Integrated marketing communications programmes

The digital impact on marketing communications and in particular the popularity of social media is helping Marks & Spencer to secure a firmer footprint in the traditional high street and modern shopping malls.
Source: Tupungato/Shutterstock

Chapter Journey



Modern marketing practice demands more than developing a good market offering, pricing it attractively and making it accessible. Companies must successfully communicate with targeted present and potential customers, stakeholders and the general public. For most, therefore, the question is not whether to pay close attention to communication but rather to deliberate carefully on what, how and when to engage with people. Successful communication becomes progressively more difficult as more companies and organisations clamour to attract the ears and eyes of increasingly empowered consumers. The rapid advance of technology combined with the impact of the digital revolution has enabled customers to assume a more active role in the communications process. They are deciding the messages they want to receive from companies and organisations and how they want to tell others about what they think of the perceived-value of their purchases.

To reach, inform and influence target markets effectively holistic companies and organisations are creatively turning to multiple communication channels that personally engage with individuals. The consequence of this is that marketing practitioners are becoming increasingly interested in applying their marketing communication mix budgets to boost earned and owned media. The traditional marketing communications mix, which was largely directed at mass communication, is turning rapidly toward the use of carefully researched customised and interactive channels such as direct marketing, personal marketing, word-of-mouth marketing and social media marketing.

Businesses, whether private or public have long known that the best form of communication is word-of-mouth. The broadcasting of successful customer personal satisfaction reports massively boosts the appeal and adoption of market offerings to others. Active communication channels successfully impact on customers and potential customers none more so than the opportunities provided by the explosive growth and popularity of social media platforms.

The UK retailer Marks & Spencer, for long a familiar and relatively conservative presence in many high streets, are placing an increased interest in personal communication by means of social media platforms. The company invite consumers to join them on platforms such as Facebook, Instagram, Twitter and YouTube to keep up-to-date with news, market offerings, bank news, as well as lifestyle news, hints and tips. As the company seek to counter the impact of competitive internet shopping on their business they are placing an increased share of their marketing communication budgets on social media marketing. In September 2018 they launched their largest commitment to date with the launch of a year-long social media campaign, staring Amanda Holden, Rochelle Humes, Paddy McGuiness and Emma Willis, to boost the food side of their business.

Researched carefully and conducted effectively marketing communications are a dynamic means of generating customer loyalty. This chapter describes the major personal communication channels available. Coverage stresses the importance of customer interactivity and the growing popularity of social media marketing as a major component of integrated marketing communications.

Personal communications mix

As markets become more competitive, marketers are increasingly seeking to appeal and engage closely and interact with existing and potential customers. Spectacular developments in digital technology have revolutionised the communication channels that are available. Figure 18.1 illustrates the rapid movement towards greater personalisation of communication as marketers respond to the need to attract and engage with customers.

Personal communications channels derive their effectiveness through individualised presentation, direct feedback and potential for companies to co-create customer-perceived value (CPV) offerings with their customers. Modern digital communication devices, platforms and software have greatly expanded the ability of marketers to listen to predefined consumers as they make buying decisions in real time. Digital communication modes greatly enhance the opportunities for companies and organisations to converse with rather than broadcast to their audiences.

A further distinction can be made between advocate, expert and social communications channels. Advocate channels consist of company salespeople contacting buyers in the target market. Expert channels consist of independent experts making statements to target buyers. Social channels consist of businesses, neighbours, friends, family members and associates talking to target buyers. In a study of 7,000 consumers in seven European countries, Rucker and Constable found that 60 per cent were influenced to try a new brand by family and friends.[1]

Personal influence carries an especially great weight in two situations. One occurs when items are expensive, risky or purchased infrequently. The other arises when purchases may suggest something about the user's status or taste. People often ask others for a recommendation for a doctor, plumber, hotel, lawyer, accountant, architect, insurance agent, interior decorator or financial consultant. If they have confidence in the recommendation, they normally act on the referral. In such cases, the recommender has potentially benefited the provider as well as the customer. Service providers have a strong interest in building referral sources that are prepared to recommend their high levels of customer-perceived satisfaction. Research indicates that 30–50 per cent of all brand switching occurs as a result of personal recommendation, as against 20 per cent for advertising, promotions and personal search.[2]

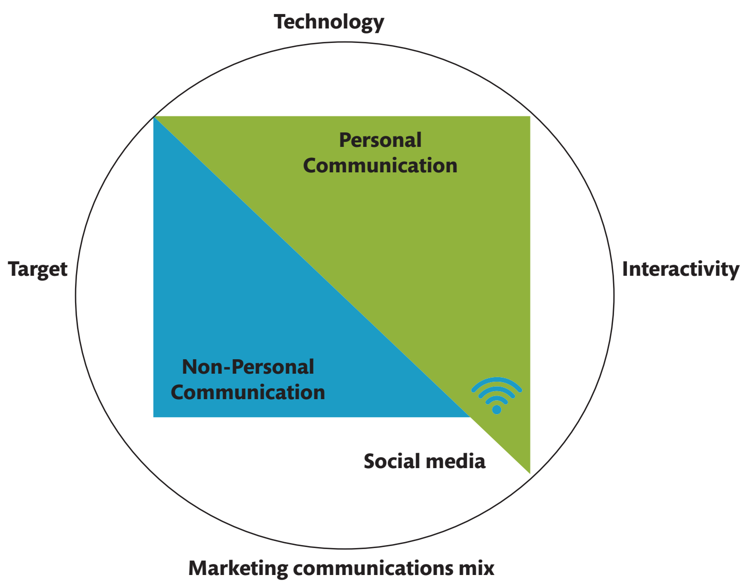


Figure 18.1 Modern marketing communications
Source: AJM Management Development.

Paid, earned and owned media

Marketers distinguish **paid media** and **owned media** from **earned (or free) media**. Paid media includes company-generated advertising, publicity and other promotional efforts. Earned media is all the PR and word-of-mouth benefits a firm receives without having directly paid for anything – all the news stories, blogs and social network conversations that deal with a brand play a key role in earned media. A large part of owned media consists of online marketing communications.[3]

Direct marketing

Direct and interactive marketing takes many forms, including over the phone, online or in person. It shares three distinct characteristics, as messages are:

1. **Customised**: the sales messages are addressed to a specific individual.
2. **Up to date**: messages can be prepared quickly.
3. **Interactive**: sales pitches can be modified according to a potential buyer's response.

Personal selling

Personal selling is an effective tool in the later stages of the buying process, particularly in business-to-business markets (B2B), developing buyer preference, conviction and action. It has three distinct qualities:

1. **Personal interaction**: the creation of an immediate and interactive exposure between potential buyer and seller in which each can be influenced by argument and body language.
2. **Cultivation**: enables the initial exposure to be developed from a casual selling interaction in to a trusted trading relationship.
3. **Response**: many potential buyers will feel that they are under some obligation to purchase.

Selling can also make a strong contribution in consumer goods marketing. An effectively trained company sales force can make four important contributions:

- **Increased stock position:** sales representatives can persuade retailers to take more stock and devote more shelf space to a company's brand:
- **Enthusiasm building:** sales representatives can build enthusiasm by talking-up planned advertising and sales promotion back-up:
- **Missionary selling:** sales representatives can sign up more accounts:
- **Key account management:** sales representatives can take responsibility for growing business with the most important accounts.

Word-of-mouth (WOM) marketing

This can assume a variety of forms and can be online or offline. Three noteworthy characteristics are that it is:

- **Credible:** people trust others they know and respect, so WOM can be highly influential.
- **Personal:** it enables a personal dialogue to reflect facts, opinions and experiences.
- **Timely:** occurs when potential customers are most interested in making a purchase.

Social media marketing

Social media is a collective term that refers to low-cost communication tools that are used to combine technology and social interaction. The attraction for marketers and potential customers in **social media marketing** results from:

- **Interaction:** companies can engage directly with targeted customers.
- **Market offerings and brands:** can be personalised as companies spread their messages in a relaxed and conversational way.
- **Personalisation:** makes companies 'real' to consumers' everyday lives.

Direct marketing

Setting objectives

Direct marketing is the use of consumer-direct (CD) channels to reach customers without using marketing middlemen. Direct marketers can use a number of channels to reach individual prospects and customers: direct mail, catalogue marketing, telemarketing, interactive TV, kiosks, websites and mobile devices. Today, many direct marketers build long-term relationships with customers. Several airlines, hotels and other businesses fashion strong customer relationships through frequency club and reward programmes.[4]

Direct marketing has been a fast-growing mode for serving customers, partly in response to the high and increasing costs of reaching business markets through a sales force. Sales produced through traditional **direct marketing** channels (catalogues, direct mail and telemarketing) have been growing rapidly, along with direct mail sales, which include consumer market, business-to-business market sales and fund-raising by charitable institutions.[5]

The benefits of direct marketing

Market de-massification has resulted in an ever-increasing number of market niches. Time-poor consumers appreciate freephone numbers, websites available 24/7 and direct marketers' commitment to customer service. The growth of next-day delivery by companies such as Amazon and DHL has made ordering fast and easy. Direct marketers can buy a mailing list containing the names of almost any group and can personalise messages and build a continuous relationship with each customer. Direct marketing needs to be integrated with other communications and distribution activities. Successful direct marketers ensure that customers can contact the company with questions and view a customer interaction as an opportunity.

Direct mail

Direct mail marketing involves sending an offer, announcement, reminder or other item to an individual consumer and is greatly favoured by banks, retailers and utility companies. Using highly selective mailing lists, direct marketers send out millions of letters, flyers, foldouts, etc. each year. It is a standard channel because it permits target market selectivity, can be personalised, is flexible and allows early testing and response measurement. Although the cost per thousand-people-reached is higher than with mass media, the people reached are far better prospects. Many households receive direct mail material that arrives with the post, as well as occasional leaflets from local businesses such as double-glazing firms.

Royal Mail sharpened the appeal of direct mail

Direct mail is a channel that has had to innovate in recent years. The UK's Royal Mail has sought to sharpen the appeal of direct mail by developing targeted audience mailing lists. Its 'Heidi' audience targets women in four easy-to-use segments:

Description	Category overview	Household numbers
Aspiring Heidi	Aged between 21–29, living independently in cosmopolitan areas, on a comfortable wage, with a work hard/play hard attitude	172,000
Genuine Heidi	Aged 25–34, an independent attitude with a significant salary, she can afford to be frivolous and inclined towards expensive 'label' brands	438,000
Experienced Heidi	Aged 35–44, living independently she earns a substantial wage and indulges in the luxuries of life, but is strongly focused on the future	416,000
Domestic Heidi	Aged 25–44, living in high-earning larger family home, she has the most balanced outlook on life	372,000

The launch of the JICMail audience data standard is seen as a game changer by many and the use of direct mail programmes is getting marketers excited. The ability to send personalised direct mail to potential customers who have abandoned an online basket or browsed particular pages is motivating many brands.

Royal Mail is supporting technical start-up company Paperplanes by enabling it to track customers' online behaviour and deliver personalised mail within 48 hours to encourage potential customers into making a purchase.

Sources: Royal Mail, https://www.royalmail.com/personal/search/bing_cs_api/Direct_mail; JICMail, https://www.jicmail.org.uk.

Direct mail industry bodies and businesses teamed up for a major initiative to record standardised audience data for the channel for the first time. The DMA, IPA, ISBA, Royal Mail and Whistl are among those who make up the board of the Joint Industry Committee for Mail (JICMail), which launched on the 18 January 2018.

By any metric, the impact the direct marketing industry makes on the UK economy is huge. Every year, companies spend more than £14 billion on direct marketing, which generates 23 per cent of all UK sales and supports 530,000 jobs.[6] The performance of direct marketing is all the more pronounced for thriving in a sluggish economy and promising growth where other channels are flat-lining. However, so many marketers are sending out direct mail that many consumers pay little attention to it, hence the recent moves to regenerate insert in the channel by the launch of JICMail and the development of closely targeted audience listings. In constructing an effective direct mail campaign, practitioners must decide on their objectives, target markets and develop metrics to assess campaign results.

Most direct marketers judge a campaign's success by the number of orders received. An order-response rate of 2 per cent is normally considered good, although this number varies with product category, price and the nature of the market offering. Direct mail can also produce prospect leads, strengthen customer relationships, inform and educate customers, remind customers of special offers and reinforce recent customer purchase decisions.

Target markets and prospects

It is essential that any direct mail campaign begins with building a tailored audience. Sending a direct mail to every prospect in a database is unlikely to be effective, and if high print and postage costs are incurred will seriously reduce ROI. Before any creative planning, objectives must be clear and care taken to identify which prospects are most likely to deliver. Practitioners identify prospects on the basis of age, sex, income, education, previous mail-order purchases and occasions.

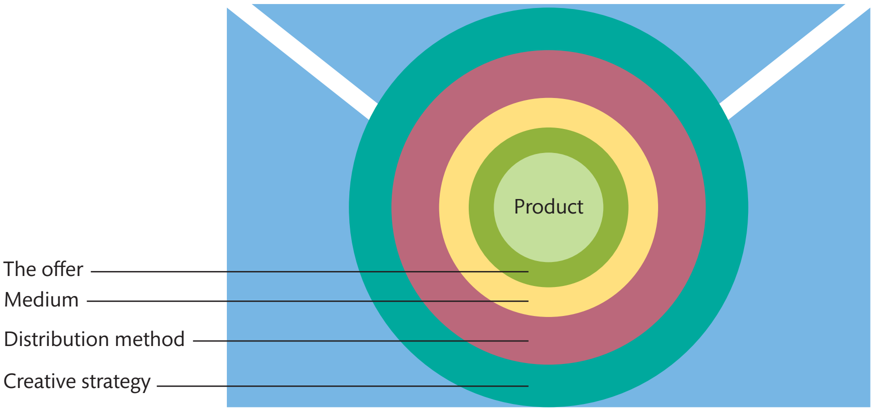
Names can also be purchased from list brokers, but these are often problematic, including name duplication, incomplete data and obsolete addresses. Better lists include overlays of demographic and psychographic information. Direct marketers typically buy and test a sample before buying more names from the same list. They can also build their own lists by advertising a free offer and collecting responses. To measure success, direct marketers apply the RFM formula (recency, frequency, monetary amount). They select customers according to how much time has passed since their last purchase, how many times they have bought and how much they have spent since becoming a customer. Points are established for varying RFM levels; the more points, the more attractive the customer.

Offer elements

The offer strategy has five elements – the product, the offer, the medium, the distribution method and the creative strategy (see Figure 18.2).[7] Fortunately, all can be tested. Careful attention needs to be paid to five components of the mailing itself: the outside envelope, sales letter, circular, reply form and reply envelope.

1 The outside envelope should contain an illustration, preferably in colour, or an incentive to open it.
2 The sales letter, brief and on good-quality paper, should use a personal salutation and start with a headline in bold type. A computer-typed letter usually out-performs a printed letter, as does the signature of someone whose title is important.
3 A creative design, bright colours, interesting fonts and images together with snappy copy will usually increase the response rate by more than its cost.

Figure 18.2 Direct mail offer elements



4 A freephone number and a website where recipients can print coupons will be beneficial.
5 A postage-free reply envelope will dramatically increase the response rate.

Direct mail should be followed up by an email. As more people access the internet, have email accounts and use smartphones, the traditional offer strategy is rapidly moving from personally addressed delivery to messages on interactive digital media.

Testing and evaluation

A great advantage of direct marketing is the ability to test, under real marketplace conditions, different elements of an offer strategy, such as product features, copy platform, mailer type, envelope, prices or mailing lists. Campaigns need to be tested, tracked and analysed in order for businesses to learn from their mistakes and be guided by their successes. CPA (cost per acquisition) and ROI are popular metrics for direct mail campaigns. Response rates typically understate a campaign's long-term impact. To gain a stronger estimate of a promotion's impact, some companies measure the impact of direct marketing on awareness, intention to buy and word of mouth.

By calculating the planned campaign costs, the direct marketer can determine the needed break-even response and if a campaign fails in the short run, it can still be profitable in the long run if customer lifetime is included. This can be done by calculating the average customer longevity, average customer annual expenditure and average gross margin, minus the average cost of customer acquisition and maintenance (discounted for the opportunity cost of money).[8]

Catalogue marketing

In catalogue marketing, companies may send full-line merchandise and speciality consumer and business catalogues in print form and increasingly in online formats. For example, Argos promotes home items, Avon sells cosmetics, IKEA sells furniture and Lakeland Ltd sells household products, crafts and food items. Direct marketers, for example in the direct education supplies market,[9] find combining catalogues and websites an effective way to sell. Thousands of small businesses also issue speciality catalogues. Large firms send catalogues to business customers. The success of a catalogue business depends on managing customer lists carefully to avoid duplication or bad debts, controlling inventory carefully, offering quality merchandise so returns are low and projecting a distinctive image.

Telemarketing

Telemarketing is the use of the telephone and call centres to attract prospects, sell to existing customers and provide services by taking orders and answering questions. Telemarketing helps companies increase revenue, reduce selling costs and improve customer satisfaction. Companies use call centres for in-bound telemarketing – receiving calls from customers, and out-bound telemarketing – initiating calls to prospects and customers. Main advantages are that it is easy to reach customers, is generally cost effective, but if badly conducted telemarketing can damage the reputation of a brand or company.[10]

Although telemarketing is a major direct marketing tool, its sometimes intrusive nature has led to legislation in many European countries that protects the right of consumers to refuse to receive direct marketing telephone calls. However, it is increasing in B2B marketing. Effective telemarketing depends on choosing the right telemarketers, training them well and providing performance incentives.[11]

Other media for direct response marketing

Direct marketers use all the major mass media. Newspapers and magazines carry abundant print advertisements offering books, articles of clothing, appliances, holidays and other goods and services that individuals can order via freephone numbers. Radio advertisements present offers 24 hours a day. Some companies use infomercials to combine the sell of television commercials with the draw of information and entertainment. Infomercials are used by companies to promote products, especially those that are complicated or technologically advanced, or which require a great deal of explanation. They are also found in retail stores – for example, in garden centres to attract consumer interest in a variety of products for garden and home use. Some at-home shopping channels are dedicated to selling goods and services on a freephone number for delivery within 48 hours.

Public and ethical issues

Direct marketers and their customers usually enjoy mutually rewarding relationships. Occasionally, however, a darker side emerges:

- **Irritation:** Many people are irritated by the large number of hard-sell, direct marketing solicitations. Especially annoying are calls at dinnertime or late at night, poorly trained callers and computerised calls by auto-dial recorded-message players.
- **Unfairness:** Some direct marketers take advantage of impulsive or less sophisticated buyers or prey on the vulnerable, especially the elderly.
- **Deception and fraud:** Some direct marketers design mailings and write copy intended to mislead. They may exaggerate product size, performance claims or the 'retail price'.
- **Invasion of privacy:** It seems that almost every time consumers order products by mail or telephone, apply for a credit card, or take out a magazine subscription, their names, addresses and purchasing behaviour may be added to several company databases. Critics worry that marketers may know too much about consumers' lives, and that they may use this knowledge to take unfair advantage.

The EU has yet to adopt legislation harmonising the direct selling of consumer products. However, there is a wide range of EU legislation that impacts the direct marketing sector. Compliance requirements are stiffest for marketing and sales to private consumers. Companies need to focus, in particular, on the clarity and completeness of the information they provide to consumers prior to purchase and on their approaches to collecting and using customer data. People in the direct marketing industry are addressing the issues. They know that, left unattended, such problems will lead to increasingly negative consumer attitudes, lower response rates and calls for greater regulation. In the final analysis, most direct marketers want the same thing consumers want: honest and well-designed marketing offers targeted only to those who appreciate hearing about the offer.

Interactive and online marketing communications

Boosted by rapid advances in technology, digital marketing is becoming a powerful way of communicating and marketing directly to customers. The internet provides marketers and consumers with opportunities for much greater interaction and individualisation. Few marketing programmes are considered complete without some type of prominent online component, which is gaining ground at the expense of traditional mass advertising agencies. The online advertising market is experiencing continuous, significant growth each year. Companies are now combining digital online and offline modes of communication and allocating a significant portion of their marketing budget to online digital advertising, over traditional methods, mainly because:

1 it is easy to track online advertising campaign performance;
2 companies can easily create customised advertising campaigns for specific audience groups;
3 it is easier to make changes to online campaigns than to traditional advertising campaigns.

Interactive marketing (see Table 18.1) offers unique benefits.[12] Companies can send tailored messages that engage consumers by reflecting their special interests and behaviour. The internet is highly accountable and its effects can easily be traced. Online, advertisers can gauge response instantaneously by noting how many unique visitors or 'UVs' click on a page or advertisement, how long they spend with it, where they go afterwards and so on. The web offers the advantage of contextual placement and buying advertisements on sites that are related to the marketer's offerings. Marketers can also place advertising based on keywords from search engines, to reach people when they have actually started the buying process. Light consumers of other media, especially television, can be reached online.

Using the web also has disadvantages. Consumers can effectively screen out most messages. Marketers may think their advertisements are more effective than they are if bogus clicks are generated by software-powered websites. Advertisers lose some control over what consumers will do with their online messages. However, many feel the advantages outweigh the disadvantages, and the web is attracting marketers of all kinds. To capitalise on advertisers' interest, internet search firms such as Google and Microsoft are developing online services and have invested in a broad range of businesses to place advertisements on the web, video games, mobile phones and tablets alongside internet search results.

For marketers of financial services, personal computers and telecommunications, marketing activities on the web have become crucial. Although beauty pioneer Estée Lauder said she relied on three means of communication to build her cosmetics business – 'telephone, telegraph, and tell a woman' – she would now have to add the web, which helps to support Estée Lauder brands. Consumer packaged-goods giants such as Danone, Nestlé and Lindt are also significantly increasing their online budgets. Half of all global advertising spend is expected to be online by 2020, matching the worldwide combined 'offline' advertising spend on media such as TV, print ads and billboard

Table 18.1 Leading interactive communication channels

Channel	Notes
Websites	Company sites designed to generate sales
Microsites	Supplementary webpages
Search advertisements	**Paid-search** (or **pay-per-click**) advertisements
Display advertisements	Banners that are paid for by companies to promote their brands and market offerings
Interstitials	Animated or video pop-ups that appear on websites and computer games and searches
Internet-specific advertisements and videos	Typically user-generated content played to be viewed virally
Sponsorships	Special content placed on targeted websites
Affiliate marketing	Third-party promotion of branded company offerings
Online communities	Company-sponsored sites to set up interactions with existing and potential customers
Social media	Special sites set up by companies to facilitate consumers to interact on social media platforms such as Facebook and LinkedIn
Email	A relatively inexpensive way to encourage interaction but prone to be ignored by consumers
Mobile	Presentation of still and video promotional material on mobile phones and tablet computers

posters, according to forecasts. All forms of digital advertising are on the up, with search advertising the largest segment by far. Marketers are expected to spend $113 billion worldwide next year – a 12 per cent increase on 2017. Sweden, Denmark and the United Kingdom lead the way in retail advertising spends and the fastest growth rates were reported in Croatia, Montenegro and Turkey. In March 2017, Adidas said it would focus on digital ads over TV, with Chief Executive Kasper Rorsted saying that its younger consumers engaged with the brand mainly via their mobile phones. All of its engagement with the consumer is through digital media and Adidas believes in the next three years it can take online business from approximately €1 billion to €4 billion and create a more direct engagement with consumers.[13]

Marketers must go where the customers are, and increasingly that is online. Many UK marketing professionals saw 2014 as the turning point when the digital consumer overtook traditional ones among the active UK population. Customers define the rules of engagement, and define what information they need, what offerings they are interested in and what they are willing to pay. Compelling media advertisements that combine animation, video and sound with interactive features are developing apace.

Brave new world requires a deeper understanding of consumers

Not so long ago, communication in marketing was relatively simple. It involved creating a brand pyramid, with a simple benefit at its heart, making an advertisement that explained it to the target customer and booking a media plan that delivered the desired reach and frequency via one or two channels. Now, marketers have to consider social, content, paid-for, owned, earned-buzz, digital click-through – involving a series of agencies, each proposing a separate strategy, multiple retail channels, long-term brand affinity, short-term cost per acquisition, real-time big data and include customer relationship marketing and employee advocacy.

Online marketing communications

The mix of online communications options enables businesses to reach their targeted audiences with tailored messages that reflect their interests. Marketers can gauge the impact of messages by metrics that pick up the number of unique visitors to a site, how long they spend on it, what they do on it and where they go afterwards. Contextual placements enable companies to purchase space on sites that reflect their interests. Focused exposure can also be obtained by the placement of material that relates to keyword searches by consumers as they surf search engines. Increasingly, customers are preferring to go online. In Europe the online spend in the 12-month period 2016/2017 amounted to €22.5 billion, up 21 per cent over the corresponding period 2015/2016.[14]

Websites

Websites are a firm's place of business and most digital marketing techniques are designed to drive targeted, pre-researched traffic to a firm's website. Web pages should clearly feature a company's purpose, history, customer offerings and vision.[15] A key challenge is designing a site that is both attractive and interesting enough to encourage repeat visits. Visitors will judge a site's performance on ease of use and physical attractiveness.[16] Ease of use has three attributes: (1) the site downloads quickly; (2) the first page is easy to understand; and (3) it is easy to navigate to other pages that open quickly. Physical attractiveness is determined by these factors: (1) individual pages are clean and not crammed with content; (2) typefaces and font sizes are very readable; and (3) the site makes good use of colour (and sound).

Websites must also be sensitive to national characteristics,[17] security, privacy protection and ease-of-assessment issues. In a survey carried out in 2013 by the *Financial Times*, 'two-thirds' of companies in the FTSE 100 had websites that were difficult to use on smartphones.

The leading metrics to assess the performance of websites are:

- amount of time spent onsite;
- number of page views;
- bounce rate (i.e. the number of visitors who click on a site and then leave without viewing any other pages on the site);
- number of sites.

Microsites

Microsites are limited areas on the web managed and paid for by an external advertiser/company. They are individual web pages or clusters of pages that function as supplements to a primary site and can be used to help brands achieve a number of things. For example, some companies have used them to highlight a specific campaign or target specific buyer personas. Others have used them to tell a short story, or to inspire a specific call-to-action. The approach is video-centric and aims to present visitors with an exclusive viewing of behind-the-scenes photos and stories as they relate to different aspects of the brand, such as colour, couture etc.

Chanel news

Inside Chanel is a microsite that 'works to inform consumers about the house's history and heritage through video and multimedia content'. The site features several short, social videos that chronicle the people, places, things and events that have contributed to continued success of this iconic fashion brand.

Source: Inside Chanel, http://inside.chanel.com/en/gabrielle-pursuit-passion

Search advertisements

Search advertisements are an important growth area in interactive marketing as paid-search or pay-per-click advertisements. The search terms trigger relevant links to market offerings alongside search results from Bing and Google. Advertisers pay only if people click on the links. The internet is moving from the era of search to the era of discovery, thanks to recommender sites and systems such as Amazon's 'getting to know you' suggestions. The cost per click depends on how highly the link is ranked on the page and the popularity of the keyword. **Search engine optimisation** (SEO) describes activities designed to improve the visibility of a website or a web page in a web search engine's unpaid results – often referred to as 'natural', 'organic' or 'earned' results.

Display advertisements

Display advertisements or **banner ads** are small, rectangular boxes containing text and perhaps a picture that companies pay to place on relevant websites. The larger the audience, the more the placement costs. Attention to the design of online advertising banners is critical due to the tendency of 'banner blindness' and the fact that they attract less attention than friends' recommendations.[18]

As often happens when the end seems nigh, banner ads are morphing into a new phenomenon known as *native advertising*, which is paid-for relevant content that appears within the editorial stream of a publisher's site or on a social network. Examples include: promoted Tweets on Twitter; promoted ads on search engines; sponsored stories on Facebook; Tumblr Spotlight; promoted videos on YouTube; and paid-for editorial content. Native advertising holds great promise compared to popular search advertisements. Given that internet users spend only five per cent of their time online actually searching for information, there are many opportunities to reach and influence consumers while they surf the web.

The emergence of behavioural targeting is allowing companies to track the online behaviour of target customers to find the best match between advertisement and prospect. For example, if a person clicks on three websites related to car insurance, then visits an unrelated site for sports or entertainment, car insurance advertisements may show up on that site, in addition to the car insurance sites. This practice ensures that advertisements are readily apparent for a potential customer likely to be in the market. Although critics worry about companies knowing too much about customers, Microsoft claims that behavioural targeting can increase the likelihood that a visitor clicks on an advertisement by as much as 76 per cent.

Interstitials

Interstitials are advertisements, often with video or animation, that pop up between changes on a website or digital game. When an app shows an interstitial advertisement, the user has the choice to either tap on the ad and continue to its destination or close it and return to the app. Many consumers find pop-up advertisements intrusive and distracting and use software to block them. With user-generated content sites such as YouTube, consumers and advertisers can upload advertisements and videos to be shared virally by millions of people.

Sponsorships

Many companies appear on the internet by sponsoring special content on websites that carry news, financial information and so on. **Sponsorships** are best placed in well-targeted sites that offer relevant information or service. The sponsor pays for showing the content and in turn receives acknowledgement as the sponsor of that particular service on the site. A popular vehicle for sponsorship is the podcast – a digital media file created for playback on portable MP3 players, laptops or PCs. Although the costs are higher than for popular radio shows, podcasts are able to reach very specific market segments, so analysts expect their popularity to grow.[19]

Affiliate marketing

Affiliate marketing occurs when a brand site forms alliances to attract customers by rewarding the third party (the affiliate) for promoting their market offerings and driving the converting traffic to their website. Due to Google's new algorithms for SEO, link building is becoming outdated, which can discourage affiliate activity. The best way to think about affiliate marketing is quality over quantity. There are many small websites that will promote a product; the key is finding a small number of partners that will deliver conversions.

Online communities

Many companies sponsor online communities whose members communicate through postings, instant messaging and chat discussions about special interests related to the company's products and brands. The communities can provide companies with useful, hard-to-get information. A key for success is to create individual and group activities that help form bonds among members.

Email

Email uses only a fraction of the cost of 'ad-mail', or direct mail, campaigns. Consumers are besieged by emails, however, and many employ **spam** filters. The 'Marketing memo' box presents some important guidelines for productive email campaigns, which are followed by pioneering email marketers.

Marketing memo

How to maximise the marketing value of emails

- Give the customer a reason to respond. Offer powerful incentives for reading email pitches and online advertisements, such as email trivia games, scavenger hunts and instant-win sweepstakes.
- Personalise the content of emails.
- Offer something the customer cannot get via direct mail. Because email campaigns can be carried out quickly, they can offer time-sensitive information such as the availability of last-minute cheap airfares and holiday vacancies.
- Make it easy for customers to 'unsubscribe'.
- Combine email with other channels such as social media.
- Meet legal and ethical requirements; these vary from region to region. In Europe, the privacy legislation is implemented differently in each member state. In the UK, marketers are required to get consumers to opt in to receive emails; however, they are permitted to operate on an opt-out basis with corporate customers.

Researching screen eye movements to increase email effectiveness

Heat mapping tracks eye movements with cameras to measure what people read on a computer screen. One study showed that clickable graphic icons and buttons that linked to more details of a marketing offer increased click-through rates by 60 per cent over links that used just an internet address.

Sources: N. Aurfreiter, J. Boudet, and V. Weng (2014) Why marketers keep sending you e-mails, *McKinsey Quarterly*, January; Email marketing central for US retailers (2012) www.warc.com, 20 December; R. Westlund (2010) Success stories in email marketing, *Adweek Special Advertising Section*, 16 February; S. Vranica (2006) Marketers give e-mail another look, *Wall Street Journal*, 17 July.

Mobile

The Mobile Marketing Association defines **mobile marketing** as '. . . a set of practices that enables organisations to communicate and engage with their audience in an interactive and relevant manner through any mobile device or network'.[20] Mobile internet adoption is increasing and represents a significant shift in the way people access digital information.[21] The popularity of mobile shopping is interesting marketers, especially as messages can be personalised. IAB Europe expects online advertising to become the dominant advertising medium in Europe, surpassing TV advertising. Most of this spend is expected to be on mobile campaigns. Burberry has declared a strong interest in the potential of mobile marketing for its targeted market of millennials.[22] Berman stresses that firms need to capitalise on the three major strategic advantages of mobile marketing:[23]

1 mobile devices are frequently switched on;
2 mobile marketing can generate location-sensitive market offerings; and
3 it can deliver personalised messages.

Developing and managing the personal sales force

The days when individual salespeople called on existing and potential consumer customers have long gone. Impersonal mass communication channels eroded the role of the traditional salesperson. The digital revolution has led to the development of sophisticated devices such as mobile phones and tablets, and ownership of these has grown explosively in Europe. This has boosted the growth and sophistication of social media marketing. Sales forces are still to be found in B2B and service sector markets, but their traditional role has changed. They are now needed to:

- create customer-perceived value service;
- operate as company ambassadors and consultants;
- work closely with company marketing and production personnel;
- manage the retention of loyal customers and prospect for new ones;
- work with the full range of digital communication channels.

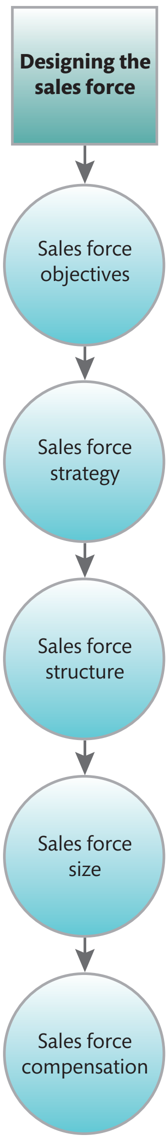


Figure 18.3 Designing a sales force

Setting objectives and strategy

The original form of direct marketing is the field sales call. Today, most B2B companies rely heavily on a professional sales force to locate prospects, develop them into customers and grow the business, or they hire manufacturers' representatives and agents to carry out the direct selling task. In addition, some consumer companies such as roofing firms use a direct selling force. Hospitals and museums generally use fundraisers to contact and solicit donations. For many firms, sales force performance is critical.

Although no one debates the importance of the sales force in marketing programmes, companies are sensitive to the high and rising costs of maintaining them. The term 'sales representative' covers six positions, ranging from the least to the most creative types of selling:

1 **Deliverer**: whose major task is the delivery of a product (water, fuel, oil).
2 **Order taker**: a person standing behind the counter or outside (calling on the supermarket manager).
3 **Missionary**: to build goodwill or educate the actual or potential user (e.g. the medical 'detailer' representing an ethical pharmaceutical house).
4 **Technician**: a technician.
5 **Demand creator**: who relies on creative methods for selling tangible products (vacuum cleaners, cleaning brushes, household products) or intangibles (insurance, advertising services, education).
6 **Solution vendor**: whose expertise is solving a customer's problem, often with a system of the company's products and services (for example, computer and communications systems).

In designing the sales force, a company considers the development of specific sales force objectives, strategy, structure, size and compensation (see Figure 18.3). For example, a company might want its sales representatives to spend 80 per cent of their time with current customers and 20 per cent with prospects, and 85 per cent of their time on established market offerings and 15 per cent on new offerings. The specific allocation depends on the kind of offerings and customers. Irrespective of the context, salespeople will have one or more of the following specific tasks to perform:

- prospecting: searching for potential new customers, or leads;
- **targeting:** deciding how to allocate their time among prospects and existing customers;
- **communicating:** giving out information about the company's products and services;
- **selling:** approaching, presenting, answering questions, overcoming objections and closing sales;
- **servicing:** providing various services to the customers – consulting on problems, rendering technical assistance, arranging financing, expediting delivery;
- **information gathering:** conducting market research and doing intelligence work;
- **allocating:** deciding which customers will get scarce products during product shortages.

Most companies employ a leveraged sales force that focuses representatives on selling the company's more complex and customised offerings to large accounts and uses inside salespeople and web-ordering for small customers. Tasks such as lead generation, proposal writing, order fulfilment and after-sales support are assigned to others. Salespeople handle fewer accounts and are rewarded for key account growth. This is far different from expecting salespeople to sell to every possible account, the common weakness of geographically based sales forces. To maintain a market focus, salespeople should know how to analyse sales data, measure market potential, gather market intelligence and develop marketing strategies and plans. Sales representatives, especially at the higher levels of sales management, need analytical marketing skills. Marketers believe sales forces are more effective in the long run if they understand that they are an integral part of the marketing team.[24]

Sales force management issues

The sales force strategy has implications for its structure. A company that offers one product line offering to one end-using industry with customers in many locations would use a territorial structure. A company that sells many product offerings to many types of customer might need a product or market structure. Some companies need a more complex structure. Established companies need to revise their sales force structures as market and economic conditions change. The 'Marketing insight' box discusses a specialised form of sales force structure: major account management.

Marketing insight

Major account management

Marketers usually pay special attention to major accounts (also called key, national, global or house accounts). A major account manager (MAM) usually reports to the national sales manager and supervises field representatives calling on customer plants within their territories. Large accounts are often handled by a strategic account management teams, with cross-functional personnel to cover all aspects of the customer relationship.

Some firms are creating cross-functional strategic account teams that integrate new product development, technical support, supply chain, marketing activities and multiple communication channels. Major account management is growing. As buyer concentration increases through mergers and acquisitions, fewer buyers account for a larger share of a company's sales. Many are centralising their purchases for certain items, which gives them more bargaining power. As market offerings become more complex, more groups in the buyer's organisation participate in the purchase process.

In selecting major accounts, companies look for those that purchase a high volume (especially of more profitable offerings), purchase centrally, require a high level of service in several geographic locations, may be price sensitive and may want a long-term partnering relationship. Major account managers are responsible for delivering the required level of customer-perceived value offerings.

Many major accounts look for perceived added value more than a price advantage. They appreciate having a dedicated single point of contact, single billing, special warranties, EDI links, priority shipping, early information releases, customised products and efficient maintenance, repair and upgraded service.

Sources: C. Doyle, B. McPhee and I. Harris (2005) Marketing, sales, and major account management: Managing enterprise customers as a portfolio of opportunities, talk at the Marketing Science Institute's Marketing, Sales, and Customers Conference, 7 December; S. Sherman, J. Sperry and S. Reese (2003) *The Seven Keys to Managing Strategic Accounts*, New York: McGraw-Hill; J. Neff (2003) Bentonville or bust, *Advertising Age*, 24 February; N. Capon (2001) *Key Account Management and Planning: The Comprehensive Handbook for Managing Your Company's Most Important Strategic Asset*, New York: Free Press; more information can be obtained from SAMA (Strategic Account Management Association) https://www.strategicaccounts.org.

Sales force size

Once the company establishes the number of customers it wants to reach, it can use a workload approach to establish sales force size. This method has five steps:

1 Group customers into size classes according to annual sales volume.
2 Establish desirable call frequencies (number of calls on an account per year) for each customer class.
3 Multiply the number of accounts in each size class by the corresponding call frequency to arrive at the total workload for the country, in sales calls per year.
4 Determine the average number of calls a sales representative can make per year.
5 Divide the total annual calls required by the average annual calls made by a sales representative, to arrive at the number of sales representatives needed.

Sales force compensation, recruitment and selection

To recruit top-quality sales representatives the company must develop an attractive compensation package. Several policies and procedures guide the firm in recruiting, selecting, training, supervising, motivating and evaluating sales representatives (see Figure 18.4). At the heart of any successful sales force is a means of selecting effective representatives.[25] Selection procedures can vary from a single informal interview to prolonged testing and interviewing.

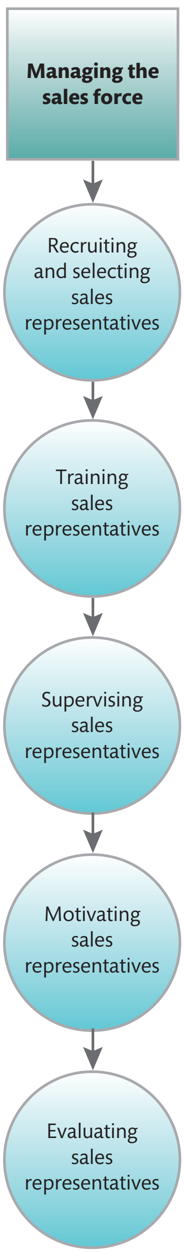


Figure 18.4 Managing the sales force

Training and supervising sales representatives

Today's customers expect salespeople to offer product knowledge, to add ideas to improve the customers' operations and to be efficient and reliable. These demands have required companies to make a much higher investment in sales training. Companies vary in how closely they supervise sales representatives. Representatives paid mostly on commission generally receive less supervision, while those who are salaried cover highly valued accounts and are likely to receive substantial supervision.

Using sales time efficiently

The best sales representatives manage their time both effectively and efficiently. Companies constantly try to improve sales force productivity. To cut costs, reduce time demands on their outside sales force and take advantage of digital technology, many have increased the size and responsibilities of their internal sales staff and technical support people. A valuable electronic tool for salespeople is prospective companies' websites, which can provide much useful information. At the same time, the representative's own company website can give an introduction to self-identified potential customers and might even receive the initial order. For more complex transactions, the site provides a way for the buyer to contact the seller. Selling over the internet supports relationship marketing by solving problems that do not require live intervention and thus allows more time to be spent on issues that are best addressed face to face.

Motivating sales representatives

Most sales representatives require encouragement and special incentives. Many companies set annual sales quotas (developed from the annual marketing plan) on sales revenue, unit volume, margin, selling activity, or market offering/product targets. Compensation is usually tied to the degree of quota fulfilment.

Evaluation of sales representative performance

The most important source of information about representatives is sales reports. Additional information comes through personal observation, salesperson self-reports, customer letters and complaints, customer surveys and conversations with other sales representatives.

Key principles of personal selling

Effective salespeople today have more than instinct – they are trained in methods of analysis and customer management. Companies train salespeople to transform them from passive order takers into active order winners. Representatives are taught methods to build long-term relationships with their customers by asking questions such as the following:

1 **Situation questions.** These ask about facts, or explore the buyer's present situation: for example, 'What system are you using to invoice your customers?'.

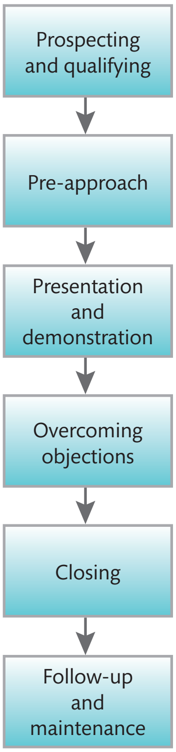


Figure 18.5 Major steps in effective selling

2 **Problem questions.** These deal with problems, difficulties and dissatisfactions that the buyer is experiencing: for example, 'What parts of the system create errors?'.
3 **Implication questions.** These ask about the consequences or effects of a buyer's problems, difficulties or dissatisfactions: for example, 'How does this problem affect your people's productivity?'.
4 **Need-payoff questions.** These ask about the value or usefulness of a proposed solution: for example, 'How much would you save if our company could help reduce the errors by 80 per cent?'.

Most sales training programmes agree on the major steps involved in any effective sales process, and these are shown in Figure 18.5; their application to B2B selling is discussed below.

The six steps of selling

1 **Prospecting and qualifying.** The first step in selling is to identify and qualify prospects.
2 **Pre-approach.** The salesperson needs to learn as much as possible about the prospect company (what it needs, who is involved in the purchase decision) and its buyers (personal characteristics and buying styles).
3 **Presentation and demonstration.** The salesperson tells the company/market offering 'story' to the buyer, using a features, advantages, benefits and value approach (FABV). Features describe physical characteristics of a market offering, such as chip-processing speeds or memory capacity. Advantages describe why the features provide an advantage to the customer. Benefits describe the economic, technical, service and social benefits delivered by the offering. Value explains the offering's worth in terms of CPV attributes. Salespeople often spend too much time on product features and not enough time stressing the prospective CPV of a market offering.
4 **Overcoming objections.** Buyer resistance includes resentment of interference, preference for established supply sources or brands, apathy, reluctance to give up something, unpleasant associations created by the sales representative, predetermined ideas, dislike of making decisions and neurotic attitude towards money. Logical resistance might be objections to the price, delivery schedule, offering or company characteristics. To handle these objections, the salesperson should maintain a positive and professional approach and seek ways to satisfy the customer's perceived-value requirements.
5 **Closing.** Representatives can ask for the order, recapitulate the points of agreement, offer to help write up the order, ask whether the buyer wants A or B, get the buyer to make minor choices such as colour or size, or indicate what the buyer will lose by not placing the order now. Specific inducements to close can be offered, such as a special price, an extra quantity or a token gift.
6 **Follow-up and maintenance.** Immediately after closing, the salesperson should agree any necessary details about delivery time, purchase terms and other matters important to the customer. A follow-up call after delivery is desirable to deal with any problems and to ensure that the customer is satisfied.

Handshake after closing a sale
Source: lianna2013/123RF

Marketing memo

Key questions facing sales force managers today

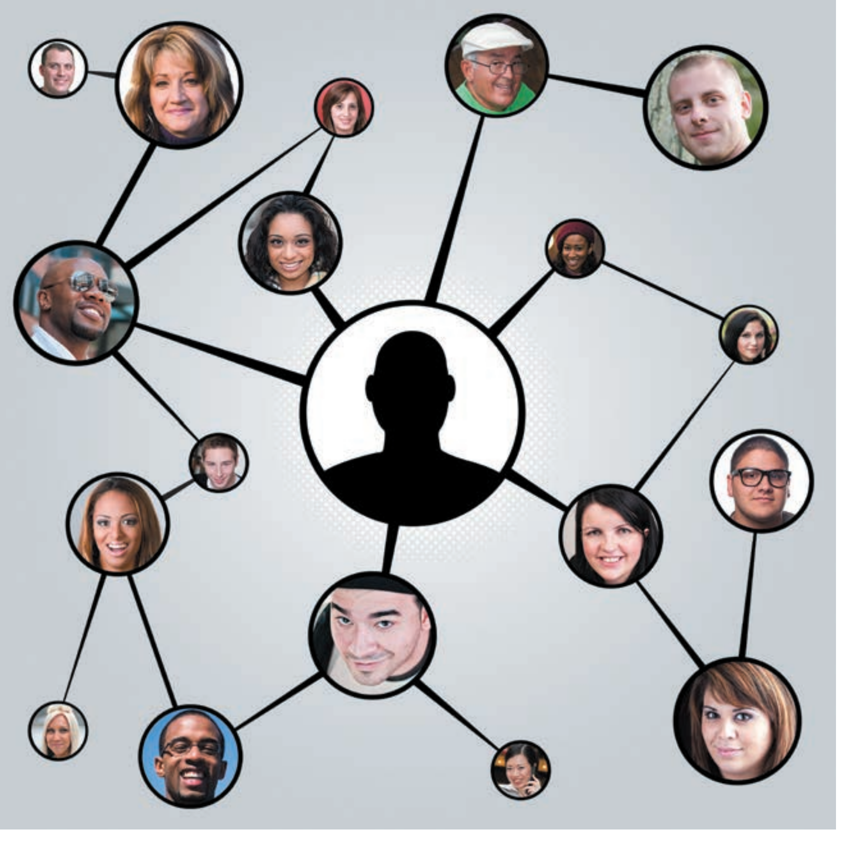
- What sales management skills are needed?[26]
- Does the classical sales force have a future?[27]
- How is its role going to evolve in the changing business environment?
- If the target for the future isn't just delivering on the bottom line – what is it?
- What should companies evaluate to ensure they are delivering a sustainable commercial strategy?
- What does it mean to have a strategic key account management approach that focuses on strong collaborative and open relationships?
- How can creativity be encouraged within key account management to develop relationships and optimise outcomes and business performance?[28]
- What are the changing customer needs and behaviours today?
- What are the key performance indicators (KPIs) to determine strong and positive engagement?
- How do time-poor customers respond to different approaches and experiences?

Impact of social media technology

The selling environment has undergone transformation over the past two decades. Perhaps the greatest change has focused on changes and advancements in technology. The latest dramatic change has been the rapidly increasing use of social media and other related technologies in the B2B realm. Moncrief et al[29] explore how these changes are impacting on the sales management function.

Word-of-mouth (WOM) marketing

This is a phrase that first appeared in Shakespeare's *Twelth Night*, and has been defined as an interpersonal communication of market offerings where the receiver regards the communication as



Spreading the word!
Source: ARENA Creative/Shutterstock

impartial. Both positive and negative word of mouth[30] has been shown to have a substantial impact on firms' fortunes and should be regularly monitored.[31] Markets can be regarded as conversations. The London School of Economics and Political Science and the Listening Company Agency found in a 2005 survey of a random sample of 1,256 adult consumers in the UK, that **word-of-mouth marketing** advocacy was a significant predictor of annual sales growth.

Marketers have discovered that one influential person's WOM tends to affect the buying attitudes of two other people, on average. That circle of influence, however, jumps to eight online. Considerable consumer-to-consumer communication takes place on the web on a wide range of subjects. Online visitors also increasingly create product information, not just consume it. They join internet interest groups to share information, so that 'word of web' is joining 'word of mouth' as an important buying influence. Word about good companies travels fast; word about bad companies travels even faster. Companies are becoming increasingly aware of the potential of WOM. Brands such as Hush Puppies, Pret a Manger, Red Bull and The Body Shop have all reaped the benefit from it. In some cases, WOM happens naturally, with little support from advertising, but in many cases it is managed and facilitated and is particularly effective for smaller businesses.

Some marketers highlight two particular forms of WOM – buzz and viral marketing. Buzz marketing generates excitement (as in the case of Dove's Real Beauty Sketches (2013), Red Bull's Felix Baumgartner's free-fall to earth (2012) and House of Fraser's Emoji Campaign (2016)), creates publicity and conveys new relevant brand-related information through unexpected or even outrageous means.[32] The advertiser reveals information about the market offering to only a few 'knowing' people in the target audience. By purposely seeking one-to-one conversations with those who heavily influence their peers, buzz marketers create a sophisticated WOM campaign where consumers are flattered to be included in the elite group of those 'in the know' and willingly spread the word to their friends and colleagues.

Viral marketing is another form of WOM that encourages consumers to pass on company-developed impressions of company offers to others online.[33] By exploiting the power of peer-to-peer advertising, brands are able to raise their awareness and achieve valuable dwell time through attracting the full attention of their audience for minutes rather than seconds. This is undoubtedly a major strength of advertising online, when compared with most other traditional media. The success of viral marketing is often based on the concept of 'cool' – if a recipient enjoys the content of an email, they will pass it on to their friends or colleagues.

Furthermore, if something is seen as particularly informative or useful, the same rule applies. A buzz can be created around a new product or service at a relatively low cost, by distributing a cleverly constructed campaign to a specific and targeted database of internet users. These can include funny videos, entertaining microsites, games, special offers, interesting stories or images that are passed around the online community.

If a viral campaign is based on offensive or controversial content, advertisers must be aware that this can damage brands. Essentially, what makes a successful viral campaign is intelligently created and delivered content in keeping with the values and tone of a brand's communications strategy.

Opinion leaders

Opinion leaders can stimulate and trigger interest.[34] Communication researchers propose a social structure view of interpersonal communication. They see society as consisting of cliques – small groups whose members interact frequently. Clique members are similar and their closeness facilitates effective communication but also insulates the clique from new ideas. The challenge is to create more openness so that cliques exchange information with others in society. This can be helped by people who function as liaisons and connect two or more cliques without belonging to either, and bridges, people who belong to one clique and are linked to another. Companies can take several steps to stimulate personal influence channels to work on their behalf. The 'Marketing insight' box describes some of these techniques.

Blogs are regularly updated online journals or diaries and have become an important outlet for word of mouth. They vary widely – some are personal for close friends and families, others are designed to appeal to and reach a large audience. Internet users are increasingly reading blogs, and several blue-chip European companies are using this channel to develop interest in their brands.

Marketing insight

Creating a word-of-mouth buzz fire

Marketers can take a number of positive steps to increase the likelihood of securing positive word-of-mouth advantages. From their research into the best practices of some of the most forward-thinking companies with legions of evangelists who spread the word, Huba and McConnell outline and explain six basic tenets of creating customer evangelists:

1 **Focus on solving needs**: Continuously gather customer feedback.

2 **Share knowledge**: Put existing and potential customers first and foster **co-creation of value**. Provide compelling information that customers want to tell friends and professional communities.

3 **Build the buzz**: Expertly build word-of-mouth networks.

4 **Create community**: Make customers feel special by creating 'clubs' and 'communities' to facilitate engagement.

5 **Make bite-size chunks**: Devise specialised, smaller CPV offerings to get customers to bite, and supply key 'influencers' with samples.

6 **Create causes**: Encourage customers to become emotionally attached and deliver services and show genuine interest in what they do and how a firm can help them succeed.

Sources: M. Hughes (2005) *Buzzmarketing: Get Your People to Talk About Your Stuff*, Harmondsworth: Penguin/Portfolio, Huba and McConnell (2012) *Creating Customer Evangelists*, Chicago, IL: Dearborn Trade Publishers; M. Saucet (2015) *Street Marketing (TM): The Future of Guerrilla Marketing and Buzz*, Santa Barbara, CA: Praeger.

Social media marketing

The growing importance of social media

The explosive development of digital communication technology over the last decade has made it easier for businesses and organisations to interact with customers and interested third parties. Social media marketing practice incorporates various activities that integrate technology and social interaction. The purpose of social media marketing is to add CPV through communication platforms that enable people to create and share message content through participating in social networking. Key advantages can be gained through increased contact frequency, interactivity and immediacy.

Social media marketing operates in a dialogic transmission system (many sources to many receivers), whereas the classical promotion P of the 4P **marketing mix** model placed the major emphasis on a monologic transmission model (one source to many receivers). Newspapers were delivered to many subscribers, radio stations broadcast the same programmes to mass regional

Social media marketing platforms
Source: dynamic/Shutterstock

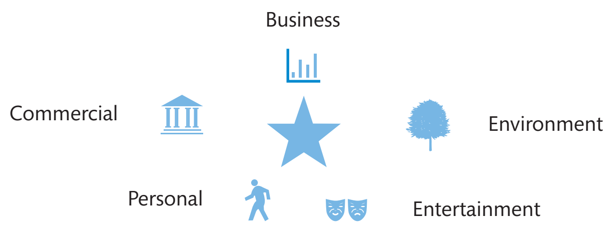


Figure 18.6 Common areas of social interaction

or national audiences. The culture of marketing has changed radically from an essentially impersonal or mass practice to a personal orientation.[35]

Social media marketing helps in building relationships between customers and businesses. Both have always benefited from the power of WOM. For customers, the approval of promotional material by third parties builds brand confidence. For businesses, the power of digital technology has enabled them to re-orientate their corporate objectives to adopt a dialogic approach. With many markets, over-supplied customers have a wide choice of market offerings and it is prudent for businesses to welcome their interaction and participation in the perceived-value creating process. In a real sense, social marketing holds massive potential for businesses to develop a super WOM![36]

It is difficult to encapsulate all the interactions that energise the impact that social media have on our lives. Digital technology has greatly increased the power of the traditional impersonal mass methods of promotion (covered in Chapter 17). It has also enabled direct and interactive marketing to achieve deeper personal relationships with consumers than the traditional advertising, promotion and public relations methods. Marketers can now benefit from carefully mixed mass and personal communication mixes and develop strong corporate and market offering reputations.

Given the communication mix elements, businesses and organisations who wish to engage with customers now need to understand the importance of the impact of social media on their own and peoples' everyday lives.

Figure 18.6 presents some of the common areas of social interactions that Tuten and Solomon argue affect us all.[37] See if you can list three more.

Social media platforms

There are three main **social media platforms**:

1. online communities and forums;
2. blogs (individual and networks);
3. social platforms such as Facebook, LinkedIn, Instagram, Twitter and YouTube.

Both impersonal (mass) and personal tools of modern communications mixes are present in the popular media platforms.

Online communities and forums

Social online communities and forums are where interested consumers and companies can interact to collectively develop CPV offerings. This is achieved by means of discussion and the sharing of ideas, text, image and video material. Social communities function as networks and enable participants to connect, inspire and engage.[38]

LEGO ideas

What could be more enticing to a LEGO enthusiast than having their design idea on the shelves – and being awarded a percentage of the product sales? With LEGO Ideas anyone who loves LEGO, from age five to 95, can check out proposals, vote on their favourites, leave feedback and submit their own ideas. The most popular ones go to market and the original designer receives 1 per cent of the royalties.

Source: LEGO Ideas https://ideas.lego.com/#all (accessed October 2018)

Blogs

Blogs and regularly updated online journals or diaries reach 'generation internet' and have become an important outlet for WOM. There are millions in existence, and they vary widely, some personal for close friends and families, others designed to reach and influence a vast audience. One obvious

Table 18.2 Leading social media platforms

Rank	Platform/Site	Registers accounts (bn)
1	Facebook	2.13
2	YouTube	1.50
3	Instagram	0.8
4	Twitter	0.33
5	Reddit	0.25
6	Vine	0.2
7	Ask.fm	0.16
8	Tumblr	0.12
9	Flickr	0.11
10	Google+	0.11

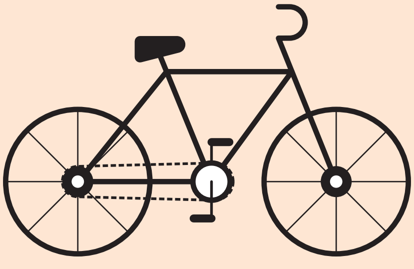
Source: https://www.dreamgrow.com/top-15-most-popular-social-networking-sites/

appeal of blogs is that they bring together people with common interests. Many corporations are creating their own blogs and carefully monitor others. Popular blogs are creating influential opinion leaders.[39]

Social platforms

Social platforms enable people to network and have become an important force in both business-to-consumer (B2C) and B2B marketing (see Table 18.2). Major ones include Facebook, one of the world's biggest; LinkedIn, which focuses on career-minded professionals; and Twitter, with its messages or 'Tweets'. Different networks offer different benefits to firms. For example, Twitter can be an early warning system that permits rapid response, whereas Facebook allows companies to engage consumers in more meaningful ways.

Social media platforms explained



Twitter:	I am enjoying riding my bicycle.
Facebook:	I like cycling.
Instagram:	Here is a pic of me riding my bicycle.
YouTube:	Here I am enjoying riding my bicycle.
LinkedIn:	My skills include being able to ride a bicycle.
Pinterest:	Here is a plan for a new off-road bicycle.
Google+	I cycle to work and I use Google all day.

Marketing in action

Keeping Bundesliga fans engaged out of season

The Bundesliga, like several of the other top football leagues, takes a lengthy winter break. FOX Sports, owner of the global broadcast rights for the Bundesliga, wanted to fill the gap and needed to keep fans paying attention to the Bundesliga, even when there was no football to watch. It also set out to connect the brand and the network, and showcase FOX Sports' position as the league's exciting new global broadcast partner. The 2016 campaign had to benefit every FOX Sports region around the world as well as the Bundesliga. The campaign was driven (with no paid-for media spend) by social media marketing and had to benefit the Bundesliga, the 18 football clubs and the individual FOX Sports regions. The creative drive featured a football penalty shoot-out. Each Bundesliga club was asked to film a penalty over the winter break featuring star players. After several weeks of teasers, fans were challenged to predict the results of the 18 penalties on Twitter and Facebook by using emoji.

The campaign was constantly monitored using social evaluation tools such as Audiense and Pulsar, as well as platform analytics (Twitter and Facebook). The apps and microsite were monitored through Google Analytics. In-market PR, partnership and promotion were monitored by each region. The campaign was a big success and achieved a social reach of 650 million, with 100,000 participants from over 100 countries.

Sources: Bundeslega official website (2016) https://www.bundesliga.com/en/news/Bundesliga/noblmdwp-18-to-win-fox-sports-penalty-kick-challenge-game.jsp (accessed October 2018); *casbaa* (2016) FOX Sports launches world's biggest penalty shootout #18towin, http://www.casbaa.com/news/member-press-release/fox-sports-launches-worlds-biggest-penalty-shootout-18towin/ (accessed October 2018); CLIO Sports (2016) #18toWin – The world's biggest penalty shoot-out, https://clios.com/sports/winner/social-media/fox-sports/18towin-the-world-s-biggest-penalty-shoot-out-12560 (accessed October 2018); SPORTS FEATURES>COM (2016) Fox Sports teams up with Bundesliga to mark the football league's return with world's biggest penalty prediction game #18TOWIN.

Marketers are still learning how to best tap into social networks and their large, well-defined audiences. Given networks' non-commercial nature – users are generally looking to connect with others – attracting attention and persuading are more challenging. Also, given that users generate their own content, advertisements may find themselves appearing beside inappropriate or even offensive material. Companies can also join social groups and actively participate. Having a Facebook page has become a virtual prerequisite for many companies. Twitter can benefit even the smallest firm. While the major social networks offer the most exposure, niche networks provide a more targeted market that may be more likely to spread a brand message.

Developing a social media marketing plan

With the potential to form ever-closer relationships with customers, companies need to revisit their marketing communications mix. It is important for them to realise that social media do not provide a quick fix but instead require a rethink of what their business is about. The 'Marketing insight' box summarises some of the key questions that require answers.

Technological developments (especially in mobile phones and the internet) present companies with both an opportunity and a threat. Modern market conditions require businesses to carefully blend traditional mass and personal promotion channels with those that have been opened up by the technology.[40] Failure to do so or move fast enough will put companies at risk of failure. Are companies prepared to fully adopt a social marketing culture or are they still at heart production least-cost orientated concerns? What do you think?

Advantages and disadvantages of social media

Consumer diffidence

Social media allows consumers to become engaged with a brand at perhaps a deeper and broader level than ever before. Marketers should do everything they can to encourage willing consumers to engage productively. Useful as they may be, social media are rarely the sole source of marketing communications for a brand. And they may not be as effective in attracting new users and driving brand penetration.

Advantages of social media marketing

- **Accessibility**: ability to connect to people all over the world 24/7; businesses no longer need to rely on traditional telephone cable/landline networks and 'snail mail' services.
- **Reach:** businesses can use targeted social media channels; for example, young people can be reached through Snapchat and professional business customers through LinkedIn.
- **Internet use:** consumers are spending an increasing amount of time accessing the internet on computers, smartphones and tablets.
- **Immediacy:** information sharing is immediate.
- **Builds relationships:** social media technologies enable businesses to transmit audible and visual material through the ether to build brand awareness, visibility and reputation.
- **Customer service:** positive feedback is public and can be persuasive to other potential customers; negative feedback highlights areas where businesses need to improve.

- **Economy:** the costs of maintaining a social media presence are much less than for traditional advertising.
- **Website boost:** social media can boost traffic to company websites, which can lead to increased sales and new customer enquiries.
- **Tracking:** it is easy to measure the volume of website traffic and find out how much business is generated by social media activity.
- **Technological advances:** these are making it easier for companies and organisations to interact with customers and interested third parties.

Disadvantages of social media marketing

- **Acceptability**: there are no written 'right' or 'wrong' rules when it comes to social media; only businesses can determine what will work for them.
- **Distraction and procrastination:** people can get distracted by social apps, news and messages they receive, leading to all sorts of problems such as distracted driving or the lack of gaining someone's full attention during a conversation. Browsing social media can also feed procrastination habits and become something people turn to in order to avoid certain tasks or responsibilities.
- **Health:** evidence is mounting that some 14–24 year-olds are suffering from increased feelings of inadequacy and anxiety.[41]
- **Information overload:** with many on social media Tweeting links and posting selfies and sharing YouTube videos, it can get noisy. Becoming overwhelmed by too many Facebook friends to keep up with or too many Instagram photos to browse through is not all that uncommon.
- **Online interaction substitution for offline interaction:** since people are now connected all the time and you can pull up a friend's social profile with a click of your mouse or a tap of your smartphone, it's a lot easier to use online interaction as a substitute for face-to-face interaction. Some people argue that social media actually promotes antisocial human behaviour.
- **Privacy issues:** with so much sharing going on, issues over privacy will always be a concern. Sharing too much with the public can open up all sorts of problems that sometimes cannot be undone.
- **Social peer pressure and cyber bullying:** for people struggling to fit in with their peers – especially teens and young adults – the pressure to do certain things or act in a certain way can be even worse on social media than it is at school or any other offline setting.

Marketing insight

Key points in developing a social media content marketing plan

The social media mix plan should provide answers to the following questions:

- What is the business about and why would people want to trade with the company?
- What do existing and potential customers and third parties think of the company?
- What audience to target and reach?
- What social media mix to select?
- How will the media mix be created?
- Who does what, why and when?
- How often will the content mix be updated and posted?
- What platforms are best suited to reach the target audience?
- How is the content mix going to be evaluated?

Evaluating the performance of social media marketing (metrics)

Marketers should heed the metrics mantra 'You can't manage what you can't measure'. It is important first to think through what would be desirable. Most businesses and organisations need to know the amount of traffic, reactions and thus real impact of their social media marketing plan. Deciding what data to collect and what measures are best to collect is challenging the minds of marketers owing to the dynamic and uncertain nature of target audience reactions to social media campaigns.

Social media marketing trends

The business landscape faced by marketers is becoming increasingly competitive and more diverse than ever before, with marketing strategies spanning multiple channels. Failure to take the leap from traditional impersonal mass promotion to personal and increasingly to full individualisation to create CPV market offerings and experiences places a business at risk. Digital technology will continue to play a major role in all our lives. Companies and organisations will need to deliver information in smarter and increasingly personalised ways. The social media platforms and smarter technologies will give more power to users and influencers through enhanced empathy and user feedback interaction.

Technology will continue to drive marketing through social media. Apple, Amazon and Google are developing sophisticated chat-bots that have the potential to play a significant part in every-day life, from running the home to becoming a powerful form of internet-purchasing activity. Enhanced by the application of virtual and artificial intelligence message content, the communication interface between individuals and machines will potentially become a matter of concern as it may unduly influence free-will customer-buying behaviour.

The competition between the social network and messenger platforms will increase in tandem with voice-optimised content as marketers strive to encourage customers to join them in the co-creation of customer-perceived value. The extension from personal to individual target marketing will raise important ethical issues. (Chapter 21 extends a consideration as to the likely risks to free customer buying.)

However, is social media a long-term tool for marketers or might it become a bubble? In the light of a growing belief that it has been over-used for promotion, the 'earned' or paid-for side of social media has been giving cause for concern. What do you think?

Integrated marketing communications (IMC)

Two-step flow of information

Although one-to-one communication is often more effective than mass communication, traditional media are the major means of communicating to large target audiences. Mass communications affect personal attitudes and behaviour through a two-step process. Ideas often flow from radio, television and print to opinion leaders, and from these to the less media-involved population groups. This two-step flow has several implications. First, the influence of mass media on public opinion is not as direct, powerful and automatic as marketers have supposed. It is mediated by opinion leaders, people whose opinions others seek, or who carry their opinions to others. Second, the two-step flow challenges the notion that consumption styles are primarily influenced by a 'trickle-down' or 'trickle-up' effect from mass media. People interact primarily within their own social groups and acquire ideas from opinion leaders in their groups. Third, two-step communication suggests that mass communicators should direct messages specifically to opinion leaders and let them carry the message to others.

As the need to become effective and efficient in engaging customers through marketing communication channels became increasingly important, marketers dreamed of the gains that theoretically would ensue from integrating their mass and personal channel activity. While in essence a simple philosophy that emerged in the late 1980s, many businesses have found it hard to adopt. It is difficult to precisely define and apply as it requires a new operating paradigm. IMC is both a strategic and tactical approach to the planned management of an organisation's communications and requires that organisations coordinate their various strategies, resources and messages to develop a meaningful engagement with targeted audiences. The main purpose is to develop relationships with audiences that are of mutual value.

Unfortunately, many companies still rely on a narrow approach to marketing communications owing to too much emphasis on internal tactics with too little attention on consumer insight. The result is an over use of one or two marketing channels such as the old 'fall-backs' of advertising and public relations. This persists in spite of the fragmenting of mass markets into a multitude of mini-markets, each requiring its own approach, the proliferation of new types of media and the growing sophistication of customers. The wide range of communications tools, messages and audiences makes it imperative that companies move towards an integrated IMC practice. However, despite its potential, many firms seem to be slow to accept it seriously. Companies need to see marketing spend as an investment and not as a cost that needs to be tightly controlled. This means that they should give serious thought to adopting a holistic marketing approach and to fully understanding their consumers by evaluating the different ways that communications can affect consumer behaviour. Media companies and advertising agencies are expanding their capabilities to offer multi-platform deals for marketers. For example, newspapers and magazines have been formulating digital strategies, such as adding videos to their home pages, to increase advertising revenue. In the UK, *The Daily Telegraph*, *Financial Times* and *The Guardian*, for instance, offer online video segments on their websites carrying topic, news and advertising material. These expanded capabilities make it easier for marketers to assemble various media properties in an IMC programme.

Coordinating media

Media coordination can occur across and within media types and marketers should combine personal and non-personal communications channels to achieve maximum impact. Multiple media deployed within a tightly defined time frame can increase message reach and impact. This strategy is commonly seen in the marketing of financial services. Research has also shown that sales promotions can be more effective when combined with advertising. The awareness and attitudes created by advertising campaigns can improve the success of more direct sales pitches. Many companies are coordinating their online and offline marketing communications activities. Listing web addresses in advertisements (especially print ones) and on packages allows people to explore a company's wares more fully, find store locations and get market offering information. For example, Danone makes it a priority to drive traffic to its Danone Yogurt homepage, so the company can benefit from the twin paybacks of (1) forging direct relationships with customers and (2) building a database of its best customers, whose loyalty can be strengthened with more targeted coupon and direct mail promotional efforts. It is important that companies are communicating with people in order for their advertising and sales promotion spend to generate profitable sales.

Implementing IMC

IMC has failed or been slow to take hold for several reasons.[42] Large companies often employ several different communications specialists who may know comparatively little about the other marketing communications tools A further complicating matter is that many global companies use a large number of advertising agencies located in different countries and serving different divisions, resulting in uncoordinated marketing communications and image diffusion.

Pret A Manger: customer outreach

Natural food store Pret A Manger actually asked its customers what they wanted and then acted on it. When it asked for input on recipes and menus, it got it to the extent that feedback has been shared all over the world. Seeing your menu items in print after you've posted them and having that kind of input engages both customers and prospects. The integrated campaign didn't stop there either. The company opened a second vegetarian location in London in April 2017 with 20 new items on the menu.[43]

IMC can produce stronger message consistency and help to build brand equity and create greater sales impact. It forces management to think about every way the customer comes into contact with the company, how the company communicates its positioning, the relative importance of each vehicle, and timing issues. It gives someone the responsibility – where none existed before – to unify the company's brand images and messages as they progress through a host of company activities. IMC should improve the company's ability to reach the right customers with the right messages at the right time and in the right place. The 'Marketing in practice' box gives some guidelines.

Marketing in practice

How integrated is your IMC programme?

In assessing the collective impact of an IMC programme, the marketer's overriding goal is to create the most effective and efficient marketing communications programme possible. The following six criteria can help determine whether marketing communications are truly integrated:

1 Coverage is the proportion of the audience reached by each communication option employed, as well as how much overlap exists among communication options. In other words, to what extent do different communications options reach the designated target market and the same or different consumers making up that market?

2 Contribution is the inherent ability of a communication to create the desired response and effects from consumers in the absence of exposure to any other communications option. How much does communication affect consumer processing and build awareness, enhance image, elicit responses and induce sales?

3 Commonality is the extent to which common associations are reinforced across communications options: that is, the extent to which information conveyed by different marketing communications options shares meaning. The consistency and cohesiveness of the brand image is important because it determines how easily existing associations and responses can be recalled and how easily additional associations and responses can become linked to the brand in memory.

4 Complementarity relates to the extent to which different associations and linkages are emphasised across marketing communications options. Different brand associations may be most effectively established by capitalising on those communications options best suited to eliciting a particular consumer response, or establishing a particular type of brand association.

5 Versatility is important in any IMC programme, as when consumers are exposed to a particular communication, some will already have been exposed to other communications for the brand, and some will not have had any prior exposure. Versatility refers to the extent to which a communication option is robust and 'works' for different groups of consumers. The ability of a communication to work at two levels – effectively communicating to consumers who have or have not seen other communications – is critical.

6 Cost is something that marketers must weigh against evaluations of all these criteria to arrive at the most effective and efficient communications programme.

Source: K. Keller (2008) *Strategic Brand Management*, 3rd edn. © 2008 Printed and electronically reproduced by permission of Pearson Education, Inc., Upper Saddle River, NJ.

Finne and Grönroos,[44] in their conceptual paper, develop a customer-centric marketing communications approach that takes as its starting point individual ecosystems. Sophisticated ecosystems and market research can reveal what set of perceived-value-in-use messages need to be communicated to targeted customers. The proposal marks an advance on conventional marketing and IMC thinking. Finne and Grönroos's customer-driven CIMC model sounds a bell for a rethink of conventional marketing communications research.

Implications of digital media for practitioners

Marketing managers face increasing demands for effectiveness measurement, including more rigorous assessment of the match between marketing communications objectives and results.[45] Listening to people is of paramount importance today and marketers must have a stronger focus on connecting with predefined consumers who are making buying decisions in real time. This is not about broadcasting but about genuine conversation. If brands are able to engage in a broad conversation with people then they can sense the needs of targeted communities and so improve their interconnected marketing activities.

It is clear for all to see that social media drives WOM and brand momentum. Advertising on sites such as Facebook or Twitter platforms is now big business. While TV, and to a lesser extent print and sales promotion activity, does create awareness, social media does more than that, as it enables companies to actively build brands – for example, by buying Facebook 'likes' and promoting Twitter 'feeds'. The strength of people's appetite for social media is maturing and it is rapidly becoming the largest communication expenditure after TV.

Marketing insight

Meeting the challenges of media convergence

Radio and TV are the traditional dominant means of advertising, but the proliferation of and advances in digital technology are changing the communication canvas. The generation and application of big data is transforming the development and production of advertising campaigns irrespective of whether they are online or offline. There is a need for traditional agency marketers and digital specialists to unite to develop a media convergent climate.

Media convergence in the digital era allows for greater accuracy in gaining reliable metrics on the effects of the communications mix, so easing the marketer's task of planning both effective and efficient communications programmes. While it will never be possible to achieve total accuracy in forecasting returns on advertising expenditure, digital metrics, if linked to commercial key performance indicators, can greatly assist media convergence decisions.

To meet the challenge of the shifting media environment and opportunities for convergence, practitioners will need to:

- develop cooperation between traditional and digital teams to ensure that broadcast channels, traditional print, social and mobile platforms form an integrated and mutually supportive communications mix;
- leverage the knowledge and skills of technology experts as they respond to the changing media landscape;
- develop relevant performance indicators aligned to strategic goals of the business.

This programmatic approach is predicted to develop rapidly over the next five years as technology continues to improve and the use of richer data makes it easier to identify and understand consumers in the digital era.

Sources: S. Lawson (2014) The new media landscape: Preparing for a media-convergent future, *Marketing*, September; J. Hewson (2014) The new media landscape: Programmatic is ripping up the advertising rule book, *Marketing*, September.

Marketing communications toolbox

Getting the right creative balance between the traditional approaches to both mass and personal marketing communications is a major challenge for marketers in times that are dominated by digital technology and social media. Many practitioners are now reviewing their marketing communications spends and choosing to invest increasingly in earned, shared and **paid media**. Table 18.3 presents a comparison between impersonal (mass) communications and personal communications. While there is clearly a trend towards ever more **personal media** messages, most practitioners would be wise to invest in a blend of mass and personal initiatives. Digital technology and the internet have totally changed the conduct of marketing communications practice. Marketers need to rise to the challenge of engaging with customers, providing a CPV experience and exciting customers so that they become loyal brand evangelists.

Table 18.3 Personal versus mass marketing communications

Audience reach engagement	Mass communications	Personal communications
Attention	Low	High
Interest	High	Moderate–High
Desire to buy	Moderate–Low	Moderate–High
Action	Low–Moderate	Moderate–High
Feedback		
Direction	One-way	Two-way
Focus	One-to-many	One-to-one
Efficiency metrics	Challenging/difficult	Potentially accurate
Reach (large audience)		
Speed	Fast	Slow
Cost (per capita)	Low	High
Recommendation		
Word-of-mouth excitement	Low–High	Moderate–High

Managing an integrated marketing communications mix

While the task facing marketers seeking to gain the maximum advantage from their marketing communications budgets has not changed, digital technology and the dynamic growth of social media have changed the game. This chapter argues that social media does not replace the traditional approach to the communications marketing mix but needs to be a strong part of it. Firms and organisations need to place a stronger importance on the need to clearly target consumers through social media contact and communities. In this social media age, firms need to involve consumers in the development of market offerings that have the appropriate customer-perceived value.

Often, in times of urgency and complexity, firms look for immediate short-term advantages by rushing to consultants and adopting the latest 'how to use social media in your marketing formula' quick fix. Instant and lasting solutions are rarely evident in the real world. Expert guidance and careful adaptation to targeted consumers is a safer management approach.[46] Thinking through the key marketing communications task is a good place to start:

1 What messages need to be developed and projected through an integrated marketing communications mix?
2 How is corporate strategy and practice going to be adapted to the challenges and opportunities resulting from the growth of digital technology and the opportunities it provides for interaction with customers?
3 What are the best platforms for companies to cultivate in order to involve their targeted audiences in the co-creation of value?[47]
4 What metrics are best to monitor the impact of the selected marketing communications mix?[48]

SUMMARY

1 The personal marketing communications mix contains a variety of tools that target individuals. The main toolbox includes direct marketing, personal selling, WOM, interactive marketing , and online and social media marketing. All these tools have been sharpened over the last decade by rapid technological advances and the subsequent explosive growth of social media. The task facing marketers has become increasingly complicated as they strive to achieve the maximum reward for their communications spend. Selecting the right balance of mass (non-personal) and personal tools has made attempts to achieve an IMC strategy in some ways easier, as bid data sharpens targeting strategies, and in others more difficult. Buyers now have the opportunity to co-create perceived-value market offerings with suppliers.
2 Direct marketing is an interactive system that uses one or more media to effect a measurable response or transaction and this has been boosted by digital technology.
3 Direct marketers plan campaigns by deciding objectives, targeting markets, prospects, offers and process and by using testing and metrics to determine a campaign's performance.
4 Interactive marketing provides marketers with opportunities for much greater customer involvement and individualisation through well-designed websites as well as online advertisements and presentations.
5 Major channels for direct marketing include personal selling, direct mail, catalogue marketing, telemarketing, interactive TV, websites and mobile devices.
6 Personal selling, though still an important last stage of the consumer buying journey, is largely practised in business-to-business marketing. Sales representatives *are* the company to many of its customers and their field activity enables them to gain valuable information about their clients and emerging market trends.
7 Designing the sales force requires decisions about objectives, strategy, structure, size and compensation. Objectives may include prospecting, targeting, communicating, selling, servicing and information gathering. Determining strategy requires choosing the most effective mix of selling approaches. Choosing the sales force structure entails dividing territories by geography, market offering or market (or some combination of all of these). Estimating the size of the sales force requires estimating the total workload and how many sales hours and salespeople will be needed. Compensating the sales force involves determining what types of salaries, commissions, bonuses, expense accounts and benefits to give, and how much weight customer satisfaction should have in determining total compensation.
8 There are five steps involved in managing the sales force: (1) recruiting and selecting sales representatives; (2) training representatives in sales techniques and in the company's market offerings, policies and customer-satisfaction intent; (3) supervising the sales force and helping representatives to use their time efficiently; (4) motivating the sales personnel and balancing targets, monetary rewards and supplementary motivators; and (5) evaluating individual and group performance.

9 Effective salespeople are trained in the methods of analysis and customer management, as well as in the art of sales professionalism. No approach works best in all circumstances, but most trainers agree that selling is a six-step process: (1) prospecting for customers; (2) pre-approach; (3) presentation and demonstration; (4) overcoming objections; (5) closing; and (6) follow-up and maintenance.

10 Word of mouth (WOM), or personal recommendation, is a powerful tool that needs to be nurtured. The internet and the popularity of social media have given WOM a sharp edge for communication practitioners.

11 The explosive development and popular appeal of social media has accelerated use of the internet by both buyers and sellers. The technology fosters high contact speed and facilitates interaction in blogs and online community forums. It has made WOM a powerful instrument and has boosted co-creation of perceived market-offering values.

12 Social media platforms are appearing in abundance. Facebook and Twitter have become powerful marketing positions and both have come under scrutiny in 2018 when leakage of confidential data became evident, which led to a tightening of the regulations protecting personal data.

13 The internet presents both advantages and disadvantages to both buyers and sellers. Marketers need to fine-tune their use of the internet and social media to meet the needs of their customers and to refrain from practices that may lead to internet bullying.

14 As with other marketing mix tools, companies should assess objectives and strategy and strive to integrate social media activity with conventional mass and personal campaigns.

15 All marketing communications spends need to be evaluated with reliable metrics. The complexity that has resulted from digital and social media development is challenging marketers as they seek to assess the impact of target audience reactions to social media campaigns.

16 Integrated marketing communications (IMC) has been a quest for practitioners for years, as indeed has the desirability of integrating all marketing expenditure to attain maximum success in a competitive global market environment. As with most quests, the idea and theory are easy to grasp but delivery of IMC in real-time conditions is a tough challenge.

APPLICATIONS

Marketing debates

Social marketing oversteps the mark as it is potentially far too intrusive. Many customers feel that these days they are bombarded by marketing campaigns. The internet has led to an explosion of online activity and social media platforms. Mobile phones are besieged with ads. For many people there sometimes seems to be no escape from the commercial shellfire.

Take a position: the digital age and social media are here for good and people just need to get used to it *versus* there is a need for the regulating authorities to establish and enforce co-created practice guidance for companies and organisations.

Take a position: the key to developing an effective sales force is selection *versus* the key to developing an effective sales force is training.

Take a position: integrated marketing communications (IMC) is a dream that can be achieved *versus* IMC is, at most, a praiseworthy quest but actually impossible to meaningfully achieve.

FURTHER READING

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L. Porcu, S. Del Barrio-Garcia and P. J. Kitchen (2017) Measuring integrated marketing communication by taking a broad organisational approach: The firm-wide IMC scale, *European Journal of Marketing*, 51(3), 692–718.

This paper investigates the relationship between the social media marketing (SMM) evaluation procedures and wider marketing planning, and shows that strategic decision-making processes are associated with SMM. As organisations are increasing their investment in social media marketing (SMM), evaluation of such techniques is becoming increasingly important. The purpose of this paper is to contribute to knowledge regarding SMM strategy by developing a stage model of SMM evaluation and uncovering the challenges in this process.

The SMM evaluation framework is developed. This framework has the following six stages: setting evaluation objectives; identifying key performance indicators (KPIs); identifying metrics; data collection and analysis; report generation; and management decision making. Challenges associated with each stage of the framework are identified and discussed, with a view to better understanding decision making associated with social media strategies. Two key challenges are the agency–client relationship and the available social analytics tools.

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Part 5 Case study

Saint or sinner?
Source: Shutterstock

Walkers crisps

Walkers is the UK's favourite crisps brand. Founded in 1948, butcher Henry Walker began making crisps in his Leicester factory to keep his workers busy, as meat was scarce in post-war Britain. Today, Walkers is Britain's largest crisp manufacturer, employing thousands of people in seven locations. Walkers has 16 ranges of crisps and snacks, including Walkers Sensations, Doritos and Quavers. Still based in Leicester, Walkers joined the PepsiCo family in 1989 and makes around 10 million bags of crisps a day. Walkers is worth around £436 million, and Walkers snacks are enjoyed by over 10 million people in the UK every day.

In 2007, Walkers became the first company in the world to display a carbon reduction logo on a consumer product. The label covers the carbon used from seed to store and through to product disposal. Working with the Carbon Trust, Walkers reduced energy use per kilo by one third, and water use per kilo by 45 per cent. Walkers has also committed to further year-on-year reductions to continue to qualify for the label. As part of its efforts to reduce carbon emissions by reducing road miles, it switched to using 100 per cent British potatoes for Walkers crisps in July 2007.

Walkers has a special place in the nation's affections, not least as a result of a long-running advertising campaign featuring former England footballer Gary Lineker, now the country's top TV sports presenter. That campaign is still going strong after almost 25 years. In that time, the Walkers banner has expanded beyond potato crisps to cover a wide range of other salty snacks. More recently the brand has maintained its popularity by launching an annual competition in which the public is invited to suggest unusual limited-edition flavours.

Review Chapters 17 and 18 and then research the sources listed below, which are intended to get you started in responding to the questions. Research additional internet sources to gather extra data to develop your answers.

Questions

1. What are the pros and cons of continuing to feature the celebrity Gary Lineker in Walkers' main advertising spend?
2. In what ways is Walkers using social media? Which platforms offer the best opportunities? How might social media assist the new crisp product development activity?
3. How is Walkers linking outdoor and social media spends?
4. What did the company learn from its 'Walkers Wave' campaign?
5. How is Walkers reacting to increased pressure to use recyclable crisp packets?

Sources: Adbrands, https://www.adbrands.net/uk/walkers_uk.htm (accessed October 2018); O. Oakes (2017) Walkers campaign asks customers to 'choose or lose' famous flavours, *Campaign*, 28 August, https://www.campaignlive.co.uk/article/walkers-campaign-asks-customers-choose-lose-famous-flavours/1442973; https://www.youtube.com/user/walkerscrisps (accessed October 2018); A. Giles (2018) Bus stop advertising at its best: Gary Lineker with Walkers Crisps, *Bubble*, 19 April, http://bubbleoutdoor.com/bus-stop-advertising-at-its-best-gary-lineker-with-walkers-crisps/; R. Smithers (2018) Crunch time for Walkers over non-recyclable crisp packets, *The Guardian*, 5 August, https://www.theguardian.com/environment/2018/aug/05/walkers-plastic-crisp-packet-non-recyclable.

PART 6
Delivering value

Contemporary distribution channels and networks must operate with cost, choice, convenience and control perspectives for how they are configured to ensure that customers – whether online or offline, through a physical contact or by computer, laptop, iPad or mobile phone – receive the right product/service in the right place at the right time surrounded by the right process, people and physical evidence. Marketing managers must be aware of and manage all aspects of national, international and global supply networks, to ensure that from manufacturer or service provider through to the final consumer and often beyond to disposal or even reuse, the whole network is managed efficiently and effectively.

Part 6: Delivering value explores three important themes:

1. **Selecting and managing channels, multichannels and omnichannels.**
2. **Analysing, developing and supporting national and international channel members, whether online or offline.**
3. **Exploring the rise of new channels and the digital imperative.**

Different national and international markets and numerous different target markets require companies to design, develop and operate cross-multiple and multichannel distribution networks. This provides a real challenge to marketing management as they must maintain their brand values across a range of channels, digital and physical or any combination, while satisfying customer needs at a profit.

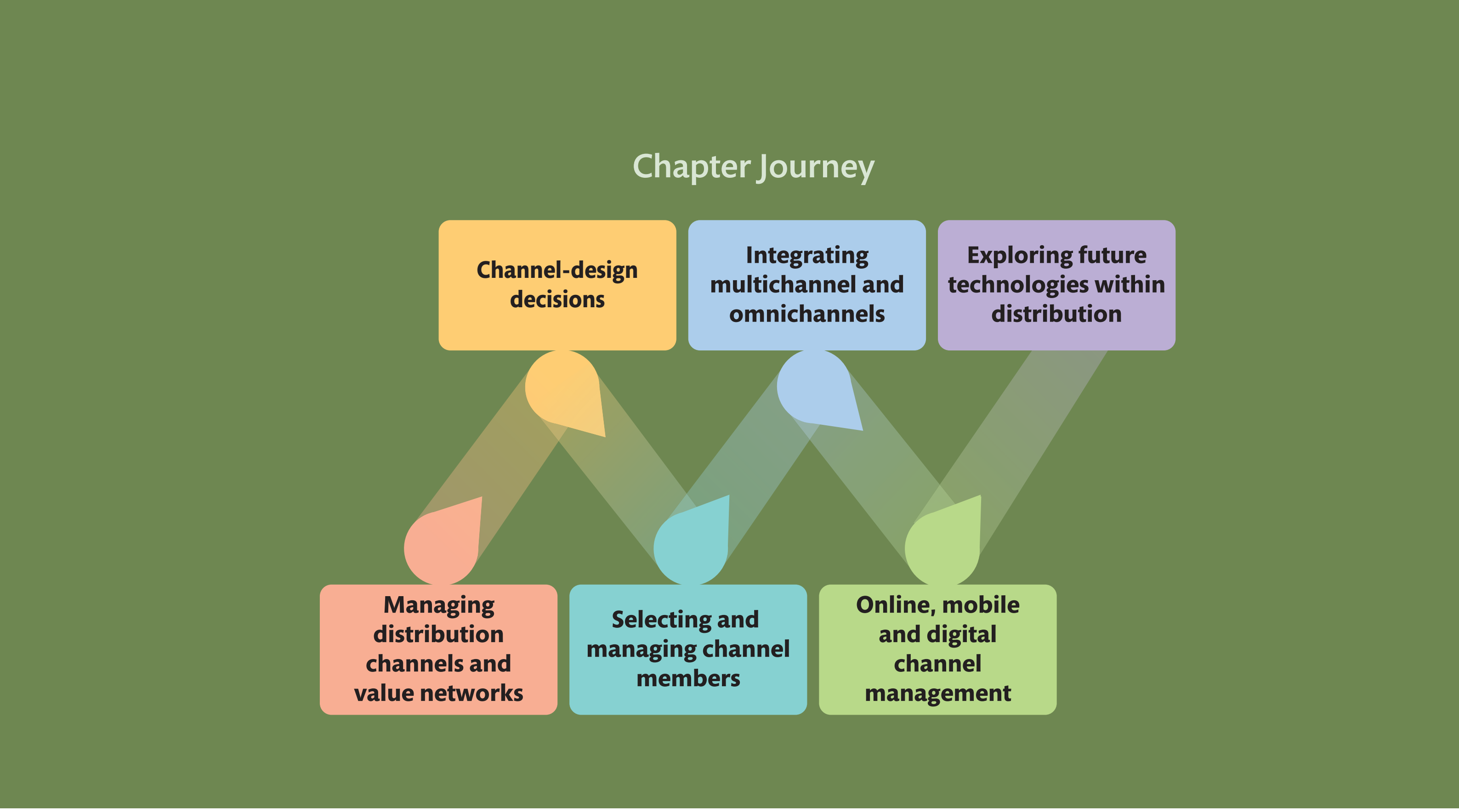
CHAPTER 19

Designing and managing distribution channels and global value networks

In this chapter, you will learn about the following topics:

1. Marketing distribution channels and value network management
2. The role of distribution channel members
3. Channel design decisions
4. Selecting and managing channel members
5. Integration of channel, multichannel and omnichannel design
6. Online, mobile and digital channel management
7. Exploring future technologies within distribution

This is Smartville, France, where a network of companies are geographically linked to manufacture the Smart car
Source: Courtesy of Daimler AG.



Successful value creation needs successful value delivery. Holistic marketers take a value network view of their distribution channels and their businesses. Instead of limiting their focus to their immediate suppliers, distributors and customers, they examine the whole supply network that links raw materials, components and manufactured products and services to the final consumers. They are looking at customer segments and considering a wide range of new-technology-supported means to distribute and manage their offerings both physically and digitally.[1] Consider the Smart car.

The Smart car, named after Swatch, Mercedes and Art, was the brainchild of Nicolas Hayek, perhaps better known as the CEO of Swatch, the watch company. Hayek's dream was the Swatchmobile, which would do for the small car what he had done for the watch: a car that would be fun, cheap and simple, yet environmentally sound, running on hybrid power. Targeted at young elites, the Smart car is an energy-efficient mix of German engineering and Swiss technology. This very small luxury car has style and flexibility – innovative, functional and geared to the joy of driving. The Smart car, owned by DaimlerChrysler, the parent company of Mercedes-Benz, is a two-seat, 2.5m by 1.5m car – small enough that two Smart cars can squeeze into a standard parking space. The Smart car is managed as part of a unique value network with all the suppliers and channels members geographically linked. The Smart car is built at one of the most modern car manufacturing network complexes in the world, called Smartville, located at Hambach in Lorraine, France. The cross-shaped assembly building is surrounded by individual companies – all main suppliers of the parts to build the car. More than 1,900 people in 11 independent companies work together in this network to build the Smart car.[2] The companies include Magna (space frame), Magna Uniport (Ymos) (doors), Surtema Eisenmann (paint shop), Bosch (front power train, brakes, lights), Mannesmann VDO (cockpit), Dynamit Nobel (plastic body panels) and Thyssen-Krupp Automotive Systems (rear power). In addition, there are three on-site logistics partners: TNT Logistics (spare part facility), Rhenus (storage for small parts) and MTL (moves finished cars to dealers). The channels of distribution used for the Smart car are innovative, featuring round, transparent towers of Smart cars. Smart was also the first manufacturer to sell cars over the internet.[3] The Smart car is popular in major European cities, although distributor challenges have prevailed in America, showcasing many of the channel management issues we will discuss later.[4]

Companies today must build and manage a continuously evolving and increasingly complex channel system and value network, much of it digital. In this chapter, you will learn about the strategic and tactical issues in integrating marketing channels and developing and managing value networks. The challenges are huge, as 3D printing, dash buttons, drones, apps, robotics and RFID can all change how products and services are distributed and automate or change traditional supply chains or networks and channel management.

Managing distribution channels and value networks

Many companies do not sell their products or services directly to the final users; between them stands a range of intermediaries performing a variety of functions. These intermediaries constitute a distribution channel (also called a marketing channel or channel of intermediaries). **Distribution channels** are the particular set of channels a firm uses – the chain of intermediaries or processes through which products or services pass until they reach the end consumer. These marketing channels can include wholesalers, retailers, distributors and the internet, or internet platforms such as Amazon. Amazon is a critical intermediary for hundreds of products and services with its *Amazon effect*, which describes the effect that digital platforms and one-click shopping has had on traditional forms of retailing.[5]

Channel members can be a set of interdependent organisations participating in any part of the total process of making a product or service available for use or consumption. These channels are the set of pathways a product or service follows after production, culminating in purchase and consumption by the final end user.[6] An integrated **marketing channel system** is one in which the strategies and tactics of distributing and selling through one channel reflect the strategies and tactics of distributing and selling through one or more other channels, regardless of whether they are digital or physical channels, owned or not owned.

Once there is more than one **direct channel** from customer to company, there can be channel members – often called **intermediaries** – that are individuals or firms (such as an agent, distributor, wholesaler, retailer) or even digital platforms (such as www.booking.com) that link producers to other intermediaries or the ultimate buyer. The most important functions performed by intermediaries are information, promotion, negotiation, ordering, financing, risk taking, physical possession, payment and title.

Distribution intermediaries help a firm to promote, sell and make available products or services. Each intermediary receives the item at one price point and moves it to the next point – sometimes but not always at a higher pricing point – until the item reaches the final buyer.[7] Think of www.booking.com, which often has room prices cheaper than direct from the actual hotel, or www.lastminute.com, where the prices can be lower for immediate use. The main types of intermediaries are wholesalers and retailers – who buy, take title to and resell the offering – many of whom are now digital and also online intermediaries.

The importance of channels

The design of the channel system is one of the most critical decisions that managers face. Peter Drucker noted: 'The greatest change will be in distribution channels, not in new methods of production or consumption.' Choosing the right channels, convincing them to carry your products or services and getting them to work as partners is a major challenge. Many companies see themselves as selling *to* distributors, instead of selling or distributing *through* them. Channel members collectively have earned margins that account for 30–50 per cent of the ultimate selling price. In contrast, advertising typically has accounted for less than 5–7 per cent of the final price.[8] Distribution channels also represent a substantial opportunity cost. One of their chief roles is to convert potential buyers into profitable customers. Distribution channels must not just serve markets; they must also make markets.[9]

The channels system chosen affects all other marketing decisions. The company's pricing depends on whether it uses online discounters or high-quality boutiques. Its sales force and advertising decisions depend on how much training and motivation dealers need. In addition, channel decisions include relatively long-term commitments with other firms, as well as a set of policies and procedures. When a car company signs up independent dealers to sell its car, it cannot buy them out the next day and replace them with company-owned outlets. At the same time, channel choices themselves depend on the company's marketing strategy with respect to segmentation, targeting and positioning. Holistic marketers ensure that marketing decisions in all these different areas are made to collectively maximise value.

Disruption to global supply networks can arise from many sources. Technology such as 3D printing and drones can reduce the need for delivery as we know it; political developments – such as changes in tariffs and trading block conflicts – can damage well-entrenched and traditional supply networks and affect supply chain management. The trade wars between the US and a variety of countries could damage decade-old global supply chains and global commerce.[10]

Brexit, the UK political policy to leave the European Union, could mean increased checks at borders and massive changes to how UK goods and services are managed within Europe.

New technological interventions and increased technology mean that supply chains are more agile, receptive and efficient, with increased automation of warehousing, robotics and the Internet of Things, software management systems and channel data analytics. In many industries, digital supply chains dominate and thus we could be witnessing the death of the traditional supply chain. According to a *Harvard Business Review* article: 'New digital technologies have the potential to take over supply chain management entirely . . . Within 5–10 years, the supply chain function may be obsolete, replaced by a smoothly running, self-regulating utility that optimally manages end-to-end work flows and requires very little human intervention.'[11] Rio Tinto, the global mining-and-metals company, is exploring the use of driverless trains, robotic operators, cameras, lasers, and tracking sensors to manage its whole supply chain remotely.[12] In a report on next-generation supply chains, 60 per cent of respondents – comprising manufacturers, distributors and services providers – suggest that their supply chains are now digital, on-demand and always on.[13] See the 'Marketing in practice' box.

Marketing in practice

A study by the Boston Consulting Group shows that the leaders in digital supply chain management are enjoying increases in product availability of up to 10 per cent, are 25 per cent faster to respond to demand and have 30 per cent better working capital reduction, leaving their less-agile competitors behind. Using supporting technologies and digital applications such as cloud computing, the Internet of Things and advanced analytics to run their supply chains has focused and increased their efforts – see Figure 19.1.

What are the leaders in global supply chain management doing? There are two core changes:

1 **Innovating business processes:** Using increasingly sophisticated and integrated technologies to automatically track components in real time enables teams to predict delivery times and to communicate with customers. These activities speed up supply chain activities, increase efficiency and can help to uncover new revenue streams.

2 **Disrupting the supply chain:** Leading companies are using the digital supply chain to redesign their operating models and go-to market approaches – such as finding new routes to customers and/or decentralising activities to speed up delivery.

The strategies needed include to:

- **Immerse yourself in the possibilities**: scan the digital landscape.
- **Prioritise the opportunities**: make a business case for relevant, realistic and financially rewarding changes.
- **Launch pilots**: using a performance management dashboard to support the roll out of small-scale pilots.

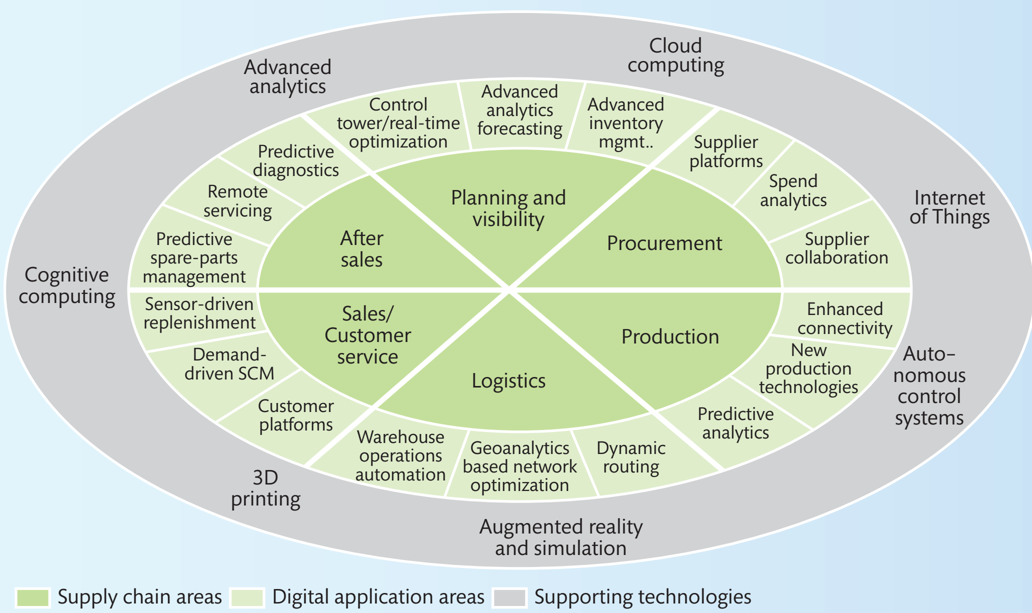


Figure 19.1 The landscape of digital supply chain management

Source: A. Ganeriwalla, W. Gideon, L. Kotlik, R. Rosegen and S. Gstettner (2016) Three Paths to Advantage with Digital Supply Chains, BCG Analysis, https://www.bcg.com/publications/2016/three-paths-to-advantage-with-digital-supply-chains.aspx.

- **Build the infrastructure for success at scale**: companies need to build the skills for managing a digital supply chain – think apps rather than lorries. These are very different activities with major implications for jobs – think data scientists rather than lorry drivers. There are also huge structural changes needed – think how robotics rather than people would affect floor space utilisation.

The areas of investment needed to move from the past to the future supply chains include changes in processes, people and capabilities, systems and tools and structures – see Figure 19.2.

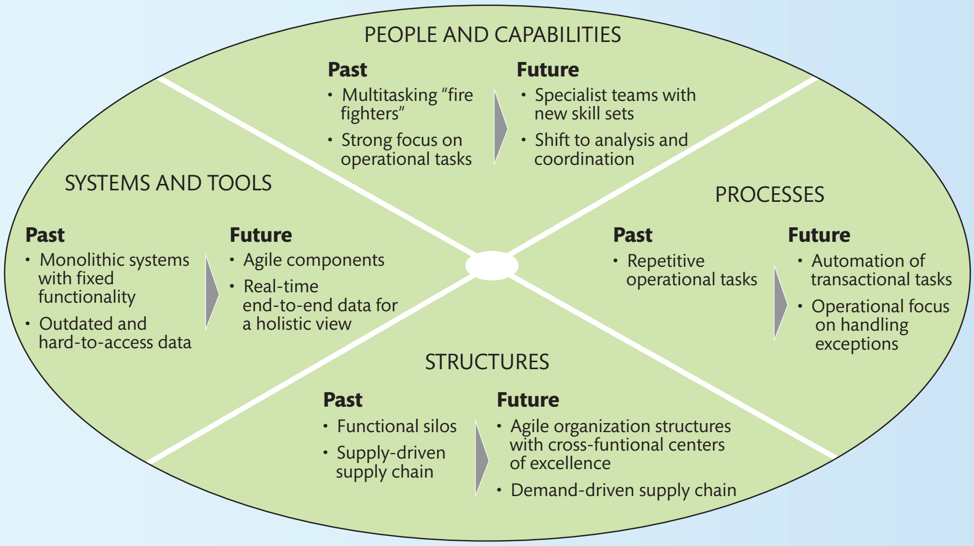


Figure 19.2 Areas of investment to support digital transformation

Source: A. Ganeriwalla, W. Gideon, L. Kotlik, R. Rosegen and S. Gstettner (2016) Three Paths to Advantage with Digital Supply Chains, BCG Analysis, https://www.bcg.com/publications/2016/three-paths-to-advantage-with-digital-supply-chains.aspx.

Multichannel marketing systems

Today's successful companies typically employ hybrid channels or multichannel sytems, multiplying the number of 'go-to-market' channels in any one market area. **Multichannel marketing systems** occur when a single firm uses two or more distribution channels to reach its target customers. A channel could be a retail store, website, self-service kiosk, dealer network, email, call centre, mail-order catalogue or direct or indirect sales force. Consider Apple.

In a **multichannel strategy**, each channel can satisfy the same or different target markets. Companies that manage multichannels must ensure that their channels work well together and match each target customer's preferred ways of doing business. More and more customers are using more

Apple

Though Apple stores rank in the top 40 of retailers in the world, Apple products are distributed through a multichannel system of own stores, independent stores (such as ASDA, Currys and the Carphone Warehouse, or in France, Orange, SFR and FNAC), and online retailers such as Amazon and eBay (see Figure 19.3).[14] Though few in number, the Apple stores are very productive. An Apple spokesperson said: 'Everyone who lives in an Apple store city thinks that is where everything happens, but you can't sell 40 million plus iPhones in a year through 500 stores.'[15] Apple shops outperform other shops, selling about 21 Macs every day whereas normal specialised electronics shops average about two a day. Bernstein Research senior analyst Toni Sacconaghi says: 'We estimate that the shops, which collectively represent just 2.5 per cent of the Mac's global distribution points, drove more than one-third of its market share gain during the year.'[16] With almost 500 locations, net revenue from stores totalled €11 billion (5 per cent of the company's total revenue), with over 400 million visitors to the shops annually.[17]

Apple has also changed traditional industry boundaries, not just with its stores but with the digital App Store and new methods to download and engage like never before.

Figure 19.3 Apple's global retail empire ranks in the top 40 retailers in the world.
Source: J. Dunn (2017) Here's how Apple's retail business spreads across the world, *Business Insider*, http://uk.businessinsider.com/apple-stores-how-many-around-world-chart-2017-2?r=US&IR=T.

than one shopping channel.[18] Along with ordering online and downloading or physical delivery, customers expect channel integration, which allows them to:

- order a product or service online and pick it up at a convenient location;
- check if the product is available in the shop before travelling;
- return an online-ordered product to a nearby shop;
- receive discounts and promotional offers based on total online and offline purchases.

This level of seamless channel integration is critical in business today, where products and services need to be available over multiple channels. All indications for sales growth online, e-commerce delivery and click and collect are, and have grown rapidly over the last few years. **Click and collect** involves the customer ordering online but collecting at another venue, usually the retail outlet or a kiosk etc. The growth in this has been phenomenal and is currently used by 72 per cent of the UK market and accounts for 5 per cent of the French grocery trade.[19] **Click and commute** adds in novel collection points at train stations or other travel points – John Lewis opened its first 'click-and-commute' store at London's St Pancras railway station.[20] The reverse also occurs, where House of Fraser has a floor in its store where customers can buy online within the store and get the items delivered.[21]

What companies and customers are looking for is seamless integration. Consider Waterstones.

Waterstones

Waterstones, the UK-based chain of bookshops, and its distribution partner UTL won four awards at the European Supply Chain Excellence Awards. The award organisers said the company had 'transformed' its supply chain to 'strengthen its competitiveness in a book market that has changed dramatically with the growth of online retailing and e-books'. James Daunt, managing director of Waterstones, said: 'At a time of great innovation in logistics and huge investment by both high street and online retailers, the judges singled out a close working partnership that has reinvented a highly complex operation to deliver a dramatic improvement in service.'[22] Waterstones has proven that it is a viable business despite the digital threat, and by generating healthy earnings it appears to have weathered the Amazon and Kindle storm.[23]

Waterstone manages a multichannel strategy of online, retail, click and collect, internet kiosks and self-service technologies
Source: mubus7/Shutterstock.

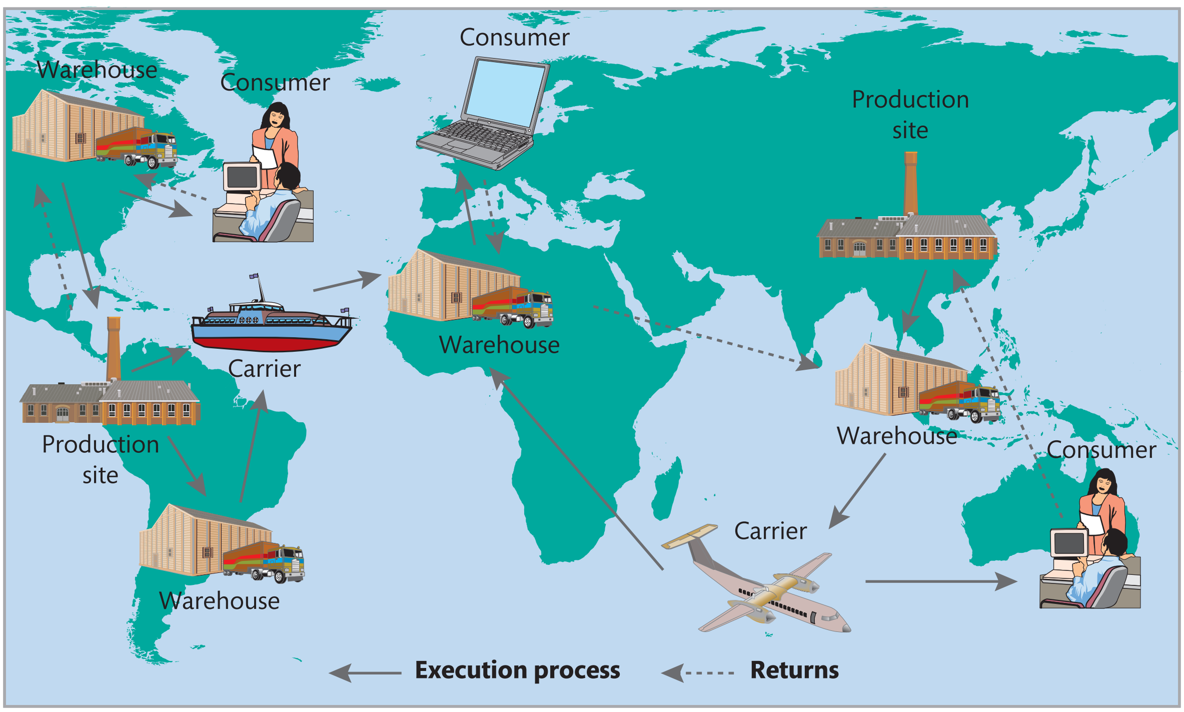


Figure 19.4 Global supply networks: coordinating road, rail, shipping, airlines and the internet

Value networks

A supply chain view of a firm sees markets as destination points and is a linear view of the flow of raw material and components from manufacturing or service provider through production to any intermediaries and to their ultimate sale to customers (see Figure 19.4).

A **network** is a group or system of interconnected people, technology and/or things and can be defined as 'sets of connected business relationships'.[24] All the members in the network interlink and each member has to be aware of other members and their needs. A broader view sees a company at the centre of a **value network** – a complementary system of partnerships and alliances that a firm

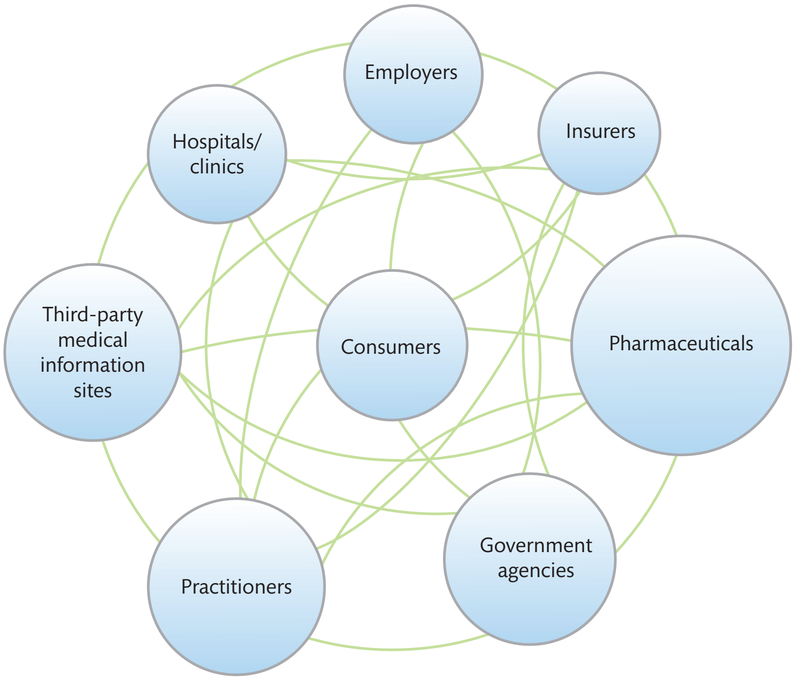


Figure 19.5 A health care network
Source: H. J. Schau, M. F. Smith and P. I. Schau (2005) The healthcare network economy: The role of internet information transfer and implications for pricing, *Industrial Marketing Management*, 34, 147–156. Reproduced with permission.

creates to source, augment and deliver its offerings. A value network includes a firm's suppliers and its suppliers' suppliers, its distributors and, ultimately, its end customers, who 'partner' with each other to improve the performance of the entire network in delivering customer value. As you can see from Figure 19.5, which shows the value network for a health care company, this is a move away from the linear view to show alliances, competitors, complementors and other members in the wider business networks.[25] The value network includes valued relationships with a range of suppliers, distributors and retailers – what is called supply or value network management (see the 'Marketing insight' box).

Networked companies are jumping ahead of their slower rivals and are establishing positions of dominance, based in large part on their ability to work collaboratively with carefully selected channel partners, aligned with their greater understanding of customer needs and wants. Zara, Heineken and Unilever are examples of firms that focus on their customers and then their supply network. The more advanced stage of **supply network management** is one in which collaboration and the use of technology links all members and where the company orchestrates all its channel members in order to deliver superior value to the target market.[28] Marketers must first think of their target market and then design the supply chain backwards from that point. This strategy has been called **demand chain view**. Demand can be estimated where there is a good relationship between the customer and the supplier who contributes reliable information flows, and reliable demand information flows in turn contribute to high efficiency.[29]

Marketing insight

Cadbury's global supply network of channel members

The global supply network involved in making a Cadbury's Dairy Milk Fruit & Nut bar, at Bournville in the United Kingdom, gives a good illustration of how marketers must manage their supply networks and how the relationships within them can differ.

- **Milk – two steps away.** The milk that goes into the chocolate bar comes from the UK. Cadbury buys it from farmer-run cooperatives and has direct dealings with the cooperatives but not with the individual farmers, which means the farmers who produce the milk are two steps away from the company.

- **Raisins – two steps away.** The raisins come from Turkey. Cadbury buys the raisins from a family-owned Turkish processing plant near Izmir, which buys its raisins from around 1,000 small farmers. The raisins are traceable back to the original farms. The processing plant maintains close relations with the farmers to ensure quality. The company is two steps away from these small farmers.
- **Almonds – two steps away.** The almonds come from California. Cadbury buys the almonds from a processor, who in turn buys them from the farmer. Here the company is two steps away from the original producers, the Californian almond growers.
- **Sugar – two steps away.** The sugar comes from the UK and mainland Europe. The company buys it from sugar processors, who buy sugar beet direct from the farmer. The farmers who grow the sugar beet are therefore two steps away from the company.
- **Cocoa – three or more steps away.** Cocoa is sourced from Ghana. Cadbury buys cocoa from the Ghanaian Government Cocoa Board (COCOBOD), which controls the cocoa trade in Ghana. Between COCOBOD and the farmer there are licensed buying companies. They buy cocoa from the farmer and transport it to the seaport. Here Cadbury is three steps or more away from more than half-a-million farmers.
- **Distribution.** Cadbury uses distributors and also vending machines at train stations and airports, focusing on extensive distribution.
- **Wholesalers.** Cadbury uses wholesalers to distribute its products to the retailers.
- **Retailers.** The wholesalers deliver to retailers all over Europe, including Carrefour, Tesco and Spar. Retailers make the product available to consumers by stacking them on shelves.

Cadbury has an extensive global supply network designed to create delicious chocolate
Source: Jane Hahn/Bloomberg via Getty Images.

The amount of influence Cadbury can exert on particular supply network members varies. As a major buyer of a product, or where it buys directly from the producer, the company's influence can be great. When it is not a major buyer, or where it is several steps away from the producer, its influence tends to be more limited. Nevertheless, it must still recognise its responsibilities for each link in the supply network, which it manages as a value network, ensuring benefits for all throughout the network.

Distribution channels and supply networks in the developing regions tend to be rather multi-tiered and complex.[26] To help manage its value network, Cadbury categorises and prioritises its suppliers into three tiers, according to risk as well as the importance of the product to the company and its brands.[27]

Supply networks are increasingly complex, challenging and global. The rise in **outsourcing** – the contracting-out of a business process to another company – and of **offshoring** – the relocation of a business process from one country to another, normally to a cheaper area– has resulted in dispersed and global networks with various and varying management challenges. Decisions as to how manufacturers and suppliers should be allocated geographically (offshoring) and organisationally (outsourcing) are strategic decisions that have been used for decades, but particularly so in the last ten years.[30] Many companies have only the core of the value network retained in-house, with the rest dispersed geographically, as well as dispersed over numerous suppliers and intermediaries.[31] Consider the Boeing 787, which has a worldwide network model.

Boeing 787

Global supply networks, which are large, complex and span not just countries but continents, do not always operate smoothly and well. Boeing found this out with its challenging supply networks for its Boeing 787, which focused on outsourcing many of the individual aspects of the plane's manufacture to the optimum suppliers, all over the world. Boeing had over 500 suppliers from ten countries building separate aspects of the plane such as the wings, the wheels, the seats and so on. Cultural and language problems arose during many stages of manufacture and particularly assembly. Boeing realised the challenges and worked with its suppliers to change the emphasis to joint responsibility for the project as opposed to limited responsibility of only delivering their part. This meant that all the suppliers had to support the assembly of the airplane, which became more like trying to fit together pieces from a puzzle rather than a one-site creation of an airplane. Despite the ten-year timeline, the delays and redesigns paid off for Boeing, with the 787 expected to add over €2 billion to pre-tax profits due to fuel efficiencies alone. The Dreamliner, which cost £229 million ($326 million), was described by Singapore Airlines CEO Goh Choon Phong as 'a magnificent piece of engineering' built with 'exceptional operating efficiency and advanced technology'.

Sources: Z. Kim, (2018) Is the Dreamliner worth the hype? Here's 10 reasons why it might just be, *The Telegraph*, 28 March, https://www.telegraph.co.uk/travel/news/boeing-787-10-dreamliner-features/; C. Tang and J. Zimmerman (2013) Boeing's 787 Dreamliner: A dream or a nightmare?, http://blogs.anderson.ucla.edu/global-supply-chain/about-ucla-anderson-global-supply-chain-blog.html (accessed November 2018); Shelley DuBois (2013) Boeing's Dreamliner mess: Simply inevitable?, @FortuneMagazine, 22 January.

The role of distribution channel members

Why do companies delegate some of the distribution role to intermediaries, relinquishing control over how offerings are distributed and to whom offerings are sold? Through their contacts, experience, specialisation and scale of operation, intermediaries can make offerings widely available and accessible to target markets, usually providing the firm with more effectiveness and efficiency than it can achieve on its own.[32] Many producers lack the financial resources and expertise to sell directly on their own. Even a company such as BMW would be hard-pressed to replace all the tasks done by its almost 1,000 dealer outlets worldwide. Sometimes it is because the intermediary controls the customer. Many companies find that they must be on the Amazon platform and pay their fees, not necessarily because they want to, but because they know that more than 55 per cent of shoppers start their search on Amazon.

Channel functions and flows

A **marketing channel** performs the work of moving products and services from producers to consumers, whether this is controlled by the manufacturer or whether it is independent. The channel's role is to overcome the time, place and possession gaps that separate products and services from those who need or want them. Members of the marketing channel perform a number of key functions (see Table 19.1).

Some of these functions (storage and movement, title and communications) constitute a forward flow of activity from the company to the customer; other functions (ordering and payment) constitute a backward flow from customers to the company; still others (information, negotiation, finance and risk taking) occur in both directions. Five flows are illustrated in Figure 19.6 for the marketing of forklift trucks. If these flows were superimposed in one diagram, we would see the tremendous complexity of even simple marketing channels.

The question for marketers is not whether various channel functions need to be performed – they must be – but, rather, who is to perform them. All channel functions have three things in common: they use up scarce resources, they can often be performed better through specialisation and they can be shifted among channel members. Shifting some functions to intermediaries lowers

Table 19.1 Channel-member functions

- Gather information about potential and current customers, competitors and other players and forces in the marketing environment
- Negotiate and reach agreements on price and other terms so that transfer of ownership or possession can occur
- Develop and disseminate persuasive communications to stimulate purchasing
- Place orders with manufacturers or service providers
- Acquire the funds to finance inventories at different levels in the marketing channel
- Assume risks connected with carrying out channel work
- Provide for the successive storage and movement of physical products or services
- Provide for buyers' payment of their bills through banks and other financial institutions
- Oversee actual transfer of ownership from one organisation or person to another

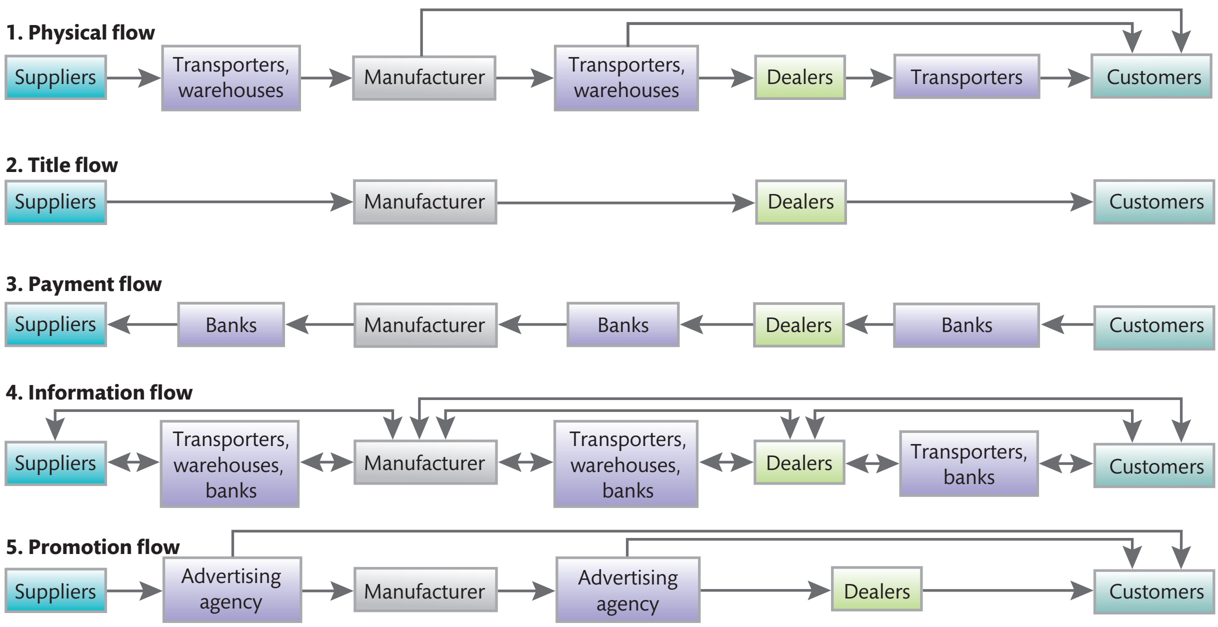


Figure 19.6 Five marketing flows in the marketing channel for forklift trucks

the producer's costs and prices, but the intermediary must add a charge to cover its work. If the intermediaries are more efficient than the manufacturer, prices to consumers should be lower. If consumers perform some functions themselves, they should enjoy even lower prices. Changes in channel institutions can reflect the discovery of more efficient ways to combine or separate the economic functions that align to get the product or service to the final customer. Many of these efficiencies are driven by technological changes in practice and the widespread availability of digitalised products and services. Think downloading music rather than buying a CD.

Channel levels

The manufacturer/producer/service provider and the final customer are part of every channel. We will use the number of intermediary levels to designate the length of a channel. Figure 19.7(a) illustrates several consumer-goods marketing channels of different lengths.

A **zero-level channel** consists of a manufacturer selling directly to the final customer. Main examples are the internet, direct sales, manufacturer-owned shops, home parties, mail order, telemarketing and TV selling.

Some examples of zero-level channels are:

- food markets – which have seen considerable growth and bring together producers and consumers in parks and outdoor events all over Europe;
- politicians – who use blogs, podcasts and social media to deliver content direct to voters.

Many firms now distribute directly to customers in more ways than one, mainly via online or apps with telephone or direct mail, etc. A **one-level channel** contains one selling intermediary, such as a retailer or selling agent. Consider Ticketmaster, the ticket-selling agent, which is part of a one-level channel – the concert/event provider, the Ticketmaster platform and the customer. A **two-level channel** contains two intermediaries. In consumer markets, these are typically a wholesaler and a retailer – Knorr products all route through a **wholesaler**, which supplies them to Tesco, Waitrose, Carrefour, Spar and other retailer outlets for the customer to purchase. A **three-level channel** contains three intermediaries. In the meatpacking industry, wholesalers sell to *jobbers* – essentially small-scale wholesalers – who then move it onto small retailers and then the final customer. There is also the growth in outlets or discount malls as another channel for retailers to discount their stock to a different target market. Obtaining information about end users and exercising control becomes more difficult for the producer as the number of channel levels increases.

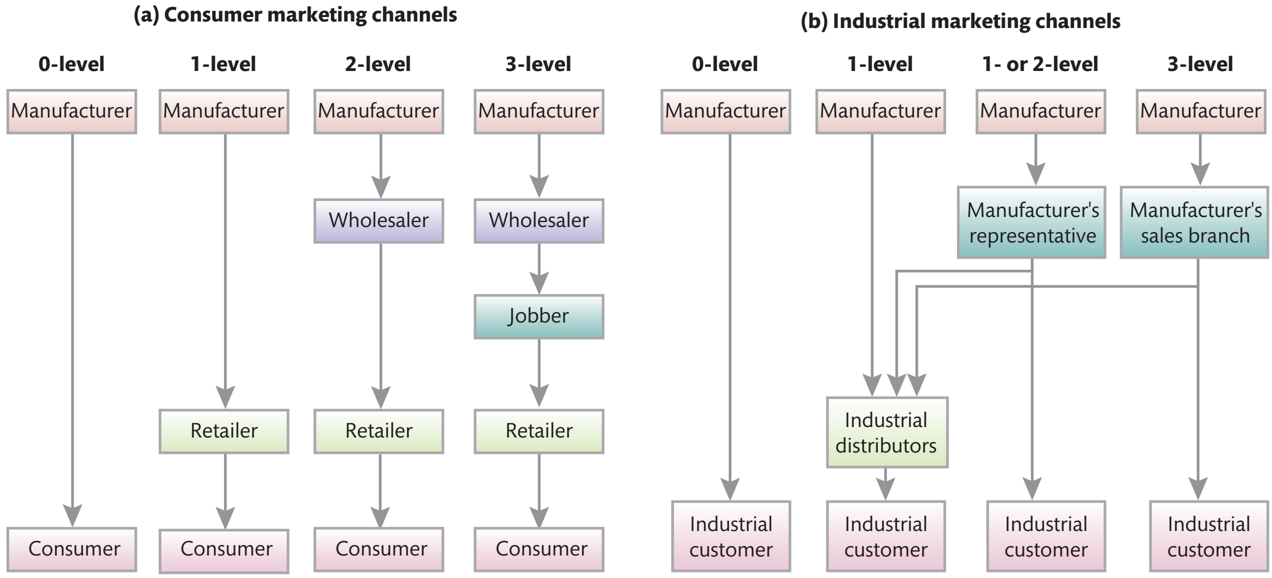


Figure 19.7 Consumer and industrial marketing channels

Figure 19.7(b) shows channels commonly used in B2B marketing. An industrial-goods manufacturer can use its sales force to sell directly to industrial customers; or they can use industrial distributors who sell to their industrial customers; or they can choose manufacturer's representatives.

Channel sustainability is also critical to ensure the channels function over time and that there is minimal impact on the globe. Channels normally describe a forward movement of products or services from source to user, but *reverse-flow channels* are also important: (1) to reuse products or containers (such as refillable chemical-carrying drums); (2) to refurbish products for resale (such as circuit boards or computers); (3) to recycle products (such as paper); and (4) to dispose of products and packaging. **Reverse-flow intermediaries** include manufacturers' redemption centres, community groups, waste-collection specialists, recycling centres, rubbish-recycling brokers and central processing warehouses.[33]

Service supply chain

Traditionally, supply chains and networks have been product focused, assuming a tangible product with a customer at the end of the process. The service-dominant logic proffers that products and services both render services, which is the real basis for exchange.[34] That service value is a combination of resources integration by all the players within service provision and co-creation of value as critical. From a supply chain perspective, this demands that all the supply chain flows of products, services, finance and information must integrate to provide customer value and support co-creation of value.[35] Service supply chains need to focus on the chains of services, to include the value-in-use concept and the customer as part of the resource integration and as a strategic tool to enhance short-term and long-term value co-creation.[36]

The consumer often plays a central role in services and often as a critical part of the supply network as a *co-creator* or prosumer. A **prosumer** is a composite of production and consumer – to denote the concept that the consumer could be both the producer and the consumer.[37] The dividing line between the supplier and the customer has become blurred or partly erased. The customer is often part of the supply network and not simply a wallet at the end of it. For example, assembling IKEA furniture is part of the process of co-creating the value of the product. Self-service restaurants and self-care in the medical area where customers act as both nurse and patient (self-managing through home help and sensor supports) are other examples. Digital technology has changed many service chains, particularly in the area of apps. Consider how apps such as Hailo or mytaxi, which provide a platform to make finding a taxi so much easier, have enhanced this service.

Figure 19.8 The service supply chain often includes both consumers and technology entwining to co-create value with the company.
Source: STEVEN SENNE/ASSOCIATED PRESS.

Channel-design decisions

In designing a distribution channel system, marketers analyse customer needs and wants, establish channel objectives and constraints, and identify and evaluate channel alternatives.

Analysing customer needs and wants

Consumers may choose the channels they prefer based on price, product assortment and convenience, as well as their own shopping goals (economic, social or experiential).[38] Target markets have different needs and marketers must be aware that different consumers have different requirements during the purchase process. Though shopping culture around the world could be considered similar, there are different types of shopping experience: 'adventure shopping'; 'social shopping'; 'gratification shopping'; 'idea shopping'; 'role shopping'; and 'value shopping'.[39]

Even the same consumer may choose different channels for different aspects of the buying decision process, using one channel to browse, another one to purchase – browsing a catalogue before visiting a shop, or researching a car online and then test-driving it at a dealer before going back online to check reviews and then finally ordering through the dealer. There is clear evidence that customers want a mix of online and offline following a survey of customers across Europe – see Figure 19.9.

Some consumers change their channels depending on the type of good or service: some are willing to 'trade up' to retailers offering higher-end goods, such as Rolex or TAG Heuer watches or Callaway golf clubs, and 'trade down' to discount retailers such as TK Maxx and Deals.[40]

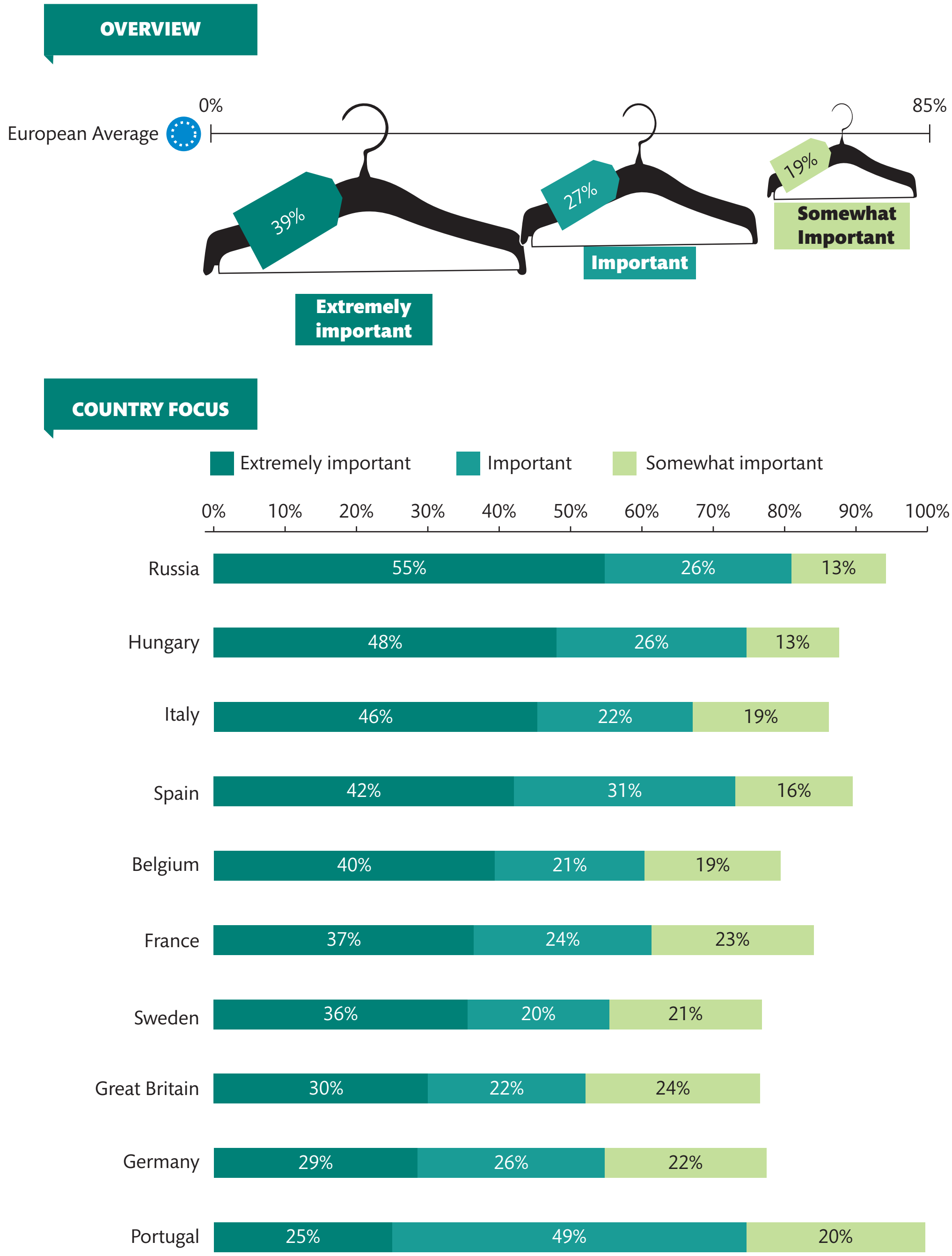


Figure 19.9 Consumers still value the store as part of the online shopping experience
Source: CBRE (2013) How We Shop – Inside the Minds Of Europe's Consumers, http://nrw.nl/wp-content/uploads/2015/02/CBRE-How-we-shop-inside-the-minds-of-europes-consumers-2013.pdf.

Channels can provide five service outputs:

1 **Lot size:** the number of units the channel permits a typical customer to purchase on one occasion. In buying cars for its car-hire fleet, Hertz prefers a channel from which it can buy a large lot size; a household wants a channel that permits a lot size of one.
2 **Waiting and delivery time:** the average time customers wait for receipt of goods. Customers increasingly prefer faster delivery channels.

3 **Spatial convenience:** the degree to which the marketing channel makes it easy for customers to purchase the product. Caffè Nero has nearly 600 coffee shops across Europe.
4 **Product or service variety:** the assortment provided by the distribution channel. Normally, customers prefer a greater assortment because more choice increases the chance of finding what they need, although too much choice can sometimes create a negative effect.[41]
5 **Service back-up:** add-on services (credit, delivery, installation, repairs) provided by the channel. The greater the service back-up, the greater the work provided by the channel.[42]

Providing greater service outputs can also mean increasing channel costs and raising prices. The success of discount stores such as Aldi and Lidl indicates that many consumers are willing to accept lower service levels if they can save money and still buy quality.

Establishing objectives and constraints

Marketers should state their channel objectives in terms of service output levels and associated cost and support levels. Under competitive conditions, channel members should arrange their functional tasks to minimise costs and still provide desired levels of service.[43] Usually, marketers can identify several market segments based on desired service and choose the best channels for each.

Channel objectives vary with product and service characteristics. Bulky products, such as building materials, require channels that minimise the shipping distance and the amount of handling. Non-standard products such as custom-built machinery are sold directly by sales representatives through manufacturers or distributors. Products requiring installation or maintenance services, such as heating and cooling systems, are usually sold and maintained by the company or by franchised dealers. High-unit-value products such as generators and turbines are often sold through a company's sales force rather than intermediaries. For smaller, larger-volume items we expect a retail outlet or online options.

In entering new markets, firms often closely observe what other firms are doing. France's Auchan, the international retail group, considered the presence of its French rivals Leclerc and Casino in Poland as key to its decision to also enter that market with a large retail presence.[44]

Identifying major channel alternatives

Each channel, from own sales forces to agents, distributors, retailers, dealers, direct mail, telemarketing, self-service kiosks and the internet, has unique strengths and weaknesses. Sales forces can handle complex products and transactions, but they are expensive. The internet is inexpensive but may not be as effective, with complex products and services. Distributors can create sales, but the company loses direct contact with customers. Several clients can share the cost of manufacturers' reps, but the selling effort may be less intense than that of the company's own reps.

Channel alternatives differ in three ways: types of intermediary, the number needed and the terms and responsibilities of each. Let's look at these factors.

Types of intermediary

Consider the channel alternatives identified by a consumer electronics company that produces car radios. It could sell its radios directly to car manufacturers to be installed as original equipment, or to car dealers, or radio specialist dealers through a direct sales force, or through distributors. It could also sell its radios through company stores, online retailers, mail-order catalogues or mass merchandisers such as Dixon.

Companies should search for innovative distribution channels. Austrian energy drink Red Bull built its market share through unconventional channels, including a network of student sales representatives who managed all the distribution within universities and visited the hot spots and discos to increase sales. The company then moved slowly into the mainstream of traditional convenience stores and supermarkets. It now distributes more than 4 billion cans of Red Bull annually in over 130 countries.

Number of intermediaries

Three strategies based on the number of intermediaries are exclusive distribution, selective distribution and intensive distribution.

Exclusive distribution means severely limiting the number of intermediaries to maintain control over the service level and outputs offered by the resellers. By granting exclusive distribution, the producer hopes to obtain more dedicated and knowledgeable selling. It requires a closer partnership between seller and reseller. Rolex watches are available only through its exclusive distribution arrangements at shops such as Harrods of London and Les Galeries Lafayette in Paris.

Marketers must be careful not to dilute their brands through inappropriate channels, particularly luxury brands whose images often rest on exclusivity and personalised service. Burberry, Calvin Klein and Tommy Hilfiger took a hit when they sold too many of their products in discount channels. When the legendary Italian designer label Gucci found its image severely tarnished by overexposure from licensing and discount stores, it decided to end contracts with third-party suppliers, control its distribution and open its own shops.[45]

Selective distribution relies on using only some of the available intermediaries to gain adequate market coverage, with more control and less cost than intensive distribution.

Consider STIHL.

STIHL

The STIHL Group, the Stuttgart-based manufacturer of hand-held outdoor power equipment, prides itself on only distributing through its own approved STIHL dealer network, via staff who are knowledgeable, can match customers with the right piece of equipment and who service the equipment they sell. The group contends that you just don't find all these qualities at some of the larger stores and that these are its competitive advantages. The company produces the world's best-selling brand of chain-saws and is the only chain-saw manufacturer to make its own saw chains and guide bars. Though best known for chain-saws, it has expanded into Viking lawnmowers, string trimmers, blowers, hedge trimmers and cut-off machines.

The STIHL Group distributes its products through a global network of 38,000 approved dealers in more than 160 countries with over €3 billion in revenue. STIHL operates selective distribution and is one of the few outdoor-power equipment companies that do not sell through mass retailers. Though it has its products on a mobile app and on the internet, the group only recently allowed their dealers to have an online selling platform, but it still closely manages the relationship. 'Even in online sales, the STIHL dealer remains the only and direct partner for the customer', stresses STIHL's chairman of the executive board, Dr Bertram Kandziora.[46]

The world's number one brand of chain saws has a global network of over 38,000 approved dealers.
Source: Babii/Shutterstock

Intensive distribution places the products or services in as many outlets as possible. This strategy is particularly suited to fast-moving products and services such as snack foods, soft drinks, newspapers and sweets – products that consumers buy frequently or in a variety of locations. Convenience stores such as Spar (the UK), Wizzl (the Netherlands) and Deli de Luca (Norway) have survived by selling items that provide just that – location and time convenience.

Terms and responsibilities of channel members

Each channel member must be treated respectfully and given the opportunity to be profitable. The main elements in the 'trade-relations mix' are price policy, conditions of sale, territorial rights and specific services to be performed by each party:

- **Price policy:** calls for the producer to establish a price list and schedule of discounts and allowances that intermediaries see as equitable and sufficient.
- **Conditions of sale:** refers to payment terms and producer guarantees. Most producers grant cash discounts to distributors for early payment. They might also offer a guarantee against defective merchandise or price declines, creating an incentive to buy larger quantities.
- **Distributors' territorial rights:** define the distributors' territories and the terms under which the producer will enfranchise other distributors. Distributors normally expect to receive full credit for all sales in their territory, whether or not they did the selling.
- **Mutual services and responsibilities:** must be carefully spelled out, especially in franchised and exclusive-agency channels.

Evaluating major channel alternatives

Each channel alternative needs to be evaluated against economic, control and adaptive criteria.

Economic criteria

Each channel alternative will produce a different level of sales and costs. Figure 19.10 shows how six different sales channels stack up in terms of the value added per sale and the cost per transaction. For example, in the sale of industrial products costing between €2,000 and €5,000, the cost per transaction has been estimated at €500 (field sales), €200 (distributors), €50 (telesales) and €10 (internet). In retail banking services, a Booz Allen Hamilton worldwide study shows the average transaction of a full-service branch: it costs €0.69 to handle a transaction in a bank branch, about €0.35 on the phone, €0.16 through an ATM, and just €0.1 on the internet.[47] Branch closures are often greeted with dismay when communities are left without a local bank but they reflect an

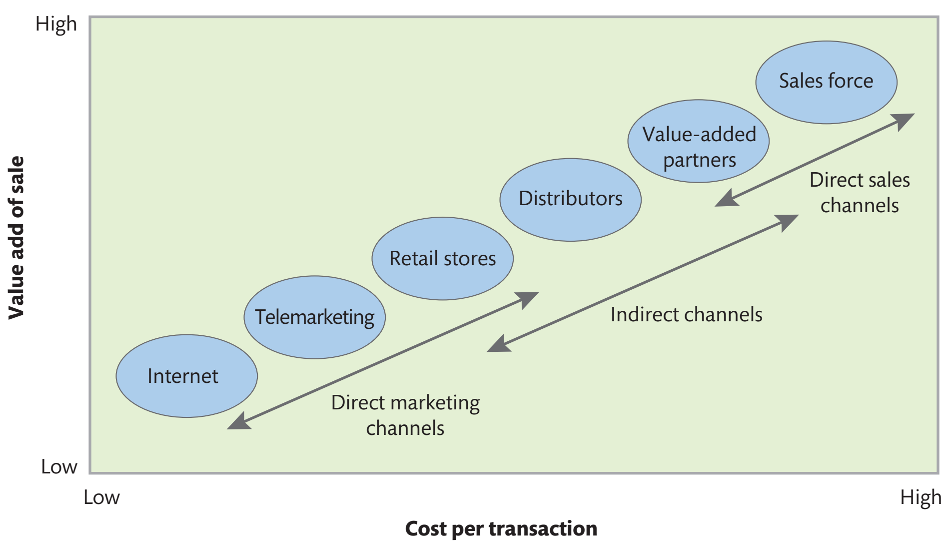


Figure 19.10 The value added versus the costs of different channels

online revolution transforming consumer behaviour, and also a cost imperative.[48] Over 9,000 bank branch closures have occurred across Europe in recent years.[49]

Firms will try to align customers and channels to maximise demand at the lowest overall cost. Clearly, sellers try to replace high-cost channels with low-cost channels as long as the value added per sale is sufficient and aligns with customer needs and profitablity.

Control and adaptive criteria

Different channels offer different levels of control and ability to adapt the offering. Using a sales agency can pose a control problem. **Agents** may concentrate on the customers who buy the most, they might not master the technical details of the company's product or handle its promotion materials effectively. To develop a channel, members must commit to each other for a specified period of time. Yet these commitments invariably reduce the producer's ability to respond to change and uncertainty. The producer needs channel structures and policies that provide high adaptability.

Selecting and management channel members

After a company has chosen a channel system, it must select, train, motivate and evaluate individual intermediaries for each channel. It must also modify channel design and arrangements over time.

Selecting channel members

To customers, the channels are the company. Consider the negative impression customers would get if a Volvo dealership was dirty and the staff were unpleasant.

To facilitate channel member selection, marketers should determine what characteristics distinguish the better intermediaries – number of years in business, other lines carried, growth and profit record, financial strength, cooperativeness and service reputation. If the intermediaries are sales agents, producers should evaluate the number and character of other lines carried and the size and quality of the sales force. If the intermediaries are department stores that want exclusive distribution, their locations, future growth potential and type of clientele will matter.

Carefully implemented training, market research and other capability-building programmes can motivate and improve intermediaries' performance. The company must constantly communicate that intermediaries are crucial partners in a joint effort to satisfy end users of the product. Microsoft requires its third-party service engineers to complete a set of courses and take certification exams. Those who pass are formally recognised as 'Microsoft-Certified Professionals' and can use this designation to promote their own business.

Channel power

Marketers vary greatly in their skill in managing distributors. **Channel power** is the ability to alter channel members' behaviour so that they take actions they would not have taken otherwise.[50] Manufacturers can draw on the following types of power to elicit cooperation:

- **Coercive power.** A company threatens to withdraw a resource or terminate a relationship if intermediaries fail to cooperate. This power can be effective, but its exercise produces resentment and can lead the intermediaries to organise countervailing power.
- **Reward power.** The company offers intermediaries an extra benefit for performing specific acts or functions. Reward power typically produces better results than coercive power, but intermediaries may come to expect a reward every time the manufacturer wants a certain behaviour to occur.
- **Legitimate power.** The company requests a behaviour that is warranted under the contract. As long as the intermediaries view the manufacturer as a legitimate leader, legitimate power works.

- **Expert power.** The company has special knowledge that the intermediaries value. Once the intermediaries acquire this expertise, however, expert power weakens. The company must continue to develop new expertise so that intermediaries will want to continue cooperating.
- **Referent power.** The manufacturer is so highly respected that intermediaries are proud to be associated with it. Companies such as Airbus, Sap, STIHL and Caterpillar have high referent power.[51]

Coercive and reward power are objectively observable; legitimate, expert and referent power are more subjective and depend on the ability and willingness of parties to recognise them.

Most marketers see gaining intermediaries' cooperation as a huge challenge. They often use positive motivators, such as higher margins, special deals, premiums, cooperative advertising allowances, display allowances and sales contests. At times they will apply negative sanctions, such as threatening to reduce margins, slow down delivery or terminate the relationship. The weakness of this approach is that the company is using crude, stimulus–response thinking.

In many cases, retailers hold the power. Manufacturers offer the major supermarket chains between 150 and 250 new items each week, of which store buyers reject over 70 per cent. Manufacturers need to know the acceptance criteria that buyers, buying committees and store managers use. AC Nielsen interviews found that store managers were most influenced by (in order of importance): strong evidence of consumer acceptance, a well-designed advertising and sales promotion plan, and generous financial incentives.

Channel partnerships

More sophisticated companies try to forge a long-term partnership with distributors.[52] The manufacturer clearly communicates what it wants from its distributors in the way of market coverage, inventory levels, marketing development, account solicitation, technical advice and services, and marketing information, and may introduce a compensation plan for adhering to the policies.

Evaluating channel members

Marketers must periodically evaluate intermediaries' performance against such standards as sales-quota attainment, average inventory levels, customer delivery time, treatment of damaged and lost goods, and cooperation in promotional and training programmes. Companies should set up functional discounts in which they pay specified amounts for the trade channel's performance of each agreed service. A producer will occasionally discover its channel intermediary is underperforming. Underperformers need to be counselled, retrained, motivated or terminated. Consider the case of Mercedes-Benz and the Smart car.

Smart car distribution challenges

The Smart car, which has enjoyed phenomenal success in many European markets, encountered distribution challenges when it entered the North American market. The initial channel choice was to hire a dealer to manage the brand and the distribution. It was always going to be challenging to market a small car to the nation that loves large cars and where bigger is often considered better, but that was the task.

Sales started well, helped by high petrol prices, but then declined. Sales of the car peaked at 24,622 in 2008 but then fell almost 60 per cent to just below 6,000 in 2010. The company decided to act and in 2011 moved distribution in-house to its Mercedes-Benz outlets and cancelled the dealer contract. Both the dealer and the company say that poor sales were not the reason for the cancelled contract.[53] Smart car continues to succeed in many European cities but has refocused its distribution in the US to major cities where small is useful, and also on electric as a 'small green' car.[54]

Mercedes-Benz is now managing its own distribution of the Smart car in the US market
Source: Daimler AG.

Modifying channel design and arrangements

Very few channel strategies remain effective or static over the long term. In competitive markets with low entry barriers, the optimal channel structure will inevitably change over time. The change could mean adding or dropping individual market channels or channel members, or developing a totally new way to distribute, and nowadays many of these have a technological aspect. Take

Netflix, which has changed how we view television, or iTunes in how customers buy music. Businesses that fail to engage with changing consumer behaviour can be left behind when the new channel develops. This happened to HMV, which went bankrupt through overlooking the role of digital in search, distribution and pricing and had to reinvent itself for a digitalised world.

Channel evolution

A new firm typically starts as a local operation selling in a fairly restricted market, using a few existing intermediaries. Identifying the best channels might not be a problem; the problem is often to convince the available intermediaries to handle the firm's line.

If the firm is successful, it might branch into new markets with different channels. In smaller markets, the firm might sell directly to retailers; in larger markets, through distributors and online. It might grant exclusive franchises or sell through all willing outlets. In one country, it might use international sales agents; in another, it might partner a local firm.

Early buyers might be willing to pay for high-value-added channels, but later buyers will switch to lower-cost channels. Small office copiers were first sold by manufacturers' direct sales forces, later through office equipment dealers, still later through mass merchandisers, and now sold online.

In short, the channel system evolves and marketers must periodically review and modify channel designs and arrangements.[55] The distribution channel may not work as planned, consumer buying patterns change, the market expands, new competition arises, innovative technologies and distribution channels emerge, or the product moves into later stages in the product life cycle.[56]

Adding or dropping individual channel members requires an incremental analysis. Increasingly, technology including detailed customer databases and sophisticated analysis tools can provide guidance for those decisions.[57] A basic question is: what would the firm's sales and profits look like with and without this intermediary? [58]

Channel integration and systems

There are a variety of channel systems including vertical, horizontal and multichannel distribution channel systems.

Vertical marketing systems

A **conventional distribution channel** consists of an independent producer, wholesaler(s) and retailer(s). Each is a separate business seeking to maximise its own profits, even if this goal reduces profit for the system as a whole. No channel member has complete or substantial control over other members.

A **vertical marketing system (VMS)**, by contrast, includes the producer, wholesaler(s) and retailer(s) acting as a unified system. Vertical marketing systems (VMSs) arose from strong channel members' attempts to control channel behaviour and eliminate conflict over independent members pursuing their own objectives. VMSs achieve economies through size, bargaining power and elimination of duplicated services. Business buyers of complex products and systems value the extensive exchange of information they can obtain from a VMS.[59]

One channel member, the *channel captain* or **channel steward**, owns or franchises the others, or has so much power that they all cooperate.

VMSs have become the dominant mode of distribution in the European consumer marketplace, serving 70–80 per cent of the market. There are three types: corporate, administered and contractual.

Corporate VMS

A **corporate VMS** combines successive stages of production and distribution under single ownership. In grocery shops in Europe, **own-label brands** account for as much as 40 per cent of the items sold. In Britain, the largest foodstore chains, Sainsbury's and Tesco, have roughly half of the products on their shelves as own-label goods.

Administered VMS

An **administered VMS** coordinates successive stages of production and distribution through the size and power of one of the members. Manufacturers of dominant brands can secure strong trade cooperation and support from resellers. Germany's Dr Oetker, manufacturer of pizza, yogurt and frozen meals, and Unilever with products such as Hellmann's Mayonnaise, Magnum and Dove, can command high levels of cooperation from their resellers in connection with displays, shelf space, promotions and price policies.

Contractual VMS

A **contractual VMS** consists of independent firms at different levels of production and distribution integrating their programme on a contractual basis to obtain more economies or sales impact than they could achieve alone.[60] Sometimes thought of as 'value-adding partnerships' (VAPs), contractual VMSs come in three types:

1 **Wholesaler-sponsored voluntary chains.** Wholesalers organise voluntary chains of independent retailers to help standardise their selling practices and achieve buying economies when competing with large chain organisations.
2 **Retailer cooperatives.** Retailers take the initiative and organise a new business entity to carry on wholesaling and possibly some production. Members concentrate their purchases through the retailer co-op and plan their advertising jointly. Profits pass back to members in proportion to their purchases.
3 **Franchise organisations.** A channel member called a *franchisor* is grants the licence to a third party to conduct business under their trade marks and specify the products and services, as well as providing them with an operating system, brand and support. Subway is one of the cheapest restaurants to franchise, costing approx €15,000 and startup expenses of about €300,000 compared to McDonald's, which charges a franchise fee of $45,000 and startup expenses can cost up to $2.2 million.[61] Consider Eurocar.

Eurocar

Eurocar, the car hire company, provides franchisees with a building, promotional support, a record-keeping system, training, and general administrative and technical assistance. In turn, franchisees are expected to satisfy company standards for the physical facilities, cooperate with new promotional programmes, furnish requested information and buy supplies from specified vendors.

Europcar has franchise operations in over 160 countries worldwide
Source: Roberto Herrett/Alamy Stock Photo

The traditional system is the *manufacturer-sponsored retailer franchise*. BMW licenses independent businesspeople, who agree to meet specified conditions of sales and services, to distribute and sell its cars. Another system is the *manufacturer-sponsored wholesaler franchise*. Coca-Cola licenses bottlers (wholesalers) in various markets that buy its syrup concentrate and then carbonate, bottle and sell it to retailers in local markets. A newer system is the *service-firm-sponsored retailer franchise*, organised by a service firm to bring its service efficiently to consumers. We find examples in car hire (Avis and Europcar), clothing (United Colours of Benetton and Mango) and food (Euromarche, Champion and Leonidas). In a dual distribution system, firms use both vertical integration (the franchisor actually owns and runs the units) and market governance (the franchisor licenses the units to other franchisees).[62]

Horizontal marketing systems

Another channel development is the **horizontal marketing system**, in which two or more unrelated companies put together resources or programmes to exploit an emerging marketing opportunity. Each company lacks the capital, know-how, production or marketing resources to venture alone, or is afraid of the risk. The companies might work together on a temporary or permanent basis, or create a joint-venture company. Tesco Bank started out as a joint venture with the Royal Bank of Scotland and now has its own current account in competition with high-street banks. Marks and Spencer operates its banking service through a joint venture with HSBC.[63]

Managing conflict, cooperation and competition

No matter how well channels are designed and managed, there will be some conflict, if only because the interests of independent business entities do not always coincide. **Channel conflict** is generated when one channel member's actions prevent another channel from achieving its goal. Software giant Oracle, plagued by channel conflict between its sales force and its vendor partners, decided to roll out new 'All Partner Territories' where all deals except for specific strategic accounts would go through select Oracle partners.[64]

Channel coordination occurs when channel members are brought together to advance the goals of the channel, as opposed to their own potentially incompatible goals.[65] Here we examine three questions: What types of conflict arise in channels? What causes conflict? What can marketers do to resolve it?

Types of conflict and competition

Horizontal, vertical and multichannel conflict can occur:

- *Horizontal channel conflict* occurs between channel members at the same level. Some Pizza Inn franchisees complained about others cheating on ingredients, providing poor service and hurting the overall brand image.
- *Vertical channel conflict* occurs between different levels of the channel. When Estée Lauder set up a website to sell its Clinique and Bobbi Brown brands, department stores reduced their space for Estée Lauder products.[66]
- *Multichannel conflict* exists when the manufacturer has established two or more channels that sell to the same market.[67] It is likely to be especially intense when the members of one channel get a lower price (based on larger-volume purchases) or work with a lower margin. When Goodyear began selling its popular tyre brands through major retailers, it angered its independent dealers and eventually placated them by offering them exclusive tyre models not sold in other retail outlets.

Managing channel conflict

Some channel conflict can be constructive and lead to better adaptation to a changing environment, but too much is dysfunctional.[68] The challenge is not to eliminate all conflict, which is impossible, but to manage it better. There are a number of mechanisms for effective conflict management (see Table 19.2):[69]

- **Strategic justification.** In some cases, a convincing strategic justification that they serve distinctive segments can reduce potential for conflict among channel members. Developing special

Table 19.2 Strategies to manage channel conflict

- Strategic justification
- Dual compensation
- Superordinate goals
- Employee exchange
- Joint memberships
- Co-optation
- Diplomacy, mediation or arbitration
- Legal recourse

versions of products for different channel members is a clear way to demonstrate that distinctiveness.

- **Dual compensation.** Dual compensation pays existing channels for sales made through new channels. When insurance companies started selling insurance online, they agreed to pay agents a 2 per cent commission for face-to-face service to customers who got their quotes on the web. Although lower than the agents' typical 10 per cent commission for offline transactions, it did reduce tensions.[70]
- **Superordinate goals.** Channel members can come to an agreement on the fundamental or superordinate goal they are jointly seeking, whether it is survival, market share, high quality or customer satisfaction. They usually do this when the channel faces an outside threat, such as a more efficient competing channel, an adverse piece of legislation or a shift in consumer desires.
- **Employee exchange.** A useful step is to exchange personnel between two or more channel members.
- **Joint memberships.** Similarly, marketers can encourage joint memberships in trade associations. Good cooperation between the food associations – both retailing and manufacturing across Europe – that represent most of the food chains, could highlight issues between food manufacturers and retailers and resolve them in an orderly way.
- **Co-optation.** Co-optation is an effort by one organisation to win the support of the leaders of another by including them in advisory councils, boards of directors and the like. If the organisation treats invited leaders seriously and listens to their opinions, co-optation can reduce conflict, but it can be hard to win approval for this measure.

When Goodyear sold its tyres through major retailers this was in direct conflict with independent tyre companies
Source: Todd Warshaw/Getty Images.

- **Diplomacy, mediation and arbitration.** When conflict is chronic or acute, the parties may need to resort to stronger means. *Diplomacy* takes place when each side sends a person or group to meet with its counterpart to resolve the conflict. *Mediation* relies on a neutral third party skilled in conciliating the two parties' interests. In *arbitration* two parties agree to present their arguments to one or more arbitrators and accept their decision.
- **Legal recourse.** If nothing else proves effective, a channel partner may choose to file a lawsuit.

Integrating multichannel and omnichannels

Most companies today have adopted multichannel marketing or omnichannel operations.[71] **Multichannel marketing** occurs when a company uses two or more distribution channels to reach one or more customer segments. Customers can engage with the company online from a desktop or mobile device, by telephone or offline, whether in the company or in another physical location. Saturn, the German consumer electronics retailer, adopts a multichannel approach, with its customers shopping in their local stores, online, on their mobiles and also at Xpress automated retail stores at airports and train stations. An **omnichannel approach** is a multichannel approach that provides customers with a seamless experience across all the digital and physical channels. What marketers are looking for is that each engagement is consistent and complementary regardless of whether it is a digital or physical encounter. With the increase in technology, shoppers can move seamlessly from one channel to another – called **showrooming –** where a customer visits the store to try out products but then purchases online, aligning with the customers' need to experience the product before purchase. A challenge here is that a customer may order online from a competitor – even though they were in the store and will wait for delivery. A development of this is called **webrooming**, which is researching and browsing online and then visiting the store for final evaluation and purchase. One study found that 70 per cent of showroomers were more likely to buy from retailers with well-designed websites and apps, strong multichannel support and price comparisons via mobiles and QR codes. Shifting sales from a store to online can actually be more profitable for a retailer if it prevents the customer from buying elsewhere.[72] Recent research shows that managers need to acknowledge the showrooming aspect of customer purchases, as staff may spend significant time providing information and support for customers who will choose to purchase online. Incentivising staff to lose sales to the internet in the interests of the company as a whole is a challenging task. Retail and service staff are often young, poorly trained and poorly paid, but they may play an increasing role as brand guardians for the business – providing the knowledge and skill necessary to reassure customers that they can purchase through whichever channel they wish.[73]

Competing in an omnichannel era means that the distinctions between physical and online vanishes, turning the world into a showroom without walls.[74] Mobile technology, wireless networks, and e-commerce have added a whole new dimension to the consumer's shopping experience, with each valued as part of the other (see Figure 19.11).

There is a contention that customers who use multiple channels for purchasing spend 2–4 times more than the spend of those using one channel.[75] Similarly, in banking, multichannel customers are 25–50 per cent more profitable than single-channel users.[76] A study into how the monetary value of customer purchases varies by customer preference for purchase channels (e.g. traditional, electronic, multichannel) and product category, found that not all multichannel customers are more valuable than single-channel customers. The results show that multichannel customers are the most valuable segment only for hedonic products such as books, music, toys and gifts.[77]

Customers want to get products and services when they need them and have these delivered in the many different ways that suit them and can change channel as they proceed through the consumer decision journey of search, evaluation, purchase, evaluate and loyalty. To respond to this diversity of needs and situations, marketers need to create multiple points of presence, fully integrated to deliver a seamless customer experience. They need to treat every customer as a unique individual instead of treating all customers alike and they need to ensure that they do not discriminate among customers based on the channel they use. Remember, a channel is merely a means to an end.

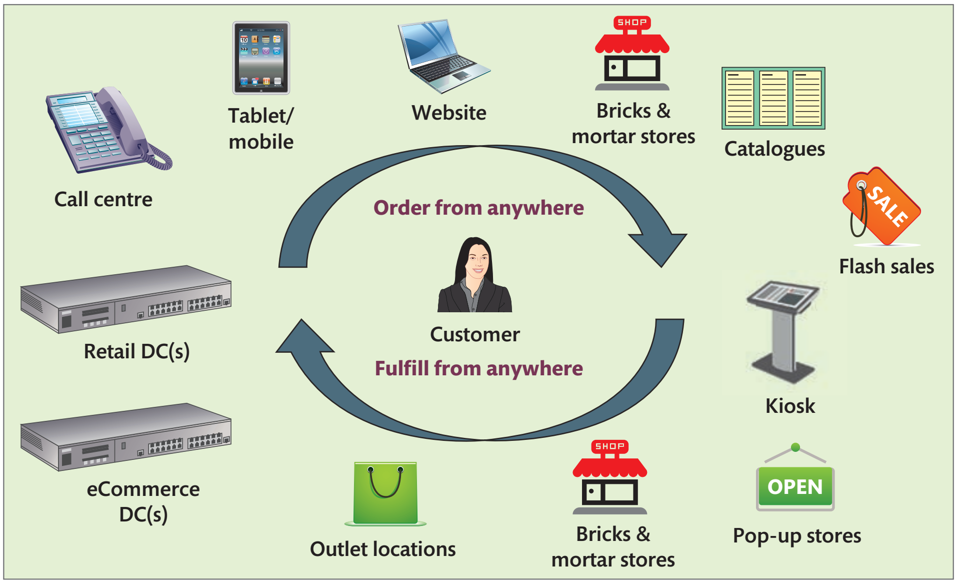


Figure 19.11 Multichannels to market – online and offline
Source: Fortna (2012) 5 steps to designing omnichannels fulfillment operations, Fortna, www.fortna.com/whitepapers/designing-omnichannel-fulfillment-operations-en.pdf.

What matters is not only the channel through which the customer follows on their path to purchase, but also the ability to capture, store and track all interactions and transactions with that customer across all touchpoints to create a seamless, context-rich conversation. Companies need to be everywhere that customers want them to be. They need to distribute in all the ways that customers want to be reached and supported and in all the ways that customers want to buy. Take the customer who reviews a hotel through TripAdvisor, checks with their friends offline, phones the hotels for rates and then finally books the hotel through a booking site using their smartphone. Many of these channels are not even managed by the company. This is called the **multiplicity of channels** – the emerging phenomenon of customers seeking information and demanding products and services from an ever-increasing range of sources (see Figure 19.12).[78] One of the many consequences of channel multiplicity is the need for a sound multichannel management strategy. Multiplicity of channels reflects the behaviour of the customer, and multichannel or omnichannel strategy reflects the company's response to that behaviour.[79]

The immediate result of channel multiplicity is a change not only in the way firms must design and manage their marketing channels and coordinate and create incentives for the channel partners, but also in how they view products, services and channels. Add to this the ever-increasing level of digital technology and the corresponding growth in information-based offerings and the result can be uncontrolled chaos or unbridled opportunity.[80] Much of channel multiplicity is externally controlled rather than internally controlled by the company itself.[81]

Marketers know that they need to break down the channel walls and allow data captured through one channel or customer touchpoint to migrate instantly to all other channels and touchpoints. Sometimes customers want to talk to a support rep; at other times they want self-service and home delivery. Sometimes they want to buy online; at other times, in a shop. Sometimes they want to return products through the post; at other times, to a shop.

Multichannel marketers also need to decide how much of their product to offer in each of the channels. Many outdoor clothing specialists use the web as the ideal channel for showing their entire line of goods, given space limitation within store.[82] Other marketers prefer to limit their online offerings, theorising that customers look to websites and catalogues for a 'best of' array of merchandise and don't want to have to click through dozens of pages. Multichannel companies are also at risk of cross-channel retaliation, where poor service in one channel – say online – can result in the customer suspending consumption with the company in all purchase channels.[83]

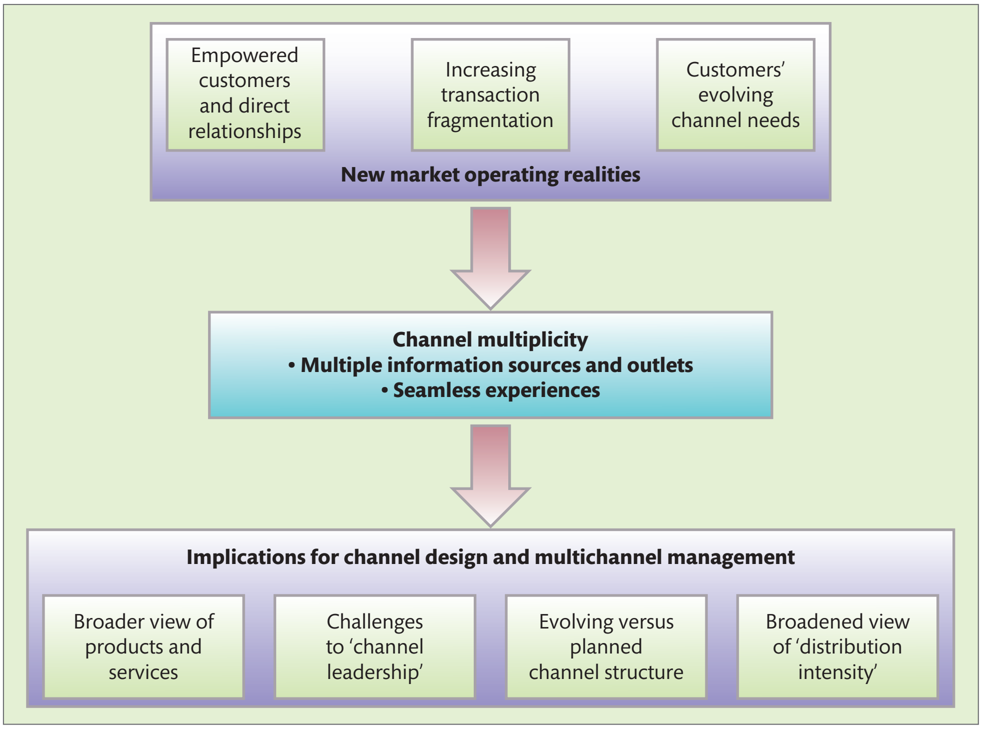


Figure 19.12 Conceptual overview of channel multiplicity
Source: G. H. Van Bruggen, K. D. Antia, S. D. Jap, W. J. Reinartz and F. Pallas (2010) Managing marketing channel multiplicity, *Journal of Service Research*, 13(3), 331–340.

Online, mobile and digital channel management

The digital challenges of online and mobile or smartphones and more recently augmented reality and smart products have changed how marketers market and how consumers shop and purchase. **Online distribution** or web-based distribution is the use of the web to transact or facilitate the sale and or distribution of products and services online. Online retailers compete in three key aspects of a transaction: (1) customer interaction with the website, (2) delivery and (3) ability to address problems when they occur.[84]

We can distinguish between **pure-click** companies, those that have launched a website without any previous existence as a firm, and **brick-and-click** companies – existing companies that have added an online site as a channel for sales and/or distribution.

Online-only companies

There are several kinds of pure-click companies: search engines sites (such as Google), transaction sites (eBay and Net-a-Porter), content sites (such as iTunes and Netflix) and enabler sites (such as Booking.com and Lastminute.com), and support sites. Amazon is the largest and most successful, with turnover of over €1 trillion in 2018.[85] A small-firm example is mumsnet.co.uk, which is a single-category specialist site focusing on mums. These companies must set up and operate their websites carefully. Customer service is critical. Online shoppers may select an item for purchase but fail to complete the transaction. To improve conversion rates, firms should make the website fast, simple and easy to use. Something as simple as enlarging product images onscreen can increase perusal time and the amount customers buy.[86]

Consumer surveys suggest that the most significant inhibitors of online shopping are the absence of pleasurable experiences, social interaction and personal consultation with a company representative.[87] Firms are responding. Many now offer live online chat to give potential customers immediate advice about products and suggest purchasing additional items. When a representative is active in the sale, the average amount per order is typically higher. B2B marketers also need to ensure a human engagement and are using Web 2.0 technologies such as virtual environments, blogs, online videos and click-to-chat.

Ensuring security and privacy online remains important. Customers must find the website trustworthy and safe for payment through a recognised process such as PayPal. Investments in website design and processes can help reassure customers sensitive to online risk.[88]

B2B online

Although business-to-consumer (B2C) websites have attracted much attention, even more activity is being conducted on business-to-business (B2B) sites, which are changing the supplier–customer relationship in profound ways.

In the past, buyers exerted a lot of effort to gather information about worldwide suppliers. B2B sites make markets more efficient, giving buyers easy access to a great deal of information from: (1) supplier websites; (2) *infomediaries*, third parties that add value by aggregating information about alternatives; (3) *market makers*, third parties that link buyers and sellers; and (4) *customer communities*, where buyers can swap stories about suppliers' products and services.[89] Firms are using B2B auction sites, spot exchanges, online product catalogues, barter sites and other online resources to obtain better prices. Ironically, the largest of the B2B market makers is China's Alibaba, in a country where businesses have faced decades of communist antipathy to private enterprise.

Alibaba

The brainchild of owner Jack Ma, Alibaba began in 1999 and grew to become the world's largest online B2B marketplace and Asia's most popular online auction site. Its numbers are staggering. The company has revenues of €40 billion and a market value of €230 billion. It has over 60 million registered users (45 million in China and 15 million internationally) and hosts more than 5.5 million shopfronts online. It has the ninth-highest global brand value.

Alibaba is one of the world's leading online sites with revenues of over €40 billion.
Source: drserg/Shutterstock

At any moment, more than 4 million businesses are trading on the site. At Alibaba's heart are two B2B websites: www.alibaba.com, a marketplace for companies around the globe to buy and sell in English, and www.china.alibaba.com, a domestic Chinese marketplace.

Alibaba enables businesses to trade with each other and link to global supply networks. Anyone on Alibaba who has done business with a user is encouraged to comment on the firm, in the same way buyers comment on sellers on eBay's marketplace. Alibaba's consumer-to-consumer portal Taobao, similar to eBay.com, features nearly 1 billion products and is one of the 20 most-visited websites globally. The group's websites accounted for over 60 per cent of the parcels delivered in China and 80 per cent of the nation's online sales.[90] Alipay, an online payment escrow service, accounts for roughly half of all online payment transactions within China. After its IPO of €1.1 billion (second only to Google's among internet firms), Jack Ma says the company plans to 'create the e-commerce platform for 10 million small enterprises creating 100 million jobs around the world and providing an online retail platform to supply the everyday needs of 1 billion people'.[91]

The effect of these sites is to make prices more transparent.[92] For undifferentiated products, price pressure will increase. For highly differentiated products, buyers will gain a better picture of the items' true value. Suppliers of superior products will be able to offset price transparency with value transparency; suppliers of undifferentiated products will need to drive down their costs in order to compete.

Online and brick-and-click companies

Managing a range of online and offline channels has thus become a priority for many firms.[93] Although many bricks-and-mortar companies may have initially debated whether to add an online channel for fear of channel conflict with their offline retailers, agents or their own shop, most have now added the internet as a distribution channel after seeing how much business is generated online.[94] Estée Lauder sells online in 11 European countries, including its newest market, Russia, along with its traditional offline retail channels of distribution.[95]

The question is how to sell both through intermediaries and online. There are at least three strategies for trying to gain acceptance from intermediaries: first, offer different brands or products on the internet; second, offer offline partners higher commissions to cushion the negative impact on their sales; third, take orders on the website but have retailers manage delivery and collect payment.

Many companies are giving their customers more control over their shopping experiences by bringing web technologies into the store through iPads or computer terminals where customers can check online for an item. House of Fraser has both in-store terminals and an app to help shopping on the go. Tesco and the Metro store in Germany have personal scanners so that customers can keep track of their supermarket purchases. The IKEA store in the UK has its retail website available through in-store kiosks. The kiosks also feature an interactive customer service assistant called 'Anna', allowing customers to ask questions and receive immediate replies without the need for a human presence.[96]

Exploring future technologies within distribution

Technology is focusing companies to rethink nearly everything they do. A recent report noted that:

> **For years, companies have used digital supply chain technologies to improve service levels and reduce costs. But the inability to connect disparate systems, provide end to end visibility into the supply chain and crunch massive amounts of data among other issues have prevented many companies from achieving the full potential of their supply chains. Now thanks to the wide availability and adoption of much more powerful digital technologies including advanced analytics and cloud based solutions, companies are generating dramatically better returns on their investment.** [97]

From the Internet of Things, drones and smart products, to data along the channel there is a reshaping of supply chains occurring. The rapid automation of supply with robotics, machine learning, augmented reality and even driverless delivery has and will continue to impact across industries and societies. Retail technology capabilities have never been greater and there is a huge number of potential technologies that could overwhelm marketers, who must focus on the critical aspect of whether the customer will accept them and also at what stage of the customer path to purchase.[98] Some retail technologies are:

- **Barcode scanning:** a critically important technology that has driven many supply chain innovations, with the data from these now used in performance tracking and strategic decision making.
- **Self-scanning or self-checkout:** an automated process of checkout without a cashier.
- **Smart shelves**: weight-sensitive sensors that monitor stocks on shelves. Some of these shelves also have digital pricing, which allows companies to change the prices remotely.
- **RFID** (**radio frequency identification devices**): tiny microchips that provide real-time and context-specific information continuously flowing from the product or service to the company. It changes operations and offers new ways to optimise customer relationships – see the 'Marketing insight box'.
- **Facial recognition software or other biometric authentication systems**: retailers can use these to help them identify shoppers and track metrics such as shopping path and dwell time.
- **Drones**: the trialling of Amazon drones might even change distribution as we know it. Using a garden landing pad, delivery drones can deliver products to customers in a fraction of the time of road distribution. Still in its infancy, it will be interesting to see how this develops.

What is of concern is how customer perceptions of these technologies will affect adoption, with issues such as justice/fairness perceptions, value perceptions, satisfaction, relationship trust, relationship commitment, loyalty and also privacy concerns. In recent research, Inman and Nikolova found that the shoppers' perception of the retailer is affected by new shopping technologies and that this affects their behaviour intention, which in turn drives the return on investment of new technologies.[99] Figure 19.13 shows shoppers' attitudes to privacy concerns over new technologies.

What is critical is how to prioritise supply chain improvements and how to decide when to proceed.

Figure 19.14 shows how one company studied the supply chain processes and digital solutions and built a business case for adoption.

Figure 19.13 New developments like virtual shopping at train stations allow customers to shop while they wait.
Source: Associated Press.

PROCESSES	Planning		Sourcing	Manufacturing plant logistics	Warehousing		Distribution	Order
SOLUTIONS	Commercial planning	Demand forecasting	Improved supplier evaluation and coordination	Real-time production management	Dynamic inventory rebalancing	E2E visibility of materials and products	Optimization of transposition management	Order and delivery transparency to costumers
Evaluation criteria								
Business case	Neutral	Very favourable	Favourable	Favourable	Very favourable	Very favourable	Very favourable	Favourable
Time to impact	Medium	Short	Medium	Long	Medium	Long	Medium	Long
Ease of implementation	High	Medium	High	Low	Medium	Low	Medium	Low
Pain points addressed	Many	Many	Some	Many	Many	Many	Many	Few
Technological feasibility	High	High	High	Low	Medium	Medium	High	Low
Overall recommendation	Wave 2 implementation	Wave 1 implementation	Wave 2 implementation	On hold	Wave 2 implementation	Wave 1 implementation	Wave 1 implementation	On hold

Figure 19.14 How one company prioritised supply chain improvement opportunies

Source: A. Ganeriwalla, W. Gideon, L. Kotlik, R. Rosegen and S. Gstettner (2016) Three Paths to Advantage with Digital Supply Chains, BCG Analysis, https://www.bcg.com/publications/2016/three-paths-to-advantage-with-digital-supply-chains.aspx.

Marketing insight

Smart-connected products and services

Radio frequency identification devices (RFID) systems are chips about the size of a dot called 'smart' tags – with microchips attached to tiny radio antennas. The tags allow companies to gather data out of line of sight, which can include temperature, position, functioning and surroundings. Gillette uses smart tags to improve logistics to get the new Fusion razor on store shelves 11 days faster than its normal turnaround time, and it expects savings and developments to increase.[100] Radio-tagging products allows retailers to alert manufacturers before shelves go bare, and consumer-goods manufacturers can further perfect their supply networks so they don't produce or distribute too few or too many goods. RFID offers many benefits along value networks, tracking products and services throughout the journey. A novel use is by Amazon with its Amazon Go app, which allows shoppers to shop without checkouts as their groceries are read by a reader as the customer walks out the door and automates payment.

Smart tags can be embedded in products, services or even people (normally stuck on labels or worn by a person). Legoland in Denmark has RFID armbands for all children, similar to those used by Disney. Alton Towers in England uses RFID to track and film visitors so that customers can order DVDs of their visit. Sensors in products can identify the need for service before a component fails, so a car will automatically indicate the need for an oil change and alert the driver. Smart-connected elevators self-manage aligned to demand and thereby save electricity.

The sharing economy of companies such as AirBnB, Uber, Drive Now and Ofo (bike sharing) exists in the form of smart products and payment. Smart products and services require companies to organise, collaborate and innovate their value chains in new ways, with data and but importantly customers as core.[101] According to Michael Porter and James Heppelmann of Harvard Business School, with smart technologies 'we are limited only by our imagination'.

Driven by the widespread penetration of mobile and smartphones – there are currently more mobile phones than personal computers in the world – for many, the future of supply channels is mobile and mobile first.[102] For many, the path to purchase is full of many technologies and processes all intermixing and entwining with interesting new developments and changes. Consider Tesco and its virtual shops.

Designing and managing multiple channels, whether online, offline or real time, requires managing inter-organisational and intra-organisational relationships, with a critical understanding of and engagement with a range of current and future technologies to optimise supply network efficiency and customer satisfaction.

Tesco and virtual stores

Tesco has been a leader in revolutionising distribution with innovative developments, particularly in moving to where the customer is rather than the customer coming to the retail outlet. Tesco has used technology to let customers shop through their smartphones and **QR codes** – bar codes on packages that link to price and purchase information. Tesco has showcased this around the world. Its first trial in the UK was at Gatwick Airport with a trial of a virtual shop for shopping before people fly – using the customers' 'dwell' time. The walls of its virtual store had posters that resembled the shelves of a supermarket. The only difference was that you could not just grab the product and check out. The grocery images each had a QR code that the shopper scanned with a smartphone camera and added to a shopping list. When the shopper had scanned all their groceries, they paid using their phone and the groceries were then delivered to their home on their return. Tesco, using the brand name HomePlus, found virtual shopping to be very successful in the South Korean market where customers can shop for groceries in train stations during their commute and have them delivered to their home after work. This company, which is no longer owned by Tesco, has almost 20 per cent market share in this market.

Source: M. Oettit de Meurville, K. Pham and C. Trine (2016) Shop on the Go, *Business Today*, https://www.businesstoday.in/magazine/lbs-case-study/case-study-tesco-virtually-created-new-market-based-on-country-lifestyle/story/214998.html.

Tesco, (called Homeplus in South Korea), had virtual stores in South Korean train stations
Source: Jack Malipan Travel Photography/Alamy Stock Photo

SUMMARY

1 Marketing channel decisions are among the most critical decisions facing management. The company's chosen channel(s) profoundly affect all other marketing decisions.
2 Many companies do not distribute their products and services directly to final users. Between companies and final users are one or more marketing or distribution channels – intermediaries performing a variety of functions.
3 Companies use intermediaries when they do not have the finance or ability to provide these services themselves, or when they can earn more by doing so. The most important functions performed by intermediaries are information, promotion, negotiation, ordering, financing, risk taking, physical possession, payment and title.
4 Manufacturers have many alternatives for reaching a market. They can sell direct or use one-, two- or three-level channels. Deciding which type(s) of channel to use calls for analysing customer needs, establishing channel objectives and identifying and evaluating the major alternatives, including the types and numbers of intermediaries involved in the channel.
5 Effective channel management calls for selecting intermediaries and training and motivating them. The goal is to build a long-term partnership that will be profitable for all channel members.
6 All marketing channels have the potential for conflict and competition resulting from such sources as goal incompatibility, poorly defined roles and rights, perceptual differences

and interdependent relationships with different approaches to managing conflict.
7 Marketing channels are characterised by continuous and sometimes dramatic change, much of which is due to technological developments.
8 Multichannel is the use of multiple channels to market, while omnichannel is the seamless integration of all physical and digital channels to market.
9 Channel integration must recognise the distinctive strengths of online and offline distribution and seamlessly maximise their joint contributions.
10 Digital technologies are changing many aspects of the value chain with advance analytics, smart products, drones, robotics and automation critical to the current and future optimisation of company and customer experiences.

APPLICATIONS

Marketing debate

Take a position: Technology has resulted in too many channel options for consumers and companies to manage *versus* more digitalisation within channels is good for companies and customers.

Marketing discussion

Think of your favourite retailer. How have they integrated their channel system? How would you like their channels to be integrated? Do you use multiple channels from them? Why?

FURTHER READING

C. Shan and L. Lamberti (2016) Multichannel marketing: The operational construct and firms' motivation to adopt, *Journal of Strategic Marketing*, 24(7), 594–616.

Multichannel marketing has been gaining increased attention with the rapid diffusion of technologies. Using literature and supported by interviews with 32 Italian firms, the authors propose a comprehensive and generalisable framework of the multichannel marketing construct, and identify and categorise firms' motivations to adopt multichannel marketing practices. The framework describes the construct of multichannel marketing in three dimensions: channel variety, which is categorised into nine types according to their marketing implication; channel usage, which is described as three kinds of marketing activities (namely distribution, practical information provision and relational communication); and the intensity and integration of channels used to perform these activities. Channel integration is seen as both integration perceivable by customers and integration within the firm itself. Managerial implications suggest the eclectic capability of different channels makes multichannel a more powerful way to distribute, to manage information flow, and to manage the increasingly important relationships with customers. There is no one single best way to implement multichannel marketing. Due to the need for flexibility in implementing multichannel marketing, firms need to first define their objectives, decide on the investment and manage how it will impact on organisational structure, operational process, customer perception, and so on.

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CHAPTER 20

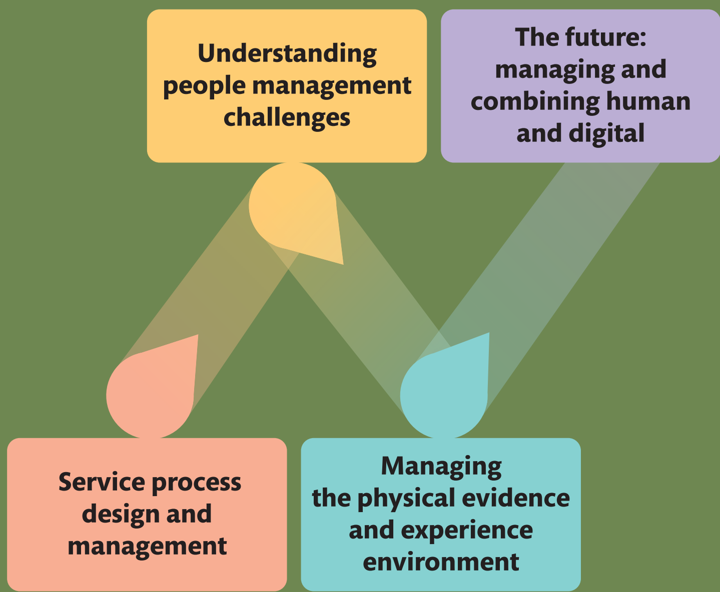
Managing process, people and physical evidence

In this chapter, you will learn about the following topics:

1. Service process design and management
2. People management challenges
3. How physical evidence and the experience environment are managed
4. The future: Managing and combining the human and the digital

Swiss Air Lines named 'Best Airline for Europe'
Source: EThamPhoto / Alamy Stock Photo

Chapter Journey



Customers are more involved, more educated, more digital, more demanding, have more choice and are less tolerant of poor service performance and under-fulfilment of their expectations. The customer experience is created by the process the customer goes through whether online or offline, the people (relational service) they encounter and the physical evidence (service environment) that supports their value creation.[1] When service is a core part of the customer experience they expect its delivery across all touchpoints and interactions to align with their needs. Regardless of whether a product is the focus and service surrounds the product or that products are embedded within the service, every single interaction by the customer with the company is critical. Nowadays, the human is augmented by digital and mobile dimensions across service process, people and physical evidence. Consider Swiss Air.

Swiss Air (Swiss International Air Lines) manages its service process, people and physical evidence for a meaningful and memorable customer experience and has the awards to prove it. At the World Airline Awards, the airline prevailed over 51 competitors to earn Best in Business Class Award.[2] Swiss Air wins awards due to their total company effort towards a comfortable welcome and stay on board their aircraft. Their staff show professionalism and warmth, and focus on delivering value to the customers on every flight, during every service encounter, and they strive to be the best.

Swiss Airlines were winners of both Europe's Leading Airline First Class Award and Europe's Leading Airline Economy Class at the 2018 World Travel Awards. Swiss Airline's new aircraft with improved seating, sophisticated cabin configuration, in-flight connectivity aligned with professionally design processes all combine with a staff focus on customer satisfaction to set new standards in air travel comfort. Swiss airlines management value winning these awards as evidence of how their customers value their total offering which includes their staff, their planes, their interior design and how their processes are all designed and managed with customer needs as central.[3] All aspects that support and result in a satisfied customer.

Service process design and management

There can be a large disparity between what the customer wants as service and what companies provide. In a Bain & Co survey, only 8 per cent of customers described their experience with companies as 'superior', while 80 per cent of the companies believed that the service they were supplying was superior.[4] Many companies find that what should be transparent, customer-centric strategies for delivering value to their customers have become company centric, unhelpful and damaging, focused on extracting value from customers.[5] The goal should be customers' processes to support value creation in a mutually beneficial way.[6] Shops such as Zara, Mango and Topshop have thrived in recent years, as they understand the role of the service process, the shopping environment and the staff in creating an enjoyable shopping experience.

Service process design describes and prescribes the procedures to be followed in service delivery – the way in which the service system operates. How customers board an aircraft, how they queue in a bank, how they get food in a restaurant, are examples of processes.[7] They must be designed so they work for the customer, to meet their demands and needs, without squandering the company's or the customer's time, effort and resources.[8] This includes how the service will be performed by both the customer and staff, and how they use or interact with other resources such as technology and equipment.[9] The interrelated chain of processes needs to be carefully designed, managed and controlled to deliver value to customers and the organisation. Consider Virgin Mobile.

Virgin Mobile

Virgin Mobile, the UK-based mobile phone provider, was able to break into the US market by making its processes simpler and more transparent than those of its competitors. It introduced a simple 'pay as you go' mobile phone service, with no hidden fees, no time-of-day restrictions and no contract. This was straightforward and the service that the customer wanted. So, in a market where there were already major players and growth was slowing, Virgin Mobile was able to enter the market and capture 5 million customers in one year. Virgin's customer satisfaction rating has been above the 90th percentile since the service launched and many customers act as goodwill ambassadors for the brand. More than two-thirds of customers have recommended it to a friend. Virgin Mobile did all this with low brand recognition and an advertising budget of €50 million, which was less than one 10th of the major players in the market.[10] It focused on the process – making it easy to understand and making it easy to leave the service – with the added advantage of no cancellation fee. Many small improvements make the process easy and fun for the customer, resulting in big profits for the company.

A rental car experience is the mix of technology, visibility, customisation and accessibility offered by the company and availed of by the customer
Source: Joe Raedle/Getty Images news/Getty Images.

Properly designed service processes allow relatively inexperienced people to perform very sophisticated tasks quickly – vaulting them over normal learning-curve delays. Ideally, empowerment of both service providers and customers (often via self-service) results from a well-designed service process. Constructing a service process necessitates that a number of decisions be made within three key areas.[11]

Service process design (the way in which the service operates and is designed to fulfil customer needs and the objectives of the company) must be aligned with service process delivery (how and to whom the service is to be delivered) and delivery means having dedicated, empowered, linked, informed, valued and experienced representatives, systems and technologies as expected.

Within service process design there are four issues:

1. **The degree of technology utilised.** How much human and how much technological interaction is there? Service encounters increasingly take place on the internet or in the digital or cyberspace arena, as opposed to the physical marketspace.[12] Designing and planning the virtual environment so as to 'control', show empathy and create optimal experiences for browsers is therefore as important in cyberspace or digital space as in real space.
2. **The degree of visibility.** How much of the service is front office (what the customer can see) and how much is operations or back office (hidden from the customer)? Figure 20.1 shows how marketing can move the front and back office activities around. Technology can play a major role in this area. Take booking a flight – this was traditionally a back office process performed by airline staff or travel agent, now moved to a front office process performed by the customer at home online or at kiosks at the airport.[13]
3. **The degree of customisation.** **Customisation** is making or providing an offering according to a customer's individual requirements. In a restaurant, a steak can be cooked to the customer's taste preference. **Mass customisation** (MC) is the use of flexible computer-aided manufacturing systems to produce custom output each time. Those systems combine the low unit costs of mass production processes with the flexibility of individual customisation. For example, cars are all now regularly mass customised, where customers can choose colours and features as they wish. The degree of complexity (the number of steps involved in the process) and the degree of process divergence (the amount of variety in the process) is dependent on a number of factors.[14] Sometimes it is possible to allow customisation of some or all of the service: for example, most airlines allow passengers to choose their own seat. For other services or parts of

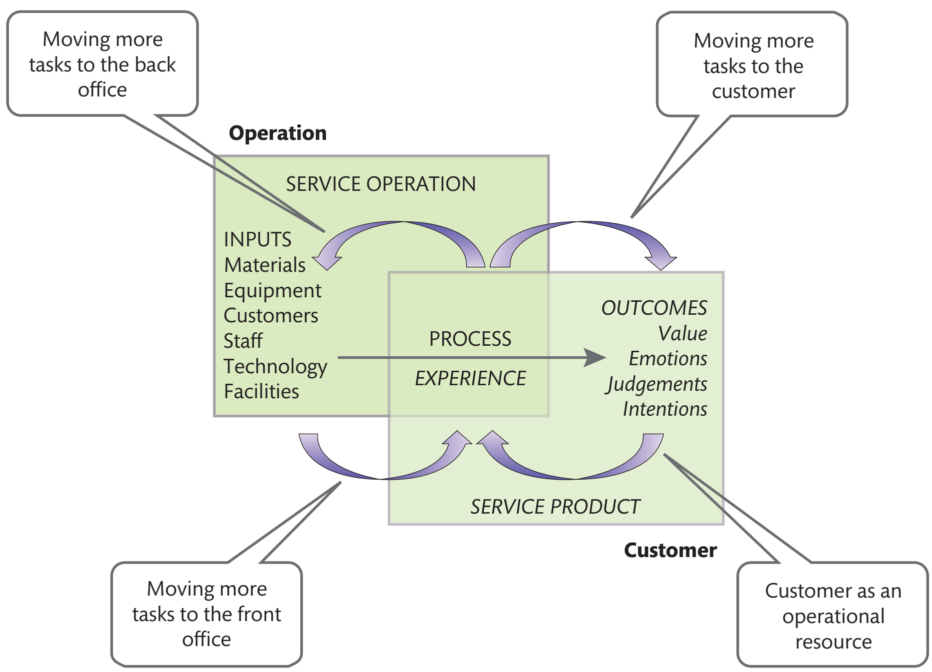


Figure 20.1 Managing the service process: from operation to customers.
Source: R. Johnston and C. Graham (2008) *Service Operations Management: Improving Service Delivery*, 2nd edn, Harlow, UK: Pearson Education.

services, this level of customisation would be impossible. For example, it would not be possible to allow passengers to decide what time the aircraft departed.

4 **The degree of accessibility.** **Accessibility** is the degree of ease with which the customer can get to or avail themselves of a service. Once the customer is present, accessibility refers to how the service is laid out, where the queues are and how the service environment is designed.

Within service process delivery there are three issues:

5 **Duration.** This relates to the time it takes to provide the service and is a function of:

- task time;
- total process time;
- customer contact time;
- throughput time; and
- waiting time.

Time is usually connected to queues, both the physical, as in queuing, and the technological, as in online connection times or call waiting. Managing waiting can be a core element of service design, and such techniques as scheduling appointments or operating on a first-come first-served basis are used. Because queuing, waiting, delivery and duration are intrinsically important, marketers need to be especially aware of consumers' attitudes to time when designing a process.[15] In general, the more waiting there is, the lower customers rate the service experience.

6 **Efforts of employees.** The service personnel's ability to interact well with the customer is very important. Whether they smile and how pleasant and how expert they are in their role correlates highly with how customers perceive service, whether face to face or over the phone.

7 **Reliability.** Customers like to receive expected outcomes. Reliability links to the consistency, integrity and dependability of the process. Does the customer receive the service promised? If a restaurant says a table will be available in ten minutes, is there a table before that time? Sometimes it is better to under promise and over deliver than over promise and under deliver, as the customer experiences these promises as psychological contracts.[16]

Service process blueprint

To understand and design the process, a service blueprint is used. A **service blueprint** is a pictorial map of the essential components of the service performance. It identifies the customers, the service personnel (both front and back office), the points of interaction between the customer and the company, and any other evidence, processes or activities. Most importantly, the blueprint shows how these combine to create the service performance. Figure 20.2 shows a service process blueprint for a visit to a bar.[17] The service blueprint is designed as a flow chart and includes the line of visibility between customers and service provider. In service blueprinting, the line of visibility separates activities of the front office, where customers obtain tangible evidence of the service, from those of the back office, which is out of the customers' view.

The seven key steps in preparing a service blueprint are as follows:

1 **Identifying processes:** studying the service processes and presenting them in a diagrammatic form. The level of detail will depend on the complexity and nature of the service.
2 **Sequencing:** deciding on the number of steps or the complexity of the service process.
3 **Visibility:** deciding how much of the process is revealed to the customer.
4 **Timing:** setting standards against which the performance of the various steps might be measured – many blueprints include timings for each stage of the process.
5 **Tolerance:** the best-case scenario, when everything works well, but also the process for what happens when something goes wrong.
6 **Fail-point identification:** highlights where things might or have gone wrong. The actions necessary to correct these must be determined, and systems and procedures developed to reduce the likelihood of them occurring in the first instance or, importantly, occurring again.
7 **Profitability:** analysing the profitability of the service delivered, in terms of the number of customers served during a period of time by the cost to deliver at that standard.

The benefits of a service process blueprint

There are many benefits to providing a service process blueprint. The visual representation makes it easier to determine which activities are truly necessary, which can be deleted and which can be modified.

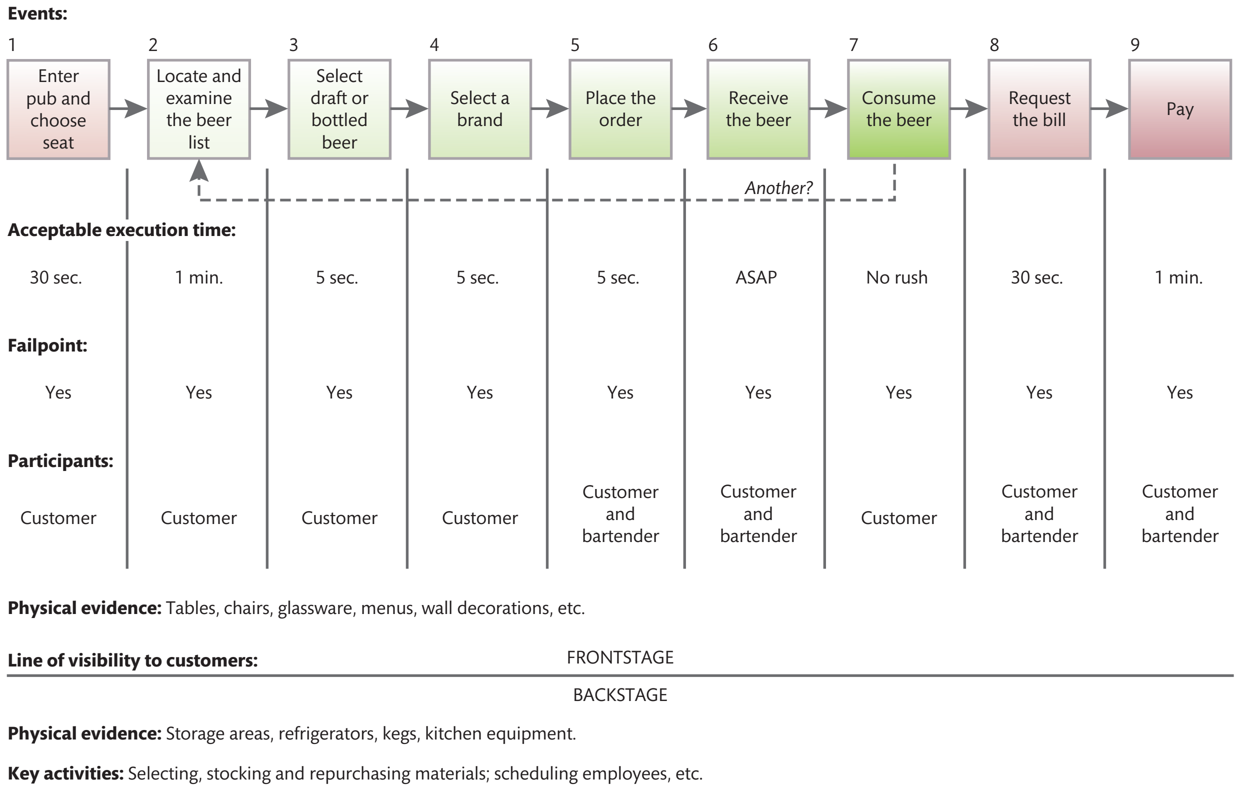


Figure 20.2 A service process blueprint for a visit to a bar

Source: Adapted from R. P. Fisk, S. J. Grove and J. Joby (2013) *Services Marketing Interactive Approach*, 4th edn, Boston, MA: Cengage Learning. Reproduced by permission www.cengage.com/permissions.

Recognition of digital and technology options can be identified along with how best to manage the resources, whether online or offline, to facilitate services. As more and more service processes are app based, companies must help the customer do whatever they wish easily through mobile.[18]

A blueprint can be used to support staff and helps in training and motivation. Service personnel can see what activities must be performed and how. Customer contact points are clearly identified. This helps to highlight activities that can be performed separately and identify where opportunities for co-creation of activities exist.

Marketers need to know where failures might occur and potential service failure points can be identified with a blueprint. This is helpful in developing plans to minimise the chance of a failure and in identifying possible corrective actions, if failure does occur.

Service process blueprints are not static and can and should be updated regularly using feedback from customers and staff. They should also be used to evaluate and improve the service system over time, especially as new technologies and apps become available and the services provided change or expand, or customer needs change.[19] See the 'Marketing in practice' box on optimising service design processes.

Marketing in practice

Helping design good retail processes

In pursuit of higher sales volume, retailers are studying their shop environments for ways to improve the shopper experience. Paco Underhill is managing director of the retail consultant Envirosell Inc, whose clients include McDonald's, Starbucks, Estée Lauder, Citibank and Burger King. Using a combination of in-shop video recording and observation, Underhill and his colleagues study 50,000 shoppers. He offers the following advice for fine-tuning retail space:

- Attract shoppers and keep them in the shop. The amount of time shoppers spend in a shop is perhaps the single most important factor in determining how much they buy. To increase shopping time, give shoppers a sense of community; recognise them in some way; give them ways to deal with their accessories, such as chairs in convenient locations for partners, children or bags; and make the environment both familiar and fresh each time they come in.

- Honour the 'transition zone'. On entering a shop, people need to slow down and sort out the stimuli, and so they will probably be moving too fast to respond positively to signs, merchandise or sales clerks in this zone. Make sure there are clear sight lines. Create a focal point for information within the shop. Most right-handed people turn right upon entering a shop.
- Avoid overdesign. Shop fixtures, point-of-sales information, packaging, signage and flat-screen televisions can combine to create a visual cacophony. Use crisp and clear signage – 'Our best seller' or 'Our best student computer' – where people feel comfortable stopping and facing the right way. Window signs, displays and mannequins communicate best when angled 10–15 degrees to face the direction in which people are moving.
- Do not make them hunt. Put the most popular products up front to reward busy shoppers and encourage leisurely shoppers to look more.
- Make merchandise available to reach and touch. It is hard to overemphasise the importance of customers' hands. If the shopper cannot reach or pick products up, much of their appeal can be lost.
- Make children welcome. If children feel welcome, parents will follow. Take a three-year-old's perspective and make sure there are engaging sights at eye level. A virtual hopscotch pattern or dinosaur on the floor can turn a boring shopping trip for a child into a friendly experience.
- Note that men often do not ask questions. Men often move faster than women and, in many settings, it can be hard to get them to look at anything they had not intended to buy. Men often do not like asking where things are. If they cannot find the item they might wheel about once or twice, then leave the shop without ever asking for help.
- Remember, women need space. A shopper, especially a woman, can be far less likely to buy an item if other customers brush up against them. Keeping aisles wide and clear is crucial.
- Make check-out easy. Be sure to have the right high-margin goods near cash registers to satisfy impulse shoppers. Though ASDA, the UK supermarket chain, has sweet-free check-outs for parents with children.
- Internet and mobile. Remember digital and study how to improve the role of digital in service.
- Some of Paco Underhill's additional words of wisdom for retailers include: (1) develop expertise in the mature market; (2) sell both to and through your customer; (3) localise your presence; (4) extend your brand – use your history better; (5) build on the internet-to-phone-to-shop connection; (6) find your customers where they are; (7) refine the details of each point of sale; and (8) go undercover as your reality check.

Sources: P. Underhill (2011) *What Women Want: The Science of Female Shopping*, New York: Simon & Schuster; P. Underhill (2009) *Why We Buy: The Science of Shopping – Updated and Revised for the Internet, the Global Consumer, and Beyond*, New York: Simon & Schuster; B. Parks (2006) 5 rules of great design, *Business 2.0*, March, 47–9; P. Underhill (2005) *Call of the Mall: The Geography of Shopping*, New York: Simon & Schuster.

Some service process designs, particularly for retail outlets such as large supermarkets, are modelled on a racetrack. Designed to convey customers smoothly past all the products in the shop, an 8-foot-wide main aisle moves customers in a circle around the shop. The design also includes a middle aisle that hurried shoppers can use as a shortcut. The racetrack loop yields higher spending levels than many other layouts.[20] The IKEA floor plan image shows the IKEA service process design – which in reality can feel like a maze. Consider IKEA.

IKEA

IKEA's distinctive labyrinth-style floor plan, where customers are encouraged to follow a predesigned pathway, has worked very well, encouraging purchasing and particularly impulse purchasing through a managed customer process. The concept is based on keeping the customer in the shop for as long as possible. Giving them the opportunity to browse, to view the full range in ideal settings, provides design ideas and encourages multi-room shopping.

According to Professor Alan Penn, director of the Virtual Reality Centre for the Built Environment at University College London: 'In IKEA's case, you have to follow a set path past what is effectively their catalogue in physical form, with furniture placed in different settings which is meant to show you how adaptable it is.' The marketplace – a large shopping area near the end of the pathway – is packed full of low-cost items such as glasses and flowerpots, many of which are impulse purchases. It is suggested that as much as 60 per cent of IKEA purchases are for impulse items encouraged by the floor plan, low cost and design ideas. Open space attracts shoppers, as Professor Penn showed using an IKEA floor plan where open-space-sensitive bots created the exact same paths that real shoppers walked and showed that open spaces drive the path of the shoppers.[21]

IKEA's service process design is focused on managing the customer experience
Source: Used with the permission of Inter IKEA Systems B.V.

Managing variability within service process design

Some services are extremely flexible and allow the customer to choose how and when they avail themselves of the service. Net-A-Porter, the online high-fashion company, provides customers with a shopping experience from their own homes. Other service processes are much more *rigid and closely defined* in order to achieve benefits of consistency and efficiency. For many companies, calls are answered by automation and you have to follow the instructions. Other service processes *depend a lot on the skills, knowledge and expertise* of the service provider, such as medical doctors or ski instructors.

Since specific usage of the process and usage conditions can vary, the resultant variations in service performance can impact consumer preferences for and satisfaction with the service process. In manufacturing the focus is on eliminating variability, but in services customers often judge the service on the amount of variability that is allowed. So, while some variability has a negative impact on customers, other kinds of variation may be preferred by customers.[22]

Coping with variability and the various requests and needs of customers in the service process is challenging. Unlike in manufacturing there is no single solution, but there are multiple ways to combat the effects of variability. What is needed is a systematic approach to diagnose problems and design and fine-tune interventions to ensure effectiveness of the service. There are five forms of variability:[23]

1 **Arrival variability.** Customers like to arrive at different times, and the classic way to control this is to insist on reservations. There are some services that cannot be foreseen or pre-booked, such as car breakdowns or accidents and emergencies. One method is to tell customers how long they will be waiting so that they can monitor their progress and decide

how to use their time. For example, call centres often have an automated service offering suggestions like 'you are second in line' or 'your call should be answered in less than five minutes' or 'we are currently experiencing high levels of demands and would ask you to call back later'.

2 **Request variability.** The fact that customers' desires are different can pose problems for services. Take Café Java – there are now up to 6,000 permutations of the type of coffee or tea that customers can order. Not agreeing to special orders reduces the complexity of the service, but agreeing to them can increase the service experience.
3 **Capability variability.** Customers themselves have different levels of ability or capability within the process. Some customers perform tasks easily and others need to be managed through the process. Consider a visit to the doctor: how well a patient is able to describe their illness or how efficient they are at filling in medical forms can affect service levels.
4 **Effort variability.** Customers will decide how much effort they are prepared to make. In supermarkets many customers use but do not return trolleys. To manage this, marketers can offer incentives. Customers who return a trolley get their money back as a means of thanking them for putting in the effort.
5 **Subjective preference variability.** Customers' personal preferences are important. This means that different customers will experience the same service differently. In a bank, one customer may like being called by their first name while another may think that it is intrusive. Also watch customers queuing – some jump the queue, some jump from queue to queue, while others just wait their turn.

The less variability there is, the easier it is to manage. Marketers use either accommodation or reduction strategies to manage variability:

- **Accommodation:** Allow variability in customer requests and set up methods to accommodate those requests. Customers get treated differently and the company bears the cost of the variability strategy or charges the customer for being treated differently. Airlines divide the plane into different service levels and charges – first class, business and economy.
- **Reduction.** Reduce variability and focus on the operations, and getting the customer to accept the lack of variability and to conform to the operation rules. This can often be equated with price consciousness. Consider Ryanair.

Ryanair

Ryanair – the low-cost airline – provides a reduced service level and charges less, and up to 100 million customers a year accept this trade-off, with Ryanair now the most profitable and largest airline in Europe. Problems can arise when the service level desired and the service level paid for do not equate in the customer's mind. Michael O'Leary, the chief executive of Ryanair, states: 'They get the service they paid for. A €1 flight does not give business-class service'. Ryanair has in many ways trained customers to co-create and accept and expect less variability in service. Customers know to arrive on time for flights, print their boarding card, to pack within the kilo limits and not to expect anything free on the flight. These are all reduction techniques used by the airline to manage the customers in a way that keeps their costs low.

Evert Gummesson, Professor of Marketing at Stockholm University, said: 'Customers co-create the value of the service to the benefit of themselves and the service provider. Most companies understand this but some may not see the contribution of this customer involvement and fail to support it.'[24] How would a manufacturing company operate if customers were walking around the factory changing things? Customers often want to have the service provided their way, not necessarily the way the company wants it done. As customers provide varied inputs to the service process, service personnel can rely on past procedures and ways of doing things and sometimes might have to generate novel and appropriate solutions to customer requests.

There are four techniques for managing customer-introduced variability: classic accommodation, low-cost accommodation, classic reduction and uncompromised reduction. Examples of each appear in Table 20.1. The desired outcome is that this will be managed without damaging the expected service experience.

Table 20.1 Strategies for managing customer-introduced variability

Once a company has determined which type of customer-introduced variability is creating operational difficulties, it must choose which of four basic strategies to pursue. The chart outlines tactics that have proven to be effective in each category.

	Classic accommodation	Low-cost accommodation	Classic reduction	Uncompromised reduction
Arrival	• Make sure plenty of employees are on hand	• Hire lower-cost labour • Automate tasks • Outsource customer contact • Create self-service options	• Require reservations • Provide off-peak pricing • Limit service availability	• Create complementary demand to smooth arrivals without requiring customers to change their behaviour
Request	• Make sure many employees with specialised skills are on hand • Train employees to handle many kinds of requests	• Hire lower-cost specialised labour • Automate tasks • Create self-service options	• Require customers to make reservations for specific types of service • Persuade customers to compromise their requests • Limit service breadth	• Limit service breadth • Target customers on the basis of their requests
Capability	• Make sure employees are on hand who can adapt to customers' varied skill levels • Do work for customers	• Hire lower-cost labour • Create self-service options that require no special skills	• Require customers to increase their level of capability before they use the service	• Target customers on the basis of their capability
Effort	• Make sure employees are on hand who can compensate for customers' lack of effort • Do work for customers	• Hire lower-cost labour • Create self-service options with extensive automation	• Use rewards and penalties to get customers to increase their effort	• Target customers on the basis of motivation • Use a normative approach to get customers to increase their effort
Subjective preference	• Make sure employees are on hand who can diagnose differences in expectations and adapt accordingly	• Create self-service options that permit customisation	• Persuade customers to adjust their expectations to match the value proposition	• Target customers on the basis of their subjective preferences

Source: Reproduced by permission of *Harvard Business Review*. From F. Frei (2006) Breaking the trade off between efficiency and service, *Harvard Business Review*, 84(11).

Service process and customer satisfaction

A satisfactory outcome occurs when the customer is satisfied with their service and their interactions with a company: in other words, the process worked and the customer received the quality of service they expected. There are five stages to be aware of:

1 Avoid dissatisfaction.
2 Try to create satisfaction.
3 Monitor how satisfaction and dissatisfaction are linked: for example, making one customer satisfied but by doing so leaving another customer dissatisfied.
4 Try to involve the customer.
5 Try to create a feeling of achievement on the part of the customer.[25]

Satisfied customers will not only visit the service again but also act as service ambassadors, encouraging other customers to use the service.

Measuring how well a process is performed and how it relates to customer satisfaction is a difficult balancing act.

In manufacturing, measuring efficiency is quite easy – counting how many products were manufactured in a given period of time. The inputs are the raw material and the output is a product. Measuring efficiency is more difficult for service. How many customers were served and served well? Customers have very different service skills, motivation, knowledge and expectations.[26] Therefore the service delivery system has to be flexible enough to cope with variability in (customer) inputs and also to understand that customers often want different outputs. Two customers can have very different experiences of the service process and both be content. Consider two dining experiences in the same restaurant – one group arrives with three children for a quick meal; the other is a romantic couple hoping for a three-hour meal. Both parties might be satisfied with the output, even if the objective time measurement is quite different.[27]

Trying to use objective manufacturing measures for efficiency in services can cause pitfalls. Take a call centre – measuring average call times would probably not be a measure of satisfied customers. Shorter calls may just be a reflection of staff who hurried the customer off the line, whereas measuring problems solved in a call (no callers returning with the same problem) might be a better measure, even if calls take longer. Consider Fujitsu and British Midland.

Fujitsu and British Midland

Fujitsu Limited is one of the largest providers of IT services in Europe, the Middle East and Africa, with 16,000 employees in 30 countries and revenues of over €26 billion. It handles all calls to the BMI (British Midland International) call centre. Normal practice would be that the more calls that were answered, the more money the company would be paid. Fujitsu views its call centre operation very differently, and rather than answer as many complaint calls as possible it tries to reduce the number of such calls. Fujitsu, instead of being paid for each call handled, is paid a set fee on the potential number of calls. It focuses on the content of all calls and tries to find the root causes of the problems.

For example, one of the main problems (26 per cent of total calls) was the malfunction of printers when check-in staff issued boarding cards. Fujitsu convinced BMI senior managers to invest in new printers, and calls in relation to malfunctioning printers were cut by 80 per cent in 20 months. Answering complaint calls does not improve the service process, but understanding the actual problem and sorting out that problem – that is providing real service for customers and employees. 'Fujitsu has a very similar business culture to British Midland', says Richard Dawson, IT director, British Midland International. 'Both companies want to innovate and grow, and both see IT as critical to business success.'[28]

It is often very hard for customers to judge how well a service worked. Customer assessment of service process effectiveness and efficiency often relies on their perceived or subjective assessment – how a customer felt about the service – rather than on the actual experience or objective assessment, which is an exact measure of what occurred.[29] Hospitals may have delays in accident and emergency, but if they ultimately cure the pain, customers may feel that the service was excellent, even if they waited for hours.[30] See zones of tolerance in the 'Marketing in practice' box.

Marketing in practice

Customer service process expectation zones

Customers have expectations of levels of service.[31] At the top is what they desire and believe the company can and will deliver. At the bottom is the minimum they are willing to accept.[32] This is the **zone of tolerance**, defined as the range of customer perceptions of a service between desired and minimum acceptable standards. In essence, it is the range of service performance that a customer considers satisfactory. Performance below the zone is seen as dissatisfying and performance above the zone is seen as delighting. The importance of this zone of tolerance is that customers may accept variation within a range of performance. Only when performance moves outside this range will it have any real effect on perceived service quality. If the service has better-than-desired levels, the customer will see it as very good and be delighted. If the service falls below the zone of tolerance, the customer will be unhappy and may look elsewhere.

Zones of tolerance can vary across customers, reflecting different priorities in their service expectations, and also across occasions or contexts, reflecting different potential drivers of expectations. Customers' service expectations can be greatly influenced by what is promised, both explicitly and implicitly. There can be explicit promises in, for example, **service-level agreements** – formal service contracts between companies. There can also be no formal agreement but implicit or vague service promises that are more difficult to address. Word-of-mouth communications and social media recommendations are also powerful determinants of service expectations. The perception of the alternative services that are available to customers will also affect their view of the services offered. Sometimes service levels can be affected by situational factors, which are factors beyond the service provider's control (e.g. a power failure). When customers are made aware of such situational factors, they are often willing to be more understanding and to widen their zones of tolerance.

How customers evaluate service quality relates to the five issues below:

1 **Reliability:** the ability to perform the service dependably, accurately and consistently. Reliability is performing the service right the first time. This component has been found to be the most important to consumers.
2 **Responsiveness:** the ability to provide prompt service. Examples of responsiveness include calling the customer back quickly, serving food in a timely manner, or emailing an order confirmation immediately.
3 **Assurance:** the knowledge and courtesy of employees and their ability to convey trust. Skilled employees who treat customers with respect and make customers feel that they can trust the company exemplifies assurance.
4 **Empathy:** caring, individualised attention to customers.
5 **Tangibles:** many services are intangible by nature but the physical evidence of the service can be used to judge its quality and is discussed later in the chapter.

Service recovery

Service recovery can be defined as the way an organisation responds to what is perceived as a service failure and focuses on the actions taken to avoid or rectify the deviation, to prevent breaches in customer confidence and loyalty, and to return the customer to a state of satisfaction.[33] The rise of social media has provided new methods to reach a wider audience for complaints. There is a United Airlines social media complaint about the handling of the loss of a guitar that has been viewed by millions. This focuses on how the complaint was handled and the lack of empathy or understanding or even an apology. Prevention is a great policy but a process is needed for how to handle failure and promote service recovery.[34]

Figure 20.3 shows a simplistic analysis of the totality of a customer experience on a flight from London to New York. LEGO's 'wow' map is called a 'customer experience wheel'.[35]

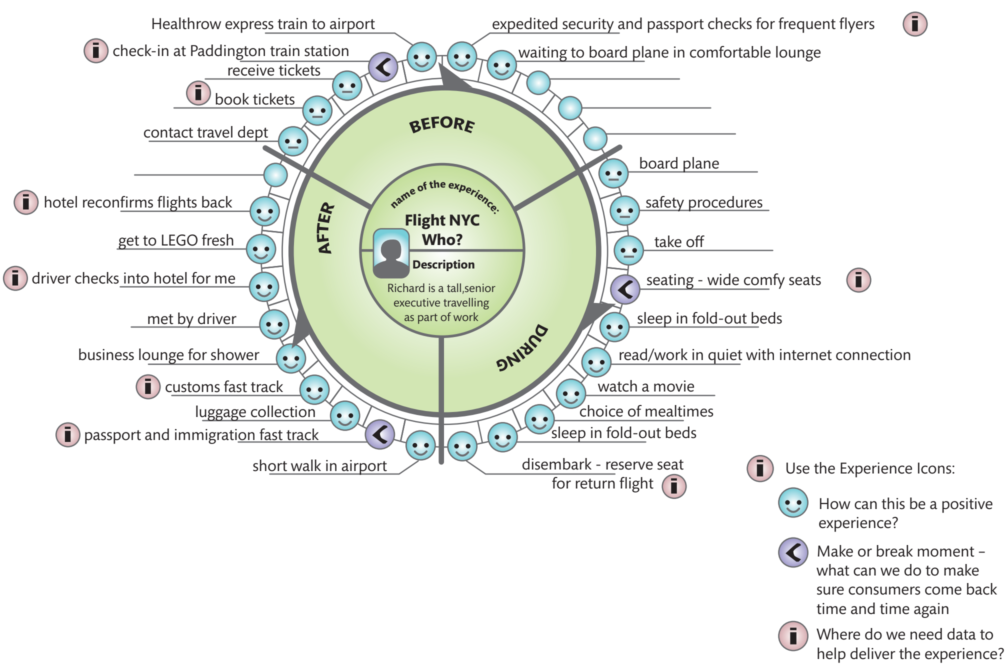


Figure 20.3 The customer experience wheel and how to improve it
Source: B. Temkin (2009) LEGO's building block for good experiences, http://experiencematters.wordpress.com/2009/03/03/legos-building-block-for-good-experiences/.

Understanding people management challenges

The people (or service relational) aspects of marketing mix activities focuses on the human interactions, whether with service staff or any staff member, and should be designed to make the service experience pleasant and satisfactory.[36] Service personnel are particularly important in services where, in the absence of clues from tangible products, the customer will form an impression of the company and service through the behaviour and attitude of its staff. **Service personnel** are any staff members whom customers see or encounter, and are often called frontline staff. Real progress in shaping the customer experience comes from addressing the emotional aspects of these interactions. A smaller aspect is the role of other customers who participate in the service environment and the management of this experience too.

The key to success is to fully understand customers' needs and expectations and prioritise delivery on these interactions.[37]

Consumer loyalty is often gained or lost in instances of customer service. Positive experiences can help increase customer confidence, and negative experiences can result in consumers reducing their commitment to a brand. Companies need emotionally intelligent frontline workers who perform exceptional customer service and perform well in moments of truth.[38] **Moments of truth** are any interactions where customers form an impression about the company/brand. Some of these can be very emotionally charged, such as when a flight has been cancelled or some product or service failure has occurred. These interactions when customers invest a high amount of emotional energy in the outcome are often critical for customer loyalty. Superb handling of these moments requires an instinctive frontline response that puts the customer's emotional needs ahead of the company's and the service personnel's agendas. Service personnel should have:

- a strong sense of self-empowerment and self-regulation, which together help employees to make decisions on the spot if that should be necessary;
- a positive outlook, promoting constructive responses to the challenges of delivering the service;
- an awareness of their own and other people's feelings, creating empathy and facilitating better conversations with customers;
- a mastery of fear and anxiety, and the ability to tap into selfless motives, which make it possible for employees to express feelings of empathy and caring.

To no small degree, these are intrinsic features of a human being's personality. Even so, companies – particularly those with far-flung networks of thousands or even tens of thousands of employees – can take practical steps to encourage and enhance them.[39] The necessary steps include working to give frontline jobs real meaning, aligning structures and processes, focusing on learning by experience, developing frontline leaders and using them to serve as role models.[40] Customer engagement (CE) and employee engagement (EE) is moderated by employee empowerment, type of firm (business-to-business [B2B] vs. business-to-consumer [B2C]), and nature of industry (manufacturing vs. service). In particular, this effect is stronger for B2B (vs. B2C) firms and service (vs. manufacturing) firms.[41]

Managing technology-supported interactions

The role of technology is critical with the historically 'high-touch, low-tech' nature of the service environment disappearing. Digitising the consumer decision journey is a challenge with both the physical and virtual worlds. More and more technology is available before, during and after the service experience, with improving customer service seen as the primary motivation for switching to technology-infused interactions.[42] Managing the interaction between technology and human can be critical to ensure that technology does not damage or become a barrier to an interpersonal relationship. It must be remembered that 'service encounters are first and foremost social encounters'.[43]

Consider Pizza Express and Pizza Hut and their use of people and robots.

Pizza Express and Pizza Hut

Pizza Express management understand that all aspects of their operation are critical but that a combination of the restaurant, their menu and their staff results in what they call a magical combination. They suggest that the most important aspect is their staff and the service they provide. They suggest that staff wear their staff uniform with pride and to focus on customer service so that each visit is special for the customer.[44]

Their award-winning restaurant design has a theatre and performance theme with the chefs as central actors, which has resulted in a 20 per cent rise in like-for-like sales since its launch and a 93 per cent customer satisfaction score. They have also brought technology into the service process, with gamification, digital ordering, a waiter-less pay-at-the-table app and a Facebook messenger bot for bookings. They have developed a new app designed to personalise and improve their customer's experience which was introduced following customer demand. They are very conscious that this app augments rather than replaces the critical person to person interactions.[45]

In Asia, the Pizza Hut restaurants have a robot Pepper who manages service. 'We are excited to welcome Pepper to the Pizza Hut family', said Vipul Chawla, managing director of Pizza Hut Restaurants Asia. 'Core to our digital transformation journey is the ability to make it easier for customers to engage, connect and transact with Pizza Hut. With an order-and-payment-enabled Pepper, customers can now come to expect personalised ordering at our stores, reduce wait time for takeaways, and have a fun, frictionless user experience.'[46]

PizzaHut has automated much of the service process including waiter-less self-ordering tables
Source: Paul Hennessy/Alamy Stock Photo

Pizza Hut in Asia has trialled 'Pepper', a friendly looking humanoid robot waiter, to take orders from customers
Source: Newscom/Alamy Stock Photo

Training service personnel

Most of the social exchange behaviour that frontline employees and customers exhibit during a service encounter can be explained by role and script theories. They both assume roles that play out according to established scripts – as in customers know how to play the customer role. These scripts are learned through past behaviour and are used to ensure a smooth exchange by dictating how the consumer and the employee should behave and how the actions should be ordered. As this is a social encounter, if either side violates the accepted rules – for example, ignoring or being rude to the customer – then the emotional response is to experience psychological discomfort.[47]

Service personnel must have **task competency** and behaviour skills – both are critical. They have to be competent in the task they have to perform. They also have to provide guidance and help throughout the process and act as advisers: for example, when a waiter is asked to recommend a dish. Being able to do the job is not enough. They must also have **behaviour skills**, or the ability to interact well with customers. This has been called emotional intelligence. **Emotional intelligence** is an ability, skill or self-perceived ability to identify, assess and control the emotions of oneself, of others and of groups.

Employee selection needs to focus on both the behaviour skills (emotional intelligence) and the task skills. Staff can be hired for service ability and trained for task competency. Training in task only or in behaviour only will not result in good service. If the service personnel are really nice, but completely ineffectual at their task, the service encounter (though pleasant) is not effective. Both are needed.

Service personnel need to display initiative, cope with stress (and other emotions), be interpersonally flexible, cooperative and sensitive. Above what they say, they must also maintain correct facial expressions and body language – this can be draining and stressful on the service personnel and has to be managed.[48] There needs to be norms, values and a culture that focuses on the desired behaviour of the service personnel, so that they behave every time in ways that reflect the brand image of the service provider.[49] Porters in hotels are trained to be friendly, doctors are trained to listen and waitresses are trained to be polite. Human beings by nature are ever changing and have moods that ebb and flow throughout the day. This can impact on the service provision that the customer will receive.

Frontline employees need to monitor their behaviour constantly and the questionnaire in the 'Marketing in action' box provides four areas (customer orientation – enjoyment and needs; competence – task and social; surface acting; and deep acting) to study.

Marketing in action

A questionnaire for frontline staff

The suitability of people for service roles is commonly gauged by assessing particular skills, behaviours or personality traits. The questions below could guide service personnel in understanding their role and their contribution to the customer experience.

Customer orientation

Likert scale: 'strongly disagree/strongly agree'

1 *Enjoyment dimension*
I find it easy to smile at each of my customers.
I enjoy remembering my customers' names.
It comes naturally to have empathy for my customers.
I enjoy responding quickly to my customers' requests.
I get satisfaction from making my customers happy.
I really enjoy serving my customers.

2 *Needs dimension*
I try to help customers achieve their goals.
I achieve my own goals by satisfying customers.
I get customers to talk about their service needs with me.
I take a problem-solving approach with my customers.
I keep the best interests of the customer in mind.
I am able to answer a customer's questions correctly.

Competence

Likert scale: 'strongly disagree/strongly agree'

1 *Task competence*
I was capable.
I was efficient.
I was organised.
I was thorough.
I met the customer's needs.
I performed as I expected.

2 *Social competence*
I connected to the customer's life/experiences.
I revealed personal information.

I invited the customer to reveal personal information.

I paid special attention to the customer.

I went out of my way.

I was my own person.

I was genuine.

Surface acting

Likert scale: 'never/always'

1 On an average day at work, how frequently do you. . .
Resist expressing my true feelings?

Pretend to have emotions that I don't really have?

Hide my true feelings about a situation?

Deep acting

Likert scale: 'never/always'

1 On an average day at work, how frequently do you . . .

Make an effort to actually feel the emotions that I need to display to others?

Try to actually experience the emotions that I must show?

Really try to feel the emotions I have to show as part of my job?

Source: R. Mascio (2010) The service models of frontline employees, *Journal of Marketing*, 74(4), 63–80.

Staff uniforms

For many service encounters, staff wear uniforms that suggest their role and how the interaction should occur. People immediately react to police officers and fire personnel as their uniform is reflective of their position and authority. Doctors wear white coats and a stethoscope around their neck, which provides an air of professionalism and authority. Sometimes a lot of thought goes into designing uniforms. For example, Alitalia uniforms are designed by Giorgio Armani, while Air France and British Airways use Christian Lacroix and Julien Macdonald respectively – all helping to create the impression of luxury for these brands.

Hiring and managing service personnel

Hiring of service personnel is usually the domain of the human resources department but marketing needs to be involved to ensure that the staff hired match the values of the brand and the service level. Marketing needs to ensure explicitly and systematically that people are hired who genuinely embrace the brand's values.

What you have to do is create an employment offering that attracts the right people – what is referred to as talent management. **Talent management** comprises the skills of attracting highly skilled staff, integrating new staff and developing and retaining current staff to meet current and future business objectives. To attract and maintain the best staff, a company needs to be 'a place where people not only get paid "their due" but also get to initiate and execute great things'.[50] If companies want to hire young, cheerful and happy staff, they need to create an environment where they would like to work. Consider Google.

Google

Google, which ranks in the top ten best employers, focuses on recruiting and keeping the best staff. Google's European engineering headquarters in Zurich is an exercise in lateral-thinking, creativity-run-wild interior design. Google's offices have a slide, a games room, a library in the style of an English country house, and a 'chill-out' aquarium where overworked Googlers can lie in a bath of red foam and stare at fish. The company also provides free food, meeting 'pods' in the style of Swiss chalets or igloos, and firefighter poles – all part of the design to attract and maintain the best staff. The building was designed for – and partly by – the 300 engineers who work there.

Google says: 'From our flexible, project-based approach to corporate structure to our innovative perks and benefits, we do everything we can to make sure our employees not only have great jobs, but great lives.'[51] Google has over 7,000 staff in Ireland to service the European market and has created pods, playrooms and jungle rooms to encourage innovation and creation.

Google Offices in Dublin – creating a fun working environment
Source: Ian Shipley ARC / Alamy Stock Photo

Service personnel managing failure and recovery

Service failures when they occur can damage the psychological contract between the customer and the company. According to a recent article, 'What unhappy customers want', they note that 'Frontline customer service employees need to be empowered to offer efficient, one-stop solutions for customer problems. Sensitivity to the customer's time needs to be at the centre of how management addresses customer complaints.'[52]

Failure means that the service did not meet the customer's expectation.[53] Often it is the customer service personnel who have both to notice the service failure and the unsatisfied customer (if possible) and to repair the failure – immediately (if possible). The picture gets complicated for management for several reasons:

- Customers may blame themselves for the failure (not wanting to complain).
- The cause of the failure may be the contact people charged with noticing and repairing the failure (causing potential role conflicts).
- Fixing a service can be difficult due to intangibility and perishability. A broken TV can be repaired, but how can you give back time lost waiting?
- Compensation that customers are willing to accept and perceive as fair will vary.[54]

Several companies pre-authorise frontline employees to spend a capped amount to fix customer problems. Employees at the Ritz-Carlton Hotel may spend up to €2,000 per incident. The principle behind this is that customers are more satisfied with their encounter if the first person they contact about a problem takes the initiative to fix things without having to send the request up the chain to their manager. It lets employees focus on solving problems.[55] Managing both employees and customer is critical – see the 'Marketing in practice' box.

Marketing in practice

Normative and instrumental controls for managing customers

Engagement between customers and service personnel follows the rules of normal social behaviour but companies need to inform customers of how they would like them to behave and perform their roles. Many techniques can be used to manage the customer, which could be as simple as giving physical cues such as direction or operational signs: for example, 'Please wait to be seated' signs in a restaurant, 'Please queue to the right', or 'Please take one'. All these indications inform and guide the customer.

The two main customer management techniques are normative and instrumental behavioural control.[56]

Normative behaviour control focuses on the emotional rather than the rational and involves shame, blame or pride. It uses peer pressure, norms of behaviour and other social influences to shape behaviour in the service environment. eBay is a customer-to-customer domain where the customers are both the 'sellers' and the 'buyers' of online auction goods. Customer perception of the service level provided by other customers is a matter of public record. There is a rating scale for eBay customers and this influences behaviour. Both buyers and sellers found that there were consequences to their actions. For eBay this is a very low-cost policing method.

Instrumental controls are specific tangible costs and rewards designed to induce desired behaviour. Behavioural theory has long acknowledged two basic tools for influencing human behaviour – reward and punishment. Therefore banks ask customers to keep a certain balance in their account and if customers do not the banks punish them by charging interest for being overdrawn. There is an argument that banks should not let the person overdraw, but this is where the banks make their money.

Charging more or less money to promote behaviour that serves the company's interests is very common. This discourages behaviour that unintentionally increases the cost or decreases the quality of a service. Actually, a fee for undesired behaviour does not always work. When a crèche introduced a fee for parents who were late collecting their children, parents were happy to pay. They felt that their guilt was allayed – they could be late and just pay extra.

Co-creation of value: customer participation

Customer participation must be accommodated, planned and designed into the service process.[57] The distinct roles of the customer and the company have evolved and they are more entwined than ever.[58] Customers are often very involved in the service process. Customer participation can be service support, information support, emotional support or instrumental support. Take a supermarket trip to Carrefour (France), Albert Heijn (Netherlands) or Spar (UK). The customer does a lot of work – finding a trolley, selecting products, then loading products on to the conveyor belt and, when the cashier has scanned them, putting them all into bags and back into the trolley or using the self-service options of self-scanning and payment.

More and more customer roles have a technology dimension, from home delivery to buying online or 'click and collect'; technology and company staff do the shopping and/or delivery for the customer. With fridge and cupboard apps, dash buttons and other automation technologies, much of this is becoming technology controlled, reordering food items for delivery when they run low.

Co-creation of value emphasises the generation and on-going realisation of mutual firm–customer value. Prahalad and Ramaswamy, leading authors in this area, suggest that co-creating is the 'high-quality interactions that enable an individual customer to co-create unique experiences with the company (and) are the key to unlocking new sources of competitive advantage'.[59] Companies and customer participants share, combine and renew each other's resources and capabilities to create value through new forms of interaction, service and learning mechanisms.[60]

Wikipedia is a good example of a co-created experience, with people managing, updating, adding and amending entries. Social networking sites work only if people post, design and comment. From eBay to YouTube, user-generated content is the backbone of how these companies work. Customers co-create value when they log on to the Disneyland Paris site and design their agenda for their trip. In many cases, the customer (either by accident or by design) performs much of the service themselves. The core idea is to create and foster a valuable and enjoyable co-creational experience for both customers and staff.[61] **Gamification** is the use of game principles in non-game contexts and particularly in the online world. This is a growing method used to increase customer engagement through game mechanics such as ranking, leaderboards and prizes.[62] Tripadvisor uses badges and rewards to encourage reviewers to post and build their online status – growing the support for other customers.

Customer-to-customer interactions are direct or indirect engagement between customers during the process and can have a huge influence, often not under the control of the company. Direct encounters (including talking, supporting, guiding) or indirect behaviour (how customers avail of the service experience) can impact greatly. Positive and negative outcomes can arise from customer-to-customer encounters. A UK case study by Harris and Baron found that conversations between train passengers really helped their mood, particularly when there were delays.[63] The study also found that in the absence of service personnel, the passengers themselves often gave each other information in relation to timetables and platforms. Indirect behaviour such as noisy customers in a restaurant when you wanted a quiet dinner can affect the service experience. Customers could be viewed as unsalaried part-time employees and utilised within the service process as service personnel support, or they can at the other extreme damage the service process and the enjoyment of others.

Service-level engagement

The dividing line between the company and customer can also blur in relation to level of engagement.[64] Successful service provision relates to the completion of the core service but also the personal aspects of the service. The interpersonal relationship between the customer and the service personnel can move through professional, casual and personal to friendship. The domain of the service can influence this. For example, financial and health care services are viewed as professional, while hairdressers are often viewed as friends.[65] In some cases the service personnel and the customer can form an emotional attachment.[66] For example, Victoria Beckham said that 'her two closest friends are her hairdresser and make-up artist'[67] – both service providers.

Within the retail environment, customers can opt for different levels of service as required. **Retailers** position themselves as offering one of four levels, with all these options now supported by technology – think Amazon, Net a Porter or Tesco online:

1. **Self-service.** Self-service is the cornerstone of most retail operations, with customers willing to carry out their own locate–compare–select process, and now extended to check-out too.
2. **Self-selection.** Customers find their own products, although they can ask for assistance.
3. **Limited service.** These retailers carry more shopping products, and provide services such as shopping support, credit and product-return privileges, information and assistance.
4. **Full service.** Salespeople are ready to assist in every phase of the locate–compare–select process. Customers who like to be waited on prefer this type of service. The high staffing costs, along with the higher proportion of speciality products and services, result in high-cost retailing.

By combining these different service levels with different product breadths, we can distinguish the four broad positioning strategies available to retailers:

1. **Harrods.** Shops that feature a broad product range and high value added pay close attention to customer service within the store as well as shop design, product quality and image. Their profit margin is high, and if they have high-enough volume they will be very profitable.
2. **Tiffany.** This high-end jewellery store typifies the kind of shop that features a narrow product assortment and high value added and that cultivates an exclusive image with high customer service. These shops operate on high margin and low volume.
3. **Sunglass Hut.** Shops that feature a narrow line and low value added keep costs and prices low by centralising buying, merchandising, advertising and distribution. They have limited service.
4. **Tesco.** Shops that feature a broad line and low value added focus on keeping prices low and have the image of a place for good buys. High volume makes up for low margin. There is very little customer service to support shopping within the store.

Managing the physical evidence and experience environment

The **physical evidence** is the surroundings or environment where the service takes place, and also any physical or tangible items supplied during the service experience. The surroundings have also been called the **servicescape** or **experience environment**.[68] This includes the buildings, furnishing, layout, colour, signs, and all the fixtures, sights and sounds in relation to the environment; and from a tangible perspective, can include items such as carrier bags and tickets, supplied with the service but not purchased. These all combine to create the brand image desired, and will impact on both the customer's and the service provider's behaviour and experience of the service.[69]

Atmosphere is the creation of a sense or experience. Atmosphere as a marketing tool is defined as a space consciously designed to create certain effects on consumers and influence their purchase decision; the atmosphere consists of various elements such as brightness, size, smell, temperature, music, softness, smoothness and shape. Businesses want to create the atmosphere that reflects their target market. Service operations such as shops, supermarkets, hotels, restaurants, clubs, doctors' waiting rooms and hospitals create an atmosphere for the customer that matches the service provision and manages the atmosphere through the 'look' or design of the premises. Apple stores have a layout and design with surgical-grade stainless steel walls and backlit signage – a more engaging shopping experience for staff and customers.[70] Both respond emotionally and physiologically to the perceived environment, and these responses ultimately impact upon behaviour. Some service environments can work for the customer and not for the employee and vice versa. For instance, queues help the service personnel but many customers do not like them. Physical elements can have a rational function – they are there for a reason (e.g. directional signs), while others have a more symbolic mission – they help define the role (e.g. wigs on judges or gowns on lecturers).

Two main emotional impacts of the physical environment are pleasure–displeasure and degree of arousal. The physical environment may assume a variety of strategic roles in services:

- The physical environment provides a visual metaphor for an organisation's total offering.
- The physical environment can assume a **facilitator** role by either helping or hindering the ability of customers and employees to carry out their respective activities.
- The physical environment can serve as a **differentiator** in signalling the intended market segment, positioning the organisation and conveying distinctiveness from competitors.

To secure strategy advantages from the physical environment, the needs of customers and the requirements of various company departments must be incorporated into environmental design decisions. The retail environment adopts practices as simple as calling each shopper a 'guest' and as grandiose as building an indoor amusement park. The Mall of the Emirates in Dubai has a ski slope in the desert shopping centre – an interesting attraction for shoppers used to 50-degree heat!

The full experience and delivery must be managed. Take a sporting event, which includes: tickets with the team's logo; players wearing team colours; the stadium itself, which can be impressive and have an electrifying atmosphere; the colour and comfort of the seats; the food and drink; parking; and the toilets. All contribute to the experience for the customer. This relates to what are called **hygiene or motivator factors**. Herzberg's motivation–hygiene theory states that there are certain factors in the workplace that cause job satisfaction, while a separate set of factors cause dissatisfaction. Developed by psychologist Frederick Herzberg, who theorised that job satisfaction and job dissatisfaction act independently of each other,[71] it can be used for customer enjoyment too.

- **Motivator factors** provide satisfaction and derive from the actual service or experience (e.g. entertainment from watching an event at a sports stadium). These factors are concerned with what customers actually get.
- **Hygiene factors** can cause dissatisfaction if missing but do not necessarily satisfy if increased and can link to expected services that if not acceptable will be noticed. Research showed that visitors to a zoo in Denmark rated the hygiene factors of toilets and car parking as more important than the motivators (the actual visit to the zoo), leading to dissatisfaction with the services when they were not provided to the expected levels.[72]

The service atmosphere should match the basic motivations of the shopper – if target consumers are more likely to be in a task-orientated and functional mind-set, then a simpler, more restrained in-store environment may be better.[73] These factors can also be used to target customer needs. Take Virgin Airlines, which concentrates on comfort, service and luxury for certain customer target markets, and fun and enjoyment for others.

Virgin Atlantic

Virgin Atlantic created a flagship £11 million Heathrow Clubhouse lounge. This lounge is more than double the size of the previous one and sets a whole new standard for business class travellers. It includes myriad features ranging from a long bar, a deli, a brasserie, a poolside lounge, a library and a rooftop garden. There are full spa facilities with four massage bays, a sauna, six steam-shower rooms, suntan booths and, for those fancying a quick dip before flying, a hydro-pool. On board the *Upper Class Suite* has beds, tables and plenty of leg room with one of the longest fully-flat beds in the industry. Creating digital experiences is also one of their core focuses, exemplified when Virgin created a memorable experience by using digital projection to create a Father Christmas figure to board the plane and meet customers – mid flight!

R. Branson (2014) Santa lands on Virgin Atlantic flight at 30,000 feet, *https://www.virgin.com/richard-branson/santa-lands-virgin-atlantic-flight-30000-feet.*

Managing sensory marketing: using the five senses

Sensory marketing is understood by the best marketers, who use the four sensual dimensions of sight, sound, touch and smell to support the customer experience before and during purchase, helping them to stay loyal and to have an emotional connection with the company.[74] 'We are not buying products and services but experiences and dreams.'[75] A study by Millward Brown revealed that 83 per cent of all brand communication is focused on two senses: what we hear and what we see.[76] Martin Lindstrom, a Dutch branding expert, noted that only 10 per cent of the world's top 200 brands use all senses, with businesses often overlooking the fact that 75 per cent of day-to-day emotions are influenced by smell, and there can be a 65 per cent chance of a mood change from positive sounds.[77] See the 'Marketing insight' box.

Marketing insight

Martin Lindstrom, Brand Sense

Dutchman Martin Lindstrom is one of the world's leading experts on branding and the senses. He is the author of three influential books: *Brand Sense: Sensory Secrets Behind the Stuff We Buy; Buyology: Truth and Lies About Why We Buy;* and *Brand Sense: How to Build Powerful Brands through Touch, Taste, Smell, Sight, and Sound.* Lindstrom analyses what makes people buy in a world that is cluttered with messages and noise. Through a study of the human psyche, he discusses the subconscious mind and how it plays a major role in deciding what the buyer will buy. His message is that marketers must understand the consumer in order to build brands, and marketers must engage customers' brains.

He suggests a six-step approach to crafting a sensory brand across all touchpoints:

1 synergy across sensory touchpoints;
2 innovative sensory thinking ahead of competitors;
3 sensory consistency;
4 sensory authenticity;
5 positive sensory ownership; and
6 constant progress across sensory touchpoints.

Lindstrom has a TV show called *Back from the Brink* – where he redesigns service outlets to keep companies from failing. He shows these companies how to use senses to enhance the brand and the customer experience, and shows companies how customers' senses interact when shopping, playing and on the go.

Managing the four main sensory experiences is critical – the visual dimension (colour, brightness, size and shape), the aural (volume and pitch), the olfactory (scent and freshness) and the touch or tactile dimension (softness, smoothness and temperature). (The fifth sense, taste, is not included in the service environment – though it is said that people do eat with their eyes!)[78]

Managing sight – visual dimensions

Sight or vision is our primary sense and is aligned to colour and aesthetics: 85 per cent of all communications from companies is linked to sight only. This is connected to how customers see the service, the environment and particularly the interior design of the company/retail/event – whenever a customer is in attendance. Seating in fast-food restaurants is usually brightly coloured, which does not encourage lingering, while customers are more inclined to linger on neutral-coloured chairs.

Take UK-based retailer Morrisons, which redesigned its shops to increase profits by thoroughly reinventing the look of its stores:[79]

- **Walls:** replaced plain white walls with earthy tones to convey freshness and wholesomeness.
- **Lighting:** replaced bright glaring lights with warm accent lights that direct attention to products and departments.
- **Signage:** added big pictures of healthy food, as well as display stations throughout the store to suggest meal ideas for time-starved shoppers.
- **Produce department:** enlarged the organic section, moving it from against the wall to wooden crates at the centre of the floor space, suggesting a farmer's market.
- **Floors:** installed hardwood floors in perishables department to provide a natural feel.
- **Bakery:** knocked down walls to show off bread baking in wood-fired oven, and added an island in the centre of the department that offers custom bread slicing.

Managing sound – aural dimensions

Customers are familiar with piped music in shops and aircraft music to calm passengers, but sound has developed further as an important aspect of the shopping and other service experiences. Abercrombie and Fitch create the sensation of a darkened disco for its teenage target market by playing loud music with a deep drumbeat. In a study of women's fashion retailing and the effect of music (tempo and type) on customer perceptions and behavioural outcomes, the results revealed that customers who liked the music being played were more likely to feel happy and to rate highly the quality of service and products on offer.[80] On music type, when classical music or slow songs were played, shoppers had a higher perception of service quality and pleasure than when the music was fast. Music tempo can suggest the type of business – classical music for an older target market and boy bands for the teenage market. Supermarkets have found that varying the tempo of music affects the average expenditure and the average time spent in the shop. Companies now use ambient sound software to control the sound within their stores or offices.[81]

The influence of music on consumer purchase behaviour in the retail environment is extending into the digital world and is a growing aspect of engagement.[82] Lai and Chiang, in their study on background music on shopping websites and its effect on users' emotions and cognitive responses, found that when the music was played after browsing it could induce higher pleasure, but when it was played at the start of browsing, participants showed less pleasure and arousal.[83]

Managing smells – olfactory dimensions

The sense of smell is the strongest sense and one that can trigger dormant memories and associations. Around 75 per cent of our emotions are generated by smell.[84] A smell can have long-lasting associations that are cognitive (mental processes), behavioural and also emotional. The poet Diane Ackerman noted that 'hit a tripwire of smell and memories explode at once'.[85] Retailers are adding fragrances to stimulate certain moods. Bloomingdale's uses essences in different departments: baby powder in the baby department and suntan lotion in the swimwear department.[86]

Customers expect what is called the **ambient smell**, which is the smell that creates an ambience – such as the smell of coffee beans in a coffee shop. Many supermarkets smell of freshly baked bread. It is not that they are baking all day, but the smell is piped into the shop as the smell of fresh bread has positive connotations and also promotes hunger, which can encourage people to buy more. Here are some other examples:

- Thomas Pink sprays the smell of fresh laundry and cotton in its shops to create that 'fresh' ambience.
- Singapore Airlines has developed a signature scent called Stefan Floridian Waters, which is sprayed in airplanes and worn by its staff.
- Sony shops have a specially designed subtle vanilla and mandarin orange fragrance.
- Abercrombie & Fitch uses its own scent – spraying it inside and outside its shops, and on its clothes.

A pleasant or unpleasant smell will reflect either positively or negatively on the service. A German study for Nike trainers found that 85 per cent of respondents preferred trainers displayed in a room with a light smell, over the exact same shoe displayed in a room with no smell – and also were prepared to spend more to buy them.[87] Casinos have noted an increase in gambling if there is a citrus smell.[88] In recent research, the diffusion of scents was studied to see if there was a positive change to the evaluations of a service experience and perceptions of personal wellness in a health service environment. Three situations in a children's hospital were examined: a no scent situation, relaxing scent situation and stimulating scent situation. The study revealed that both a relaxing and a stimulating odour improved the evaluation of the experience in the paediatric service. It showed that the use of scent is helpful in creating an experiential context, allowing the children to be more positive about their hospital stay.[89]

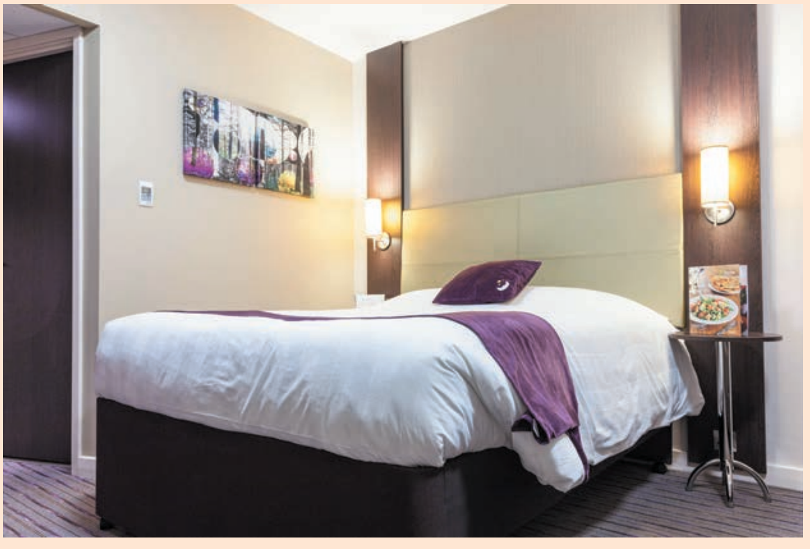
Managing touch – tactile dimensions

Customers like to touch, to feel, to experience for themselves. With the advent of the smartphone, customer are now more touch curious. Every surface in a Sony shop is designed to be touchable, from etched glass with bevelled edges on countertops to silk paper and maple panelling. When customers touch fabrics or furniture they create images in their minds. The texture of bedclothes in a hotel can greatly affect the stay, with hotels customising their service by offering a range of fabrics and types of pillows. As customers experience touch sensations it can affect their emotions. For example, people sitting in hard, cushion-less chairs were less willing to compromise in price negotiations than people who were sitting in soft, comfortable chairs. Store managers have also recognised that displays that allow customers to touch items can lead to increased sales. Touch researchers have learned that there are variations in people's 'need for touch'. Customers have different preferences and motivations for obtaining product information by touching the product or experiencing the touch of the service environment.[90]

Marketing managers need to manage these four senses to create the total environment for the service experience, as the case of Premier Inn illustrates.

Premier Inn

The Premier Inn is clear on how critical all the senses are. The purple theme dominates throughout. The interiors of all 780 hotels and 70,000 bedrooms are designed to create a unified experience and image. The company installed noise monitors on corridors to alert guests to the need for quiet. The devices light up when guests hit a certain noise level. To manage noise further, the company has also introduced double glazing and put springs on doors so that they close quietly. Premier Inn's chief executive Andy Harrison said: 'It might seem like a bit of fun but it's actually addressing a very real business challenge. With its 'great night's sleep guaranteed' pledge, it goes above and beyond the promise of convenience or value to offer something that all consumers crave from a night in a hotel – real comfort and a sense that it is a home away from home. BrandZ data confirms that Premier Inn commands a perceived price point 32 per cent higher than might be expected through managing all aspects of a good night's sleep for customers.



The Premier Inn focuses on a good night's sleep
Source: Martyn Williams / Alamy Stock Photo

The future: managing and combining human and digital

The future of how digital and human intertwine as part of service processes, people and physical evidence will see the next decade herald many new developments, and the question is how much technology, when, where and how?[91] What is expected is a strong platform of physical stores, websites and mobile apps. Smartphone purchases, self-check-out and check-in kiosks, pay-at-the-pump petrol stations, online banking and stock trading, self-order at restaurants, and an array of dedicated devices (photo kiosks, DVD rentals, ticket machines, etc.) are commonplace across Europe and expected to grow.[92] Self-service technologies are replacing many face-to-face service interactions, with the intention of making the service transactions more accurate, more convenient and faster.

Self-service technologies are technological interfaces allowing customers to produce services independent of involvement from direct-service employees. The 'Marketing insight' box shows how digital is the norm within the airline industry.

Marketing insight

Air travel and self-service technologies

Digital is an expectation within travel, with self-service technology solutions providing a reduction in traveller stress, airport congestion and costs.

The International Air Transport Association (IATA) 2017 Global Passenger Survey (GPS) revealed that passengers expect technology to give them more personal control over their travel experience.

Based on 10,675 responses from around the globe, the customers wanted:

- automation of more airport processes;
- a single identity token for all travel processes using biometric identification;
- real-time information sent directly to personal devices;
- more efficient security – without having to remove or unpack personal items;
- more seamless border control.

Pierre Charbonneau, IATA's director of passenger facilitation says:

> 'Passengers have never been as empowered as they are today. Self-service solutions range from mobile check-in and bag drop, to self-boarding and automated border control. Smartphone- and tablet-toting, passengers want to use these mobile devices to control their travel experience. They expect easy access to the information they want, exactly when they need it in the travel process. Airlines and airports that make the most use of technological innovations will be giving a better travel experience to their customers.'

Source: IATA (1017) Passengers want technology to give them more control over their travel experience, October, http://www.iata.org/pressroom/pr/Pages/2017-10-24-02.aspx.

The substitution of self-service technology for staff labour can be used to reduce costs but should be designed for increased service provision and benefits for the consumer, as well as cost savings. For example, self-service check-in at airports saves the industry as much as €2.50 per check-in, while also improving customer service.[93] Many consumers appreciate the control they have over the self-service process through technology, but some see it as a barrier to relationship building and placing the workload on the customer.

Self-service or automation is now the norm. Vending machines date from about 200 BC when Hero of Alexandria used a coin-operated holy water device at an Egyptian temple. Nowadays, kiosks bring together the classic vending machine with high-tech communications and complex robotic and mechanical internals. Such interactive kiosks can include self-check-out lanes, e-ticketing, information and direction and vending of numerous products and services, including impulse items such as call credit, stamps, soft drinks, coffee, sweets, newspapers, to driver's license renewals and even a quick health check. Electronic kiosks have become a larger part of the retail landscape. An **interactive kiosk** is a computer terminal featuring specialised hardware and software designed to provide access to information and applications for communication, commerce, entertainment and education. Self-order kiosks use touchscreens to replace cashiers. Fast-food chains implementing automated self-service machines include McDonald's, Burger King, Taco Bell and KFC.

Self-service abounds – even pizzas in Italy
Source: Phil Yeomans/Rex Shutterstock.

Electronic kiosks have become a large part of the retail landscape
Source: Images by Morgana/Alamy Stock Photo

Metro – Germany's largest retailer and the fifth-largest in the world – has opened a Future Store in Rhenberg that reflects future technology and also serves to illustrate some of the challenges that marketing will face.

Metro – the future of retailing

Metro, Germany's largest retailer, has opened a Future Store that offers a high-tech service experience, with personal shopping assistants (PSAs) on Wincor Nixdorf tablet computers clipped to shopping trolleys. Type 'ice cream' on the touch screen and you are directed to the correct aisle – floor plan included. Regular purchases with price and location show up on a favourites list. Special offers are flagged as you move from section to section. Your shopping list can download to the PSA. The trolley has an intelligent Scale, which can identify and scan items by sight. Within sections, touch-screen terminals provide in-depth information on the product or suggestions for use. The integrated scanner provides a running total and allows for fast-track treatment at the check-out. The shop's shelves are smart shelves with 30,000 wireless electronic price labels that can be changed at the push of a button.

Metro was the first retailer to introduce self check-outs in Germany and continues to transform retailing today through investments in both human and digital engagements.

The technological future of retailing: Metro's Future Store
Source: Ulrich Baumgarten/vario images GmbH & Co. KG/Alamy.

According to the 2017 World Economic Forum Report 'Shaping the future of retail for consumer industries', three technologies are expected to change the face of the retail landscape:

- internet of Things (IoT);
- artificial intelligence (AI); and
- robotics.[94]

Other future technologies are facial recognition, AI and more apps. The ability to innovate with technology within the service experience will be critical, as customers expect more control, more freedom and more choices in how they interact. Companies need a customer-first mentality, providing agile customer experiences whether human, digital or both.

SUMMARY

1 Service process, people and physical evidence must be managed to create a valuable customer experience.
2 A service process design describes the procedures to be followed in service delivery and links the degree of technology, visibility, customisation and accessibility.
3 A service blueprint is a pictorial map of the essential components of the service performance, including the front-office and back-office elements.
4 Strategies for managing customer-introduced variability centre on accommodation or reduction strategies.
5 Managing and training service personnel and customers to create the expected service provision demands skill and empowerment, self-regulation and management support.
6 Co-creation of value is the generation and ongoing realisation of mutual firm–customer value.
7 Creating and managing the physical evidence and environment means understanding how everything matters, from the smallest physical evidence to the total servicescape.
8 Sensory marketing is the management of the four main senses: the visual dimension (colour, brightness, size and shape), the sound dimension (volume and pitch), the smell dimension (scent and freshness) and the tactile dimension (softness, smoothness and temperature).
9 Current and future technologies are changing customer experiences and the increased role of automation, robotics, AI and the Internet of Things means more and more changes and greater availability of digital, online and offline options.

APPLICATIONS

Marketing debate

Take a position: marketers should use all the senses to target customers *versus* marketers should concentrate on the traditional senses of sight and sound only.

Marketing discussion

Design a service blueprint for a service you are familiar with. Explore the level of variability and accommodation allowed within the service process design blueprint.

FURTHER READING

M. Rosenbaum, M. Losada, O. Germán and C. Ramírez (2017) How to create a realistic customer journey map, *Business Horizons*, 60(1), 143–150.

This is an excellent article showing managers how to develop a realistic customer journey map (service design process) that improves a customer's experience at each touchpoint – the many critical moments when the customer interacts with the organisation and its offering on their way to purchase and after. Using the example of a retail-shopping trip, they show how easy it is to make incorrect judgements about customer experiences. This article demonstrates how strategic management teams can understand which interactions or touchpoints are more or less critical and clarifies how key strategic initiatives at each touchpoint, and with cross-functional input, can advance service innovation.

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Part 6 Case study

Apple stores: delivering value

Angela Ahrendts, the senior VP of retailing in Apple, has just finished a significant redesign of the Apple stores – the first in 15 years – changing the in-store experience to create a sense of community and fun. Ahrendts was previously CEO of Burberry, a brand she rescued from failure to become one of the world's top ten brands. Like Burberry, Apple has a global and multichannel strategy using a mix of online and offline channels.

Enhancing the customer experience

Apple has always understood the importance of the customer experience through its service process design, the design of the physical environment and staff engagement with customers. Apple service process is simple, fast, clutter free and focused on the customer. The process design blueprint is uniquely Apple and the company has even trademarked the design process to protect it. Each step of the process is studied – for example, where customers are waiting staff provide them with toys and gadgets to help pass the time. These small touches enhance the service experience.

Apple empowers its staff so they believe in and live the company vision. Apple has always prided itself on its people – motivating them, engaging them, training them and making the Apple experience great for staff and customers. Many companies often overlook, undervalue and underpay frontline staff. Apple hires staff who love Apple products and service, and enjoy being with customers. They learn how to approach each customer, ask questions so they understand their needs, present solutions and conclude the interaction to the customer's satisfaction. The Apple credo is that we are at our best when we are delivering enriching experiences.

Apple's retail success has resulted in increased profitability too. The average Apple store generates over €5,000 per square metre, with more than 20,000 visitors weekly. That is amazing when you understand that, first and foremost, this is a technology/consumer electronics company not a retailing company. Apple focuses on the customer and on all its channels to market.

Managing multichannels both online and offline

Apple follows a **multichannel strategy** with online and offline channels – both self-managed, as in its stores (of which there are over 400 in Europe), and through channel intermediaries including Amazon and eBay, and third-party stores across Europe, such as Media Markt and T-Mobile in Germany. Online there are 600,000 apps from the Apple App Store, with more than 25 billion downloads. With iTunes, millions of songs are available. In March 2018, Apple Podcasts passed 50 billion all-time episode downloads and streams. The management of owned and independent online and offline intermediaries is challenging, but provides the customer with the range of experiences and services they want.

Pricing and payment challenges

Apple has shown expertise in aligning pricing to what customers want and changed the music industry pricing model when it introduced the low prices (once-off or subscription) for iTunes downloads – moving customers away from the expensive CD. It also understands premium pricing with its iPad and iPhones, keeping both prices and quality high to capture the interested consumer first, and then gradually reducing prices. It understands that prices are more easily reduced following a product introduction than increased. For chief executive Tim Cook: 'Price is rarely the most important thing. A cheap product might sell some units. Then people get it home, use it and the joy is gone. And the joy is gone every day you use it. You never think, "Oh I got a good deal!" because you hate it.' Apple has so much confidence in its product offerings that it is never afraid to charge premium prices.

Ahrendts is also focused on the mobile wallet space – Apple's mobile payment system called Apple Pay. With British consumers and businesses making over 13 billion debit-card transactions, this payment method is fast overtaking cash. Apple Pay is available in over 20 countries and used by companies including McDonald's, Target, Macy's and Disney theme parks and, of course, Apple's own retail stores. Ahrendts' challenge is how to develop this in the European market with its mix of currencies, technology adoption rates and channel dynamics – no easy task.

Apple is fast becoming the first company to reach a market value of €850,000 (or $1 trillion) and has sold 600 million digital devices, over 600,000 apps and over 30 billion downloads. Ahrendts has been offered the customer experience challenge of maintaining and increasing the Apple dominance and its spectacular ability to satisfy customers' needs at a profit.

Questions

Angela Ahrendts, the new senior VP of retail and online stores, has three core challenges that you need to help her with:

1 How does she create customer experience within the stores and online service – and what would you suggest she does under service process innovation, people management and/or the physical environment enhancements?

2 Is there a conflict between managing the online channels and offline channels? Do the Apple-owned stores cause this conflict?

3 What are the next steps for Apple Pay?

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PART 7
Managing marketing implementation and control

In addition to their responsibilities to their companies to ensure that the marketing spend is measured and seen to be productive, marketing managers also have a number of challenges that are contextually and socially important.

Part 7 Managing marketing implementation and control explores three important themes:

1. **Responding to broad contextual and social challenges.**
2. **Building effective and creative marketing organisations.**
3. **Selecting suitable marketing spends and monitoring their effectiveness by managing marketing metrics.**

Marketing expenditure, as with any other company activity, needs to be budgeted and result in a measurable return. Marketing activities are being professionally costed and attempts made to judge the effectiveness of different elements within the marketing budget.

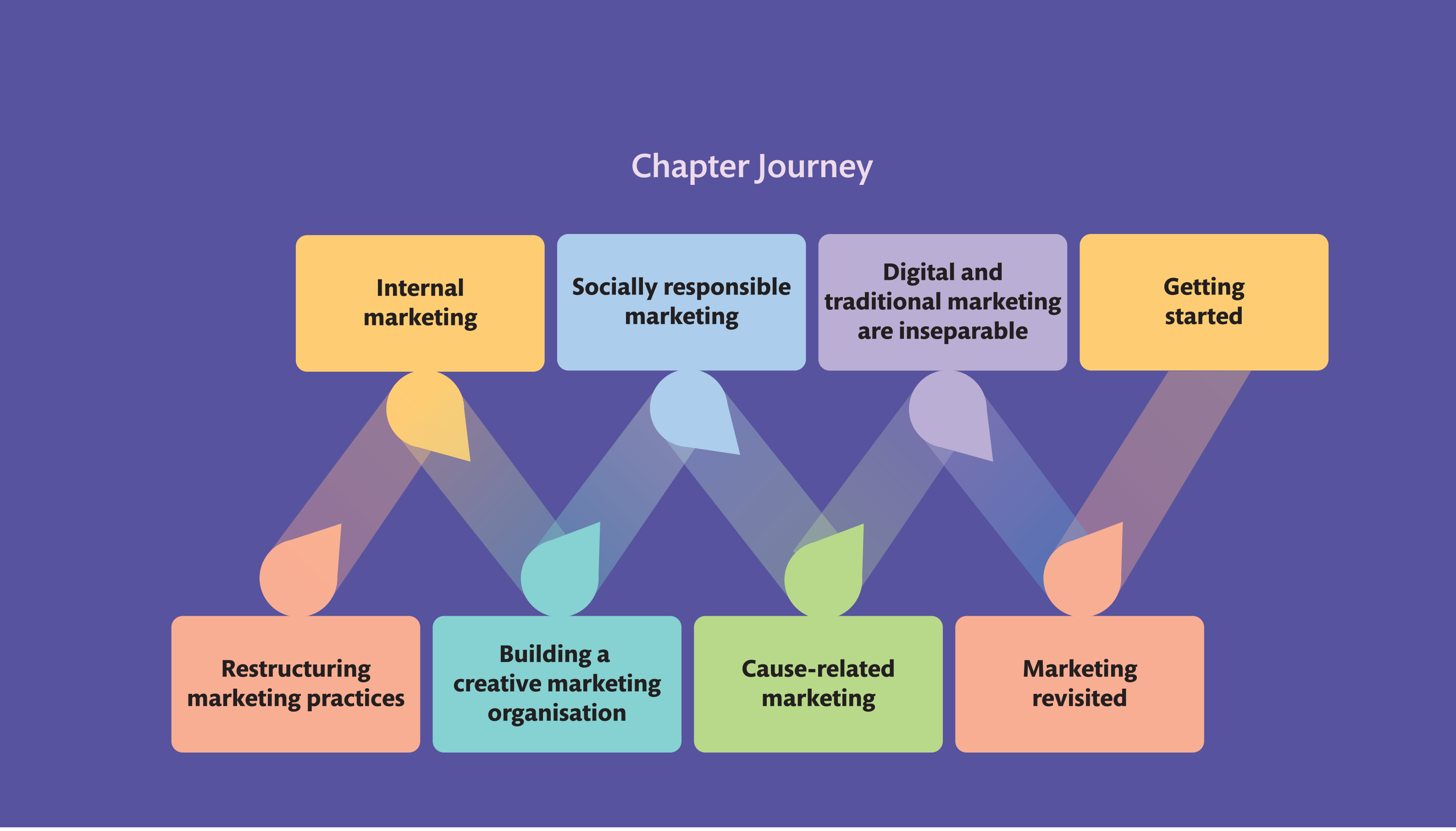
However, the application of management accounting methods to assess the precise contribution of any specific marketing activity is difficult to achieve, as many of the sub-budgets within the responsibility of a marketing manager are attempting to meet revenue targets that are highly dynamic. Inevitably, marketing management is part intuition, part creative flare and part science, but nonetheless dependent crucially on the development and professional use of marketing metrics. In today's marketplace, it is vital that effective marketing implementation builds on a strong sense of ethics, values and social responsibility.

CHAPTER 21
Implementing marketing management

In this chapter, you will learn about the following topics:

1. Why and how companies are restructuring their marketing practices
2. The key to effective internal marketing
3. How a company builds an effective marketing organisation
4. How companies are responsible social marketers
5. The implications of the digital revolution
6. Why and how marketers are revisiting their task philosophy
7. How marketing is changing its practical focus

Sense and sensibility overcome pride and prejudice as a marketing executive from an underperforming company seeks advice from a marketing consultant
Source: Serif.



Healthy long-term growth for a brand requires that the marketing organisation be managed properly. Holistic marketers must engage in a host of carefully planned, interconnected marketing activities and satisfy an increasingly broad set of constituents. They must also consider the wider range of effects of their actions. Corporate social responsibility and sustainability have become a priority as organisations grapple with the short- and long-term effects of their marketing. Developments in technology and consumer behaviour are now so rapid that more has changed since the publication of the third edition of this text in 2016 than in the previous 25 years. The common denominator in the current world is connection. This has transformed the way people consume and the way they live. The landscape facing marketing management is one where consumers are making both the content of market offerings and connections for themselves. All businesses will have to come to terms with a fast-paced digital world and find ways of working quickly with big data and consumer connection channels.[1]

Brands such as Reckitt Benckiser, Unilever and the Virgin Group have embraced similar philosophies and practices. Successful holistic marketing requires effective relationship marketing, integrated marketing, internal marketing and performance marketing in both offline and online channels. Preceding chapters have described the development, and impact, of the digital new world. This chapter examines what marketing management needs to do to be effective. The discussion begins with a statement of recent trends in marketing and is followed by sections covering organising for marketing, socially responsible marketing and the future of marketing in the mature digital age.

Restructuring marketing practices

As a consequence of the paradigm change in the business environment from sellers' to buyers' markets, together with important changes in the marketing macroenvironment such as globalisation, deregulation, digital and technological advances, many companies have restructured, or are in the process of restructuring, operations (see Table 21.1).

All these responses need to be planned, coordinated and interconnected if companies are to successfully meet the challenges of the technically dynamic digital era. The pace of change is such that already practitioners are starting to encompass and prepare for the post-digital era. For many brands, the greatest threat is not being out of touch with digital developments, but losing sight of the fundamental needs of their consumers and their business.

Internal marketing

The term **internal marketing** was first used in the 1970s and was initially associated with the marketing of services. However, it has come to emphasise the importance in buyers' markets for a company to adopt a holistic attitude towards the concepts and goals of marketing to provide market offerings that customers value. This involves coordinated management across the whole company and is no longer seen as a strictly marketing responsibility.[2]

Benefit of looking through a glass brightly

Internal marketing is an opportunity to bring the brand and the company's employees closer together. This is the moment when brand advocates are born. The most powerful brands are created when the external marketing reflects the internal culture. British Airways' 'World's Favourite Airline' proposition started life as an internal expression of identity for the airline's own staff.

Holding up a mirror to an organisation and then using the reflection to establish its brand proposition is one of the most effective and credible ways to market. 'This is who we are and this is what we stand for', as opposed to 'this is what we offer', gives consumers and staff alike a much greater insight into a brand. Indeed, these propositions simply could not work unless both audiences bought into them.[3]

Table 21.1 Time to change corporate operations

Activity	
Re-engineering	Appointing teams to manage customer-value-building processes and breakdown walls between departments
Outsourcing	Buying more goods and services from outside domestic or foreign vendors
Benchmarking	Studying 'best practice companies' to improve performance
Supplier partnering	Partnering with fewer but better value-added suppliers
Customer partnering	Working more closely with customers to add value to their operations
Merging	Acquiring or merging with firms in the same or complementary industries to gain economies of scale and scope
Globalising	Increasing efforts to 'think global' and 'act local'
Flattening	Reducing the number of organisational levels to get closer to the customer
Focusing	Determining the most profitable businesses and customers and focusing on them
Justifying	Becoming more accountable by measuring, analysing and documenting the effects of marketing actions
Accelerating	Designing the organisation and setting up processes to respond more quickly to changes in the environment
Empowering	Encouraging personnel to produce more ideas and take more initiative
Generating 'big data'	To identify and meet customer needs
Mobile marketing	To reach busy 'on the move' people
Using social media	To engage with customers

Marketing is about presenting a unified approach to the customer. If a brand's employees are not engaged by its marketing or, worse still, they do not understand it, any new sales targets will suffer. That is why internal marketing of brand strategy and activity can be one of the most powerful tools a marketing executive can employ. However, in general, internal marketing is underestimated and under-utilised. Yet it theoretically has the potential to deliver many tangible benefits to both the company and the brand.

On a very basic level, it can help ease some of the frustrations that non-marketing people sometimes have with their marketing colleagues: 'Why have a brand campaign? Can't you just spend more of your unimaginably large budget on promoting our products?' Most marketers recognise this question and often become irritated at the inference that there is no relationship between brand and sales. However, the question around brand and market offering is valid, as is the answer. The most powerful brands are created when the external marketing reflects the internal culture. Whichever direction a brand takes, if the internal community understands and owns the marketing, a bond is forged, spirits are high and advocates are created. If it does not, there is a good chance that consumers will not either. Tortosa et al. explore the influence of internal marketing, represented by internal market orientation, on the internal aspects (satisfaction of contact personnel) and external aspects (customer satisfaction and perceived quality of service) on organisational performance.[4]

A company can have an excellent marketing department on paper and fail to perform effectively. Much depends on how other company departments view customers. They must adopt the holistic view of marketing. Only when all employees realise their job is to create, serve and satisfy customers does the company become an effective marketer.[5] This is vital today, and in particular for restaurants.[6]

Marketing in action

Characteristics of company departments that are truly customer driven

R&D	They spend time meeting customers and listening to their problems
	They welcome the involvement of marketing, manufacturing and other departments on each new project
	They benchmark competitors' market offerings (product/services) and seek the best solutions
	They get customer reactions and suggestions as the project progresses
	They continuously improve and refine the market offering following market feedback
Purchasing	They proactively search for the best suppliers rather than select only from those who offer the lowest prices
	They build long-term relationships with fewer but reliable high-quality suppliers to develop a sustainable value chain
Manufacturing	They invite customers to visit and tour their plants
	They visit customer organisations to see how they use the company's market offerings
	They willingly work overtime when it is important to meet promised delivery schedules
	They continually seek ways to increase production and to reduce costs
	They meet customer demand for 'customisation' where this can be done profitably
Marketing	They study customer needs and wants in well-defined market segments
	They allocate marketing effort in relation to the long-run profit potential of the targeted segments
	They develop winning offerings for each target segment
	They measure company image and customer satisfaction on a continuous basis
	They disseminate favourable news about the company and they 'damage control' unfavourable news
	They continuously gather and evaluate ideas for new market offerings and improvements to meet customers' needs

	They influence all company departments to be customer-centred in their thinking and practice
	Salespeople have specialised knowledge of the customers' industry and strive to provide 'the best solution'
	Sales personnel only make promises that they can keep and provide feedback on customers' needs to R&D
	They serve the same customers for a long period of time
Logistics	They set a high standard for service delivery time and they meet this standard consistently
	They operate a knowledgeable and friendly customer service department that can answer questions, handle complaints and resolve problems efficiently
Finance	They prepare periodic 'profitability' reports by market offering, segment, geographic area, order size and for individual customers
	They prepare invoices and trading paperwork and talk to customers
	They understand and support marketing expenditures that represent marketing investments that produce long-term customer preference and loyalty
	They assess customers' credit-worthiness and seek to accommodate customer finance requirements
All staff	They are competent, courteous, cheerful, credible, reliable and responsive

Critique of internal marketing

Sceptics regard the concept of internal marketing as being based on a false premise that employees can be treated like external customers. In Europe there is little empirical evidence of its detailed and widespread company adoption. The concept is simple: it uses basic marketing approaches to communicate to employees the importance of always putting the customer first.

The explanation for renewed interest in internal marketing results from the determination of firms to consistently deliver a positively differentiated customer experience in the social media age. The methods and tools that prove valuable in marketing have an important place in an effective internal communication policy. Internal communication people can learn a lot from marketing approaches such as developing 'the big idea', defining the essence of a brand or value proposition, identifying, prioritising and segmenting stakeholders, and being more creative and inspirational in their overall approach. However, the internal marketing approach generally fails to consider important parts of the equation – for example, the human capital, organisational development and behaviour change elements. Probably most importantly, marketers have only recently realised the importance and power of interactivity and active listening in a world where consumer power is paramount.

At this point it is appropriate to look at how marketing departments are being organised, how they can work effectively with other departments and how firms can foster a creative marketing culture within the entire organisation.

Organising the marketing department

Modern marketing departments can be organised in a number of different, sometimes overlapping ways[7] – functionally, geographically, by product or brand, by market, or in a matrix form.

Functional organisation

The most common form of marketing organisation consists of functional specialists reporting to a senior marketing executive who coordinates their activities. Figure 21.1 shows five specialists. Additional specialists might include a customer service manager, a marketing planning manager, a market logistics manager, a direct marketing manager and a digital marketing manager.

The main advantage of a functional marketing organisation is its administrative simplicity, although it can be quite a challenge to develop smooth working relationships.[8] This form can also lose its effectiveness as the number of products and markets increases. For some retailers and fast-moving consumer-goods companies, such as Electrolux, a functional organisation often leads to inadequate planning for specific products and markets. Then, each functional group competes

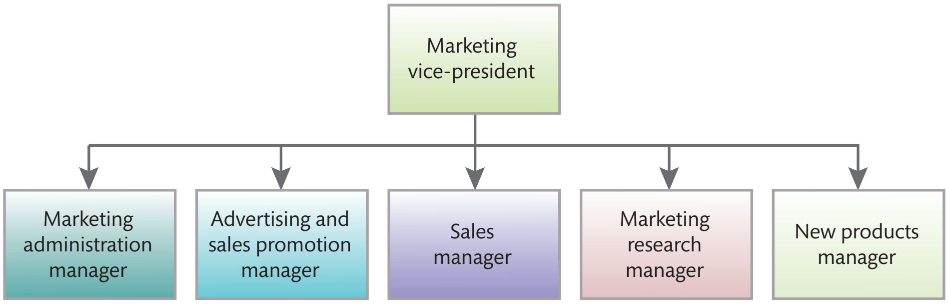


Figure 21.1 Functional organisation

with others for budget and status. The senior marketing executive constantly weighs the claims of competing functional specialists and faces a difficult coordination problem.

Geographic organisation

A company selling in a national market often organises its sales force (and sometimes other functions, including marketing) along geographic lines. Many food, beverage, car and pharmaceutical companies use this model of organisation. The national sales manager may supervise four regional sales managers, who each supervise six zone managers, who in turn supervise eight district sales managers, who each supervise ten salespeople. If companies seek to market effectively in international markets then it is necessary to appoint area market specialists (e.g. EU states and non-EU states, the Middle East, etc.). Each country that is entered requires its own local specialist managers to advise headquarters staff of the variations in marketing mix that are required across regions and countries.

Product/service or brand-management organisation

Companies producing a variety of market offerings and brands often establish a product- (or brand-) management organisation along the lines of the model originally developed by Procter & Gamble. It is important to realise that the traditional term 'product' should be interpreted as meaning a suitable customer-perceived market offering. The product-management organisation does not replace the functional organisation but serves as another layer of management. A product manager supervises product category managers, who in turn supervise specific product and brand managers.

A product-management organisation makes sense if the company's products are quite different, or if the sheer number of products is beyond the ability of a functional organisation to handle.

Product and brand management is sometimes characterised as a **hub-and-spoke system**. The brand or product manager is at the centre (the strategy for the product), with spokes emanating out to various departments (see Figure 21.2). Some tasks that product managers may perform include the following:

- developing a long-range and competitive strategy for the product;
- preparing an annual marketing plan and sales forecast;
- working with advertising and merchandising agencies to develop copy, programmes and campaigns;
- increasing support of the marketing offerings among the sales force and distributors;
- gathering continuous intelligence on the offer performance, customer and dealer attitudes and new problems and opportunities;
- initiating offer improvements to meet changing market needs.

The product-management organisation lets the product manager concentrate on developing a cost-effective marketing mix and react more quickly to new products in the marketplace; it also gives the company's smaller brands a product advocate. However, this organisation also has disadvantages:

- Product and brand managers may lack sufficient authority to carry out their responsibilities.
- Product and brand managers become experts in their product area but rarely achieve functional expertise.

Figure 21.2 The product manager's interactions

- The product management system often turns out to be costly. One person is appointed to manage each major product or brand, and soon more are appointed to manage even minor products and brands.
- Brand managers normally manage a brand for only a short time. Short-term involvement leads to short-term planning and fails to build long-term strengths.

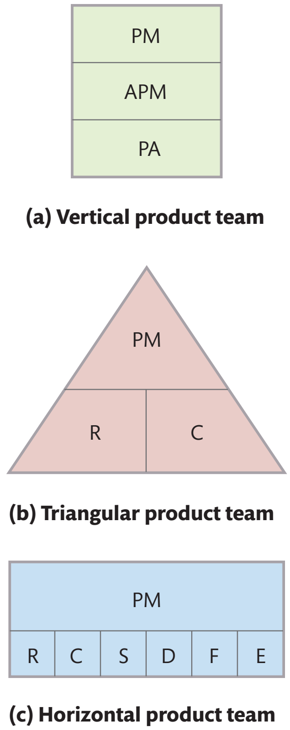
The fragmentation of markets makes it harder to develop a national strategy. Product and brand managers focus the company on building market share rather than the customer relationship.

A second alternative in a product-management organisation is product teams. There are three types of structure: the vertical product team, triangular product team and horizontal product team (see Figure 21.3).

A third alternative for a product-management organisation is to eliminate product manager positions for minor products and assign two or more products to each remaining manager. This is feasible where two or more products meet a similar set of needs. A cosmetics company has no need for product managers for each product because cosmetics serve one major need – beauty. A toiletries company needs different managers for headache remedies, toothpaste, soap and shampoo, because these products differ in use and appeal.

A fourth alternative is to introduce category management, in which a company focuses on product categories to manage its brands. Procter & Gamble, pioneers of the brand-management system, and several other leading firms including Unilever, made a significant shift to category management.[9] Procter & Gamble cite a number of advantages. By fostering internal competition among brand managers, the traditional brand-management system created strong incentives to excel, but also much internal competition for resources and a lack of coordination. The new scheme was designed to ensure that all categories would be able to receive adequate resources.

Another rationale for category management is the increasing power of the trade. Because the retail trade has tended to think of profitability in terms of product categories, retailers and regional grocery chains such as ASDA and Carrefour, respectively, see it as a means to define a particular product category's strategic role within the store and to address logistics, the role of private-label products and the trade-offs between product variety and inefficient duplication.



PM = product manager
APM = associate product manager
PA = product assistant
R = market researcher
C = communication specialist
S = sales manager
D = distribution specialist
F = finance/accounting specialist
E = engineer

Figure 21.3 Three types of product team

Category management is not a panacea. It is still a product-driven system. Siemens have developed a customer-need management software package (Teamcenter) to address the company's basic customer needs.[10]

Market-management organisation

Many companies operate in different markets. BMW sells vehicles to consumers, businesses and government markets. Tata markets steel to the railway, construction and public utility industries. When customers fall into different user groups with distinct buying preferences and practices, a **market-management organisation** is desirable. Market managers supervise several market-development managers, market specialists or industry specialists, and draw on functional services as needed. Market managers of important markets might even have functional specialists reporting to them.

Market managers are staff (not line people), with duties similar to those of product managers. They develop long-range and annual plans for their markets. Their performance is judged by their market's growth and profitability. This system shares many advantages and disadvantages of product-management systems. Its strongest advantage is organising marketing activity to meet the needs of distinct customer groups rather than focusing on marketing functions, regions or products. Many companies are reorganising along market lines and becoming customer-centred organisations.

In a customer-centred organisation, companies can understand and deal with individual customers rather than with the mass market or market segments. This requires leadership skills, making people feel valued and focusing their attention on delivering what really matters. With this in mind, organisations need to build a culture of customer-centred leadership. The first step is to understand what matters most to customers and to the organisation. As a Procter & Gamble chief executive put it: 'We expanded our mission to include the idea that "the consumer is boss". In other words, the people who buy and use Procter & Gamble products are valued not just for their money, but as a rich source of information and direction.'[11] When a close relationship is advantageous, such as when customers have diverse and complex requirements and buy an integrated bundle of products and services, customer-management organisations should prevail. One study showed that companies organised by customer groups reported much higher accountability for the overall quality of relationships and employees' freedom to take actions to satisfy individual customers.[12]

Matrix-management organisation

Companies that produce many products for many markets may adopt a matrix organisation. This enables them to gain cost economies of scale and adapt their market offerings to suit local requirements. Some provide the context in which a matrix can thrive – flat, lean team organisations focused around business processes that cut horizontally across functions.[13]

A matrix organisation seems desirable in a multi-product, multi-market company. The disadvantage is that it is costly and often creates conflicts. This is the cost of supporting all the managers, and there are questions about where authority and responsibility for marketing activities should reside – at headquarters or in the division? Some corporate marketing groups assist top management with overall opportunity evaluation, provide divisions with consulting assistance on request, help divisions that have little or no marketing and promote the marketing concept.

Relations with other departments

Under the marketing concept, all departments need to 'think customer' and work together to satisfy customer needs and expectations. The marketing department must drive this point home. A marketing director has two tasks: (1) to coordinate the company's internal marketing activities and (2) to coordinate marketing with finance, operations and other company functions to serve the customer.

Yet there is little agreement on how much influence and authority marketing should have over other departments. Departments define company problems and goals from their viewpoint, so conflicts of interest and communication problems are unavoidable. Typically, a marketing director must work through persuasion rather than authority. To develop a balanced orientation in which marketing and other functions jointly determine what is in the company's best interests, companies can provide joint seminars to understand each other's viewpoints, joint committees and liaison personnel, personnel exchange programmes and analytical methods to determine the most profitable course of action.[14]

Many companies focus on key processes rather than departments, because departmental organisation can be a barrier to the smooth performance of fundamental business processes. They appoint process leaders, who manage cross-disciplinary teams that include marketing and salespeople. As a result, marketing personnel may have a solid-line responsibility to their teams and a dotted-line responsibility to the marketing department.

Building a creative marketing organisation

Many companies realise they are not yet really market and customer driven – they are product and sales driven. When Shell, for example, transformed into a true market-driven company, this required:

- developing a company-wide passion for customers;
- organising around customer segments instead of products; and
- understanding customers through qualitative and quantitative research.

The task is not easy; it is not simply a matter of the CEO making speeches and urging every employee to 'think customer'. However, the payoffs can be considerable.[15] See the 'Marketing insight' box for actions a CEO can take to improve marketing capabilities.

Persuading the company to embrace a customer-orientated philosophy is a necessary but not a sufficient condition for success. The organisation must also foster and sustain a creative culture. Companies today copy each other's advantages and strategies with increasing speed. Differentiation gets harder to achieve, let alone maintain, and margins fall when firms become more alike. The only answer is to build a capability in strategic innovation and idea generation to develop a succession of customer-perceived value offerings. This capability comes from assembling tools, processes, skills and measures that let the firm generate more and better new ideas than its competitors.[16]

Marketing insight

The marketing CEO

What steps can a CEO take to create a market- and customer-focused company?

1. Convince senior management of the need to become customer focused. The CEO exemplifies strong customer commitment and rewards those in the organisation who do likewise.
2. Appoint a senior marketing officer and marketing taskforce.
3. Get outside help and guidance. Consulting firms have considerable experience in helping companies move towards a marketing orientation.
4. Change the company's reward measurement and system. As long as purchasing and manufacturing are rewarded for keeping costs low, they will resist accepting some costs required to serve customers better. As long as finance focuses on short-term profit, it will oppose major investments designed to build satisfied, loyal customers.
5. Hire strong marketing talent. The company needs a strong marketing director who not only manages the marketing department but also gains respect from and influence with the other functional directors.
6. Develop strong in-house marketing training programmes. The company should design marketing programmes for all executives.
7. Install a modern marketing planning system. The planning format will require managers to think about the marketing environment, opportunities, competitive trends, etc.
8. Establish an annual marketing excellence recognition programme for all business units.
9. Shift from a department focus to a process-outcome focus. After defining the fundamental business processes that determine its success, the company should appoint process leaders and cross-disciplinary teams to re-engineer and implement these processes.
10. Empower the employees. Progressive companies encourage and reward their employees for coming up with new ideas and empower them to settle customer complaints to retain customers' business.

Taking the creative approach

There are two main applications to creativity. The first is to do what the company already does but in a 'better way'. This may mean doing it faster, at less cost, with less waste; raising customer-perceived quality (CPV) standards; or performing more cost effectively. All these options generally rely on – or at least benefit from – new ideas. The second use of creativity is to do better things. This entails coming up with new market offerings that have additional customer-perceived value. Best results, of course, are obtained when companies adopt both approaches. Despite the best of intentions, some companies often fail to embrace fully the importance of the creative approach to marketing.

A common reason for this is a failure to understand what creativity is really all about. Essentially, creative thinking is a process that brings into being a new approach that can break through constraints imposed by habit and tradition, thus making it possible to find new solutions to problems. Creative thinking can refer to all aspects of the marketing management domain. For example, it can be used to:

- generate new ideas that customers will perceive as having value;
- develop innovative marketing communications;
- operate new forms of distribution;
- come up with ingenious pricing initiatives.

Companies must watch trends and be ready to capitalise on them. Nestlé was late in seeing the trend towards coffee houses and mineral water brands. Market leaders tend to miss trends when they are risk averse, and more interested in efficiency than innovation.[17]

Welcome to the meeting
Source: Serif

Building a creative culture

Creativity is a property of thought process that can be acquired and improved through instruction and practice. In this context, individual creativity mechanisms refer to activities undertaken by individual employees within an organisation to enhance their capability for developing something that is meaningful and novel within the work environment. Organisational creativity mechanisms refer to the extent to which the organisation has instituted formal approaches and tools and provided resources to encourage meaningfully novel behaviours within the organisation. It is not enough for organisations to opt for a 'quick fix' by hiring creative people while making mainly cosmetic changes to their dominant *modus operandi*. Successful creative marketing requires both an organisational culture change and the training of existing and new staff.

It is a TEAM approach. Football players are encouraged to work creatively as a unit and coaches frequently use the word 'team' as a mnemonic – Together Everyone Achieves More. The managers of successful football teams are acutely aware of the importance of both the intrinsic and extrinsic aspects of the creativity driver as they seek competitive success for their clubs. As football teams contain players with specific roles such as goalkeeper, defence, midfield and attack, so marketing departments need to cover the roles summarised in the 'Marketing insight' box.

Marketing insight

Key marketing team roles

Brand Learning have developed the '4S Marketers' model, to show how, in the age of data, marketing teams should be structured to ensure that roles exist to cover four key contributions:

- Scientists – to collate and analyse patterns of behaviour from data sources and drive targeted strategies.
- Strategists – to create aligned category, brand and customer-engagement strategies focused on the customer experience and brand purpose.
- Storybuilders – underpinned by data and insight, to shape and evolve compelling stories and content.
- Socialisers – to socialise new experiences, content and ideas, internally and externally, and evolve continuous two-way communications.

Source: M. McEwan (2014) When data becomes inspirational, Marketing, October.

Creativity – a mystical gift for some or something for all?

Creativity is frequently misunderstood. The logical basis of how the brain works is, however, understood. From such an understanding it is possible to derive the deliberate tools of lateral thinking, of solving problems by circumventing traditional methods. These tools can be learned and used. As with any skill, some people will become more skilful than others, but everyone can learn to be creative.[18] Most companies are confident to invest for the short term but many become more hesitant when faced with investing in the medium to long term. Continuous creative marketing requires a long-term commitment because creativity and innovation are crucial elements in a competitive world. Something can be done about creativity; it is not just a magic talent. Coplin suggests that companies should focus on creativity rather than processes and recommends a rethink of the physical work environment. Businesses should do all they can to foster creativity to find new ways of adding to customer-perceived value.[19]

Maintaining momentum

Delivering success is a team effort that extends to all management as they all have a contribution to make to the final offering that is presented to customers. The resulting coordinated corporate offering is much harder for a competitor to imitate than new technology and products. Hamel believes that for many companies, real 'momentum' has slowed down because 'real innovation in management operations has slowed to a crawl'. Hamel believes that, whereas previous advances in management focused on production processes, the management innovators of today must concentrate on people. McCracken reckons that 'keep it simple' branding is dead and argues that, to succeed, brands need to become 'culturematics' – entities that create culture by launching lots of small ideas, innovations, conversations or ways of thinking that will probe or disrupt societal norms. Speeding up real innovation in management operations is essential.[20]

Companies need to learn how to harness individual and group 'employee imagination'. In addition to the companies cited by Larreche[21] as good examples of his 'momentum effect', the Danish toymaker LEGO, according to Torben Pedersen of the Copenhagen Business School,[22] has for years expanded its creative and innovative team to include customers. IBM provides proof that some of the biggest companies can innovate in search of 'momentum'. In January 2006, the company launched its 'Innovation Jam', posting dozens of white papers and internal documents online and inviting comment. 'Everyone got involved in discussing IBM's strategy', according to Hamel, and this included customers, suppliers, employees and family members of employees.[23]

However, the majority of companies are failing to develop creative marketing approaches, as most managers are not taught to think of themselves as people whose job it is to be part of a team that aspires to create and invent.

Gaining momentum – the 'Larreche prescription'

By S. Stern

Professor Larreche, who holds the Heineken chair in marketing at INSEAD, maintains that momentum is something that can be created by companies and, once achieved, can be maintained by pursuing a creative marketing approach. He cites the examples of Toyota, Apple, Nintendo and Skype, which have all entered the virtuous circle of continuous growth – 'the momentum effect'. Lasting competitive advantages are the result of getting certain fundamental aspects of business right. What Larreche terms 'value creation' – spotting what customers want and working hard to provide it – is where momentum starts to develop. A company 'that systematically places customers at the centre of its thinking and that strives to attain ambitious goals will be able to harness the power of the momentum and deliver the exceptional growth it provides'.

Professor Larreche takes a nuanced view of customers and argues that they are not always strictly rational. 'Their perception is their reality, and it may be quite different from the "rational" perspective of product-design engineers. 'Momentum-deficient' businesses suffer from 'transaction myopia': failing to understand, for example, that the lifetime value of a customer is far more important than any short-term revenue 'hit'. Customer retention 'offers an extraordinary acceleration of profitable growth by exceptionally increasing average customer lifetime and, as a result, knowing customer acquisition costs'.

The concept of momentum does offer a big, unifying theory and the success stories referred to by Larreche do seem to share it. However, chance, the mistakes of competitors and sometimes sheer serendipity all play a part in highly competitive markets.[24]

FT *Source*: Stern, S. (2008) How to stay on a roll. *Financial Times*, 30th April.

Marketing implementation

According to Champy,[25] the key shared characteristics of creative marketing companies are:

1 **Ambition**: The leadership team of every good company has a great ambition for the company, usually one that addresses an unmet customer need.
2 **Customer focus**: Every good company begins by meeting customer needs.
3 **Focus**: Good companies stay focused on what they know and can do well. When companies search for new ideas, they often drift into unknown territory and get into trouble. Good companies just keep growing and expanding into familiar territory.
4 **Execution**: Satisfying a customer requires relentless attention to execution. Building a company's capability to deliver a market offering and service makes the difference between turning a great idea into a business or failure.
5 **Inspiration**: Smart companies engage all of their associates in building the business, from idea creation through to delivery. A creative company culture provides opportunities for all employees to engage in innovation and decision making.

Marketing implementation is the process that turns marketing plans into action assignments and ensures they accomplish the plan's stated objectives. A brilliant strategic marketing plan counts for little if it is not implemented properly. Strategy addresses the what and why of marketing activities; implementation addresses the who, where, when and how. They are closely related: one layer of strategy implies certain tactical implementation assignments at a lower level. For example, top management's strategic decision to 'harvest' a product must be translated into specific actions and assignments.

Companies today are striving to make their marketing operations more efficient and their return on marketing investment more measurable. Marketing costs can amount to from 20 per cent to 40 per cent of a company's total operating budget. Marketers need better templates for marketing processes, better management of marketing assets and better allocation of marketing resources. Certain repetitive processes can be automated under such names as marketing resource management (MRM), marketing investment management (MIM), enterprise marketing management (EMM) and marketing automation systems (MAS).

Marketing resource management software provides a set of web-based applications that automate and integrate such activities as project management, campaign management, budget management, asset management, brand management, customer relationship management and knowledge management. The knowledge management component consists of process templates, how-to wizards and best practices. Software packages are web hosted and available to users with passwords. They add up to what some have called desktop marketing and give marketers whatever information and decision structures they need on computer screens. MRM software lets marketers improve spending and investment decisions, bring new products to market more quickly and reduce decision time and costs.

Leadership

Ideas, however persuasive they may be in workplace discussion, need to be championed by a committed leader if they are to make a real difference to company performance in the marketplace. Effective and sustained creative marketing demands a subtle blending of the knowledge systems of leadership, creativity and innovation. A study completed by Manchester Business School identified nine themes that provide a revealing picture of the insights and skills of creative leaders:[26]

1 **Leadership, learning and knowledge systems.** Absorptive capacity resource-based models and cognitive framing are promising ways of integrating knowledge and leadership studies.
2 **Empowerment and delegated leadership.** Self-managed teams and distributed leadership systems are based on a facilitative or empowering leadership style. Cross-functional teams are necessary for required integration within projects. The collaborative paradigm within networks is also relevant.
3 **Creative problem-solving leadership.** Creative leadership (in and beyond formalised structures to stimulate creativity) is widely associated with a facilitative or process-orientated style. Contingency theories seem to be relevant too.
4 **Innovation and entrepreneurial leadership.** Roles in technological innovation are generally assumed to operate within a rational model of strategic change.

5 **Crisis leadership.** The theme concerns the concept of managing/leading in uncertain or turbulent environments.
6 **Change-centred leadership.** Change-centred leadership differentiates older and new leadership thinking.
7 **Creating the right environment for creativity to grow and flourish.** Ekvall and Amabile and their colleagues are regarded as key sources in climate and environment studies. Action research often seeks change by survey feedback of perceived blocks or barriers to change.
8 **Strategic-planning leadership.** Resource-based theories help model global innovation.
9 **Evaluation of creativity.** This looks at the most appropriate ways to evaluate interpretative or constructionist creativity.

Methodology and making room for creativity

Rigorous marketing training has traditionally been the preserve of companies such as Procter & Gamble and Unilever, which have long been acknowledged as excellent training grounds for marketers. However, now they are being joined by other companies that aspire to make marketing a more potent management activity. As companies strive to find that 'market edge', so there is an increasing need to think outside the traditional marketing toolbox. Creative approaches can bring spectacular success. The problem for many companies is that they can mean taking a risk and can run counter to the culture of traditional marketing methodology. Forward-thinking firms are beginning to lower their risk ceilings, back their creative thinking and not become too reliant on methodology as they seek to make a difference. They fully accept that being seen to be mad by their competitors can in fact make a difference![27]

Fostering a creative marketing culture

Creativity is one of the most valuable drivers of growth in business – but it is not always encouraged as it should be. It is vital to nurture a culture and methodology that supports it. Marketing pioneers such as Apple and Dyson have one important characteristic in common: creativity. Today's big-data capabilities have given the scientific facet of content marketing a much larger role. But creativity is still at the forefront of the world's most influential marketing programmes. So how might creativity be released in marketing? McEwan of Brand Learning offers four principles:

1 Creative thinking requires sufficient time.
2 Creative activity needs a clear end goal. Dove's ground-breaking 'Campaign for real beauty' was driven by a clearly stated 'big idea': that 'the world would be a better place if Dove could make more women feel more beautiful everyday'.
3 Creativity requires careful guidance. Most successful companies have fine-tuned their own ways of reaching their customers. LEGO crowdsources ideas from passionate customers to develop new products. Unilever has its 'Consumer Nation', where staff experience what the customer experiences, with tracking, monitoring and the sharing of learning across the organisation.
4 Many need help to think creatively and there are a number of techniques to help practitioners think out-of-the-box.[28]

Unilever steps out and trusts market intuition

Observers believe that Unilever is benefiting from a more risk-taking marketing culture than its rival Procter & Gamble. It has been increasingly seeking new creative big ideas for its advertising campaigns. Top Unilever brands such as Dove, Persil and Lynx have all been associated with creativity, dynamism, innovation and energy in recent surveys, in contrast to the ratings of Procter & Gamble brands that are well known for their risk aversion. Nowhere has the new approach been more apparent than with the performance of Unilever's Dove brand, which is now a major contributor to the firm's profits.

Since early 2004 Dove's brand story, immortalised in 'campaign for real beauty', has featured advertisements that have set out to challenge the stereotypical images of female glamour. Similar unorthodox creative brand-story marketing has benefited the performance of Persil with the strap line 'Dirt is good', and Lynx advertising has evolved so now it taps into the existing social networks where young men hang out.

Source: C. Grande (2007) Bearing rivals when it comes to risk-taking, *Financial Times*, 16 May.

Socially responsible marketing

Effective marketing must be matched by a strong sense of **ethics**, values and social responsibility (see Figure 21.4).[29] A number of forces are driving companies to practice a higher level of corporate social responsibility. These include rising customer expectations, evolving employee goals and ambitions, tighter government legislation and pressure, developing investor interest in social criteria, relentless media scrutiny and changing business procurement practices. The commercial success of former US Vice-President Gore's 2006 documentary, 'An Inconvenient Truth', shows how the general public has become more concerned about environmental issues.

Corporate social responsibility

The EU defines **corporate social responsibility** (CSR) as enterprises' contribution to sustainable development. Some companies, such as BP, British Telecom, McDonald's and Maersk, have responded positively to the CSR challenge. McDonald's, for example, with its Ronald McDonald House Charities that comforts children and their families, has sought to build a corporate brand reputation by means of community involvement. Many others like to be regarded as 'talking the talk'.[30] However, the recent spate of corporate scandals, accounting frauds, allegations of executive greed and dubious business practices has led many to adopt mixed attitudes to CSR and regard it as a sham. Some observers have even dubbed it 'cynical social responsibility' and many have all but abandoned it for 'sustainability'.[31] Raising the level of socially responsible marketing calls for making a three-pronged attack that relies on *bona fide* legal, ethical and social responsibilities.

Legal responsibility

Organisations must ensure that every employee knows and observes relevant laws. For example, salespeople's statements must legally match advertising claims. They should not offer bribes to purchasing agents or others influencing a business-to-business sale. They may not obtain or use competitors' technical or trade secrets through bribery or industrial espionage. Finally, they must not disparage competitors or their products by suggesting things that are not true. Every sales representative should know the law and act accordingly. The purpose of the EU Directive on Misleading and Comparative Advertising is to protect traders against misleading advertising and its consequences. It also aims to lay down the conditions under which comparative advertising is permitted.[32]

Ethical responsibility

Business practices come under attack because commercial situations routinely pose tough ethical dilemmas. It is not easy to draw a clear line between normal marketing practice and that which is unethical. Some issues sharply divide critics. Though Walkers reacted quickly and positively and

Figure 21.4 Key social responsibilities

reduced the salt content of its snack items and Procter & Gamble reduced the sugar content of its orange drink Sunny Delight, some watch groups felt that was not enough.[33]

At the same time, certain business operations are clearly unethical or illegal. These include bribery, theft of trade secrets, false and deceptive advertising, exclusive dealing and **tying agreements**, quality or safety defects, false warranties, inaccurate labelling, price fixing or undue discrimination, barriers to entry and predatory competition. Companies must adopt and disseminate a written code of ethics, build a company tradition of ethical behaviour and hold people fully responsible for observing ethical and legal guidelines.[34] Companies that do not perform ethically or well are at greater risk of being exposed, thanks to the internet. In the past, a disgruntled customer might criticise a firm to 12 other people; today he or she can reach thousands. Microsoft, for example, has attracted scores of anti-Microsoft sites, including Hate Microsoft and Boycott Microsoft.

Striking a socially defensible balance between seeking to improve profits (efficiency) and marketing effectively in the light of the experienced environment can present companies with serious ethical dilemmas. Marketing ethics can be viewed as a continuum that stretches from *caveat emptor* (let the buyer beware) to *caveat vendor* (let the seller beware). Strictly speaking, the emphasis should be moving towards *caveat vendor* if the providers fully sign up to the underlying philosophy of the relationship marketing paradigm. So why do food companies 'build bulk' by injecting water into meat? Why do supermarkets incur huge carbon footprints as they transport greengroceries across the oceans of the world? Why do some clothing companies import cheap merchandise from underdeveloped countries and turn a blind eye to the conditions that the workforces have to endure in these countries?

There are many questions surrounding the interpretation of ethical marketing that can result in corporations, divisions and individual brands finding their position on the caveat emptor–caveat vendor scale. The matter is not one of right or wrong or of white or black – real life is more complex than this – but it is a matter of conscience. So, what does 'ethics' really mean in management activities? Is it a word full of promise but paradoxically also full of unfulfilled promises? Most would agree that an ethical approach to marketing management is desirable in principle. So how can this opportunity be grasped? [35] Smith proposes the maxims in the 'Marketing memo' box to guide companies as to whether or not they are marketing ethically

Marketing memo

Key steps in assessing marketing ethics standards

- **The golden rule**: do unto others as you would be done by.
- **The media test**: would members of the marketing team be embarrassed in front of colleagues/family/friends, if marketing decisions were published in the media for all to see?
- **The invoice test**: are payments being requested that might not meet with the approval of internal and external auditors?
- **Good ethics is good business practice**: the practised belief that sellers should regard integrity as being in the best long-term interest of the business.
- **The professional test**: would marketing decisions be regarded as ethical by professional peers in other companies?
- **When in doubt**: reconsider proposed actions.

Source: Based on N. C. Smith (1999) Marketing ethics, in M. J. Baker (ed) *Encyclopaedia of Marketing*, London: International Thomson, Business Press, 924.

Social responsibility

Individual marketers must have a 'social conscience' in specific dealings with customers and stakeholders.[36] Increasingly, people want information about a company's record on social and environmental responsibility to help decide which companies to buy from, invest in and work for. Deciding how to communicate CSR can be difficult. Once a firm airs an environmental initiative, it can become a target for criticism. Many well-intentioned marketing initiatives attract unforeseen negative consequences. Palm oil was hailed as a renewable fuel for food companies looking to find a solution to a trans-fat ban, until its use was linked to the potential extinction of the orangutan and the sun bear. Corporate philanthropy also can pose problems as the motives of organisations can be misunderstood.[37]

Sustainability

Sustainability – the importance of meeting humanity's needs without harming future generations – has risen to the top of many corporate agendas. Major corporations now outline in great detail how they are trying to improve the long-term impact of their actions on communities and the environment. As one sustainability consultant put it, 'There is a triple bottom line – people, planet, and profit – and the people part of the equation must come first. Sustainability means more than being eco-friendly; it also means you are in it for the long haul.'[38]

Many CEOs believe that embracing sustainability can avoid the negative consequences of environmental disasters, political protests and human rights or workplace abuses. Investors are demanding ever more concrete information about what firms are doing to achieve sustainability. Sustainability ratings exist, although there is little agreement about what the appropriate metrics might be.[39] Some feel companies that score well on sustainability factors typically exhibit high levels of management quality, in that 'they tend to be more strategically nimble and better equipped to compete in the complex, high-velocity, global environment'.[40]

Unilever's big picture

With 7 billion people on our planet, the earth's resources are under immense strain. We are living in a world where temperatures are rising, water is scarce, energy expensive, food supplies uncertain and the gap between rich and poor is increasing. Unilever believes it is important to change and that sustainable, equitable growth is the only acceptable business model. Unilever's plan has three distinctive features: it covers social and economic, as well as environmental challenges. All of Unilever's products and brands are included, not just a few. It also covers the company's entire value chain, from sourcing raw materials to consumer use of its products and their disposal. With thousands of products that are used two billion times a day in more than 280 countries, this represents a massive undertaking.

Source: Based on N. C. Smith (1999) Marketing ethics, in M. J. Baker (ed) *Encyclopaedia of Marketing*, London: International Thomson Business Press, 974; Unilever (2017) Making sustainable living commonplace, https://www.unilever.com/Images/unilever-annual-report-and-accounts-2017_tcm244-516456_en.pdf.

Current best thinking indicates that resources are finite, and that costs will rise as their scarcity increases. The marketer's task is to translate society's need for sustainability into winning solutions for customers and the business. Many companies in several industries beyond edible food products are embracing organic offerings that avoid the use of chemicals and pesticides to stress ecological preservation. Apparel and other non-food items make up the second-fastest growth category. Marks & Spencer introduced its 'shwopping' service in April 2012. Part of its 'Plan A' sustainability programme, the aim of which is to reduce the amount of clothing going to landfill, the service fits into M&S' wider, long-term remit of creating a sustainable business model as raw materials become more scarce and costly.[41] Sustainability is becoming more mainstream, and consumers are increasingly willing to pay more to support the environment.[42]

Levi's

Levi Strauss Europe launched its Levi's® eco jeans in October 2006. This was believed to be the first fully sustainable jean from a major denim brand, made using 100 per cent certified organic cotton, and sustainable product components and production processes. Levi Strauss Europe was granted an 'EKO sustainable textile' certification for the Levi® eco jeans from Control Union Certifications, a leading worldwide inspection and certification body for organic production and products. Even the garment tags and packaging are made of organic fabric or recycled paper and printed with soy-based ink.

The fashion designer Paul Dillinger pioneered a cutting-edge initiative and developed a sustainably friendly Dockers line of clothes call Wellthread. The line encompasses the best practices in materials sourcing and garment manufacturing, providing social and economic benefits to factory workers in Bangladesh and delivering durable khakis, jackets and T-shirts to consumers.[43]

Such a belief in the value of social responsibility has not been in evidence in the past. In 1776 the British economist Adam Smith proclaimed, 'I have never known much good done by those who profess to trade for the public good'. The American economist Milton Friedman famously declared social initiatives 'fundamentally subversive' because he felt they undermined the profit-seeking purpose of public companies and wasted shareholders' money.[44] Some critics worry that important business investment in areas such as research and development could suffer as a result of a focus on social responsibility.

These critics are in the minority. Many now believe that satisfying customers, employees and other stakeholders and achieving business success are closely tied to the adoption and implementation of high standards of business and marketing conduct. Firms are finding that one benefit of being seen as a socially responsible company is the ability to attract employees. The most admired – and increasingly most successful – companies in the world abide by a code of serving people's interests as well as their own.

Firms of Endearment

Sisodia, Wolfe and Sheth believe humanistic companies make great companies. They define 'Firms of Endearment' as those that have a culture of caring and serve the interests of their stakeholders. Stakeholders are defined in terms of the acronym SPICE: society, partners, investors, customers and employees. Firms of Endearment create a love affair with stakeholders. Their senior managers run an open-door policy and are passionate about customers, and their compensation is modest. They pay more to their employees, relate more closely to a smaller group of excellent suppliers, and give back to the communities in which they work. The researchers assert that Firms of Endearment actually spend less on marketing as a percentage but yet earn greater profits. It appears that the customers who love the company do most of the marketing. The authors see the twenty-first-century marketing paradigm as being essentially about firms creating value for all stakeholders and being recognised as socially responsible organisations.[45]

Marketing in action

Business and socially responsible philosophies are not mutually exclusive

Many companies believe they have a responsibility to 'give back' to society. This focus includes contributions of time and money, a duty to provide environmentally friendly products and services, and a desire to improve the lives of individuals around the globe. Such socially responsible companies see to it that this 'consciousness' permeates everything they do.

The phrase 'the triple bottom line' was first coined in 1994 by John Elkington, the founder of a UK consultancy called SustainAbility. His argument was that companies should be preparing three different (and quite separate) bottom lines. One is the traditional measure of corporate profit – the 'bottom line' of the profit and loss account. The second is the bottom line of a company's 'people account' – a measure in some form of how socially responsible an organisation has been throughout its operations. The third is the bottom line of the company's 'planet' account – a measure of how environmentally responsible it has been. The triple bottom line aims to measure the financial, social and environmental performance of a corporation over a period of time. Only companies that operate a triple bottom line are taking into account the full cost involved in conducting business. The following two companies provide examples of how social responsibility can be productively coupled with sound strategies to advance goodwill, while building sustainable and impressive businesses. They provide the leadership to demonstrate how marketers can pursue both objectives simultaneously. As such, socially conscious companies have stepped up their efforts with increasing effectiveness and productivity. It is an impressive movement and one that invites society at large to do even more.

LEGO Group

The LEGO Group takes responsibility for conducting its business in a way that is transparent and accountable. This includes taking measures to reduce negative environmental impact, to sustain and promote reputable business behaviour, and to provide safe and motivating workplaces.

The Group's main ambition is to prepare and enable children for a life in which they can fulfil their potential.

LEGO also intends to play its part in providing sustainable surroundings and communities for children to grow up in. The Group is intent on leaving the environment in a better condition than it is today and making a positive impact – for example, by focusing efforts on minimising the release of Co_2, how it deals with waste from its operations and how it sources and uses the materials needed to produce its bricks and packaging.

The Body Shop

The Body Shop is regarded as a pioneer of modern corporate social responsibility as one of the first companies to publish a full report on its efforts and initiatives. Founder Anita Roddick led her company to stand up for its beliefs and champion causes such as self-esteem, environmental protection, animal rights, community trade and human rights. The Body Shop has contributed significantly to the causes it supports and exemplifies how other companies can do the same.

Sources: H. Sweetbawn (2008) Socially responsible capitalism, *Society and Business Review*, 3(3), 186–90; Triple bottom line (2009), *The Economist*, 17 November; see LEGO statement of socially responsible business (2015) https://www.lego.com/en-us/aboutus/responsibility; and The Body Shop statement, https://www.thebodyshop.com/en-gb/about-us/our-commitment/enrich-not-exploit-sustainability-report-2016.

Socially responsible business models

The future holds a wealth of opportunities.[46] Technological advances in solar energy, online networks, cable and satellite television, biotechnology and telecommunications promise to change the world as we know it. At the same time, forces in the socioeconomic, cultural and natural environments will impose new limits on marketing and business operations. Companies that innovate solutions and values in a socially responsible way are the most likely to succeed.[47]

Companies such as BASF, Bayer, Ben & Jerry's, Kwik-Fit, Marks & Spencer, Michelin and The Body Shop are giving social responsibility a more prominent role. BASF has funded a research laboratory at Nottingham University in the United Kingdom after the company withdrew from chemical research in the city. Michelin is lending money to worthy manufacturing start-ups to give something back to the community.

Corporate philanthropy as a whole is on the increase. More firms are realising that corporate social responsibility in the form of cash donations, in-kind contributions, cause marketing and employee volunteer programmes is not just the 'right thing' but also the 'smart thing' to do.[48] Coutts, the London-based top-person's bank, is receiving more enquiries than ever from clients interested in setting up charitable trusts and foundations.

The 'Marketing memo' box offers two high-profile perspectives on how to make progress in that area.

Marketing memo

Key views on corporate social responsibility

Two of management's most renowned thinkers have turned their attention to corporate social responsibility, offering some unique perspectives that build on their past management research and thinking.

Michael Porter

Harvard's Michael E. Porter and Mark Kramer, managing director of FSG Social Impact Advisors, believe good corporate citizenship can be a source of opportunity, innovation and competitive advantage, as long as firms evaluate it using the same frameworks and concepts that guide their core business strategies. They feel corporate social responsibility must mesh with a firm's strengths, capabilities and positioning. They assert that strategic corporate social responsibility results when firms: (1) transform value chain activities to benefit society while reinforcing strategy; and (2) engage in strategic philanthropy that leverages capabilities to improve salient areas of competitive context.

According to the authors, firms should select causes that intersect their particular businesses to create shared value for the firm and society. For example, Toyota addressed public concerns about automotive emissions by creating a competitively strong and environmentally friendly hybrid vehicle, the Prius, and French banking giant Crédit Agricole differentiated itself through specialised environmentally friendly financial products.

Porter and Kramer note that by providing jobs, investing capital, purchasing goods and doing business every day, corporations have a profound and positive influence on society. The most important thing a corporation can do for society, and for any community, is to contribute to a prosperous economy.

Clayton Christensen

Although companies can address hundreds of social issues, only a handful offer the opportunity to build focused, proactive and integrated social initiatives that link with core business strategies to make a real difference to society and create a competitive advantage in the marketplace.

Harvard's Clayton Christensen, along with his research colleagues, advocates catalytic innovations to address social sector problems. Like Christensen's disruptive innovations – which challenge industry incumbents by offering simpler, good enough alternatives to an underserved group of customers – catalytic innovations offer good enough solutions to inadequately addressed social problems. Catalytic innovators share five qualities:

1. They create systematic social change through scaling and replication.
2. They meet a need that is either overserved (because the existing solution is more complex than many people require) or not served at all.
3. They offer simpler, less costly market offerings that may have a lower level of performance, but that users consider to be good enough.
4. They generate resources, such as donations, grants, volunteer manpower or intellectual capital, in ways that are initially unattractive to competitors.
5. They are often ignored, disparaged or even encouraged by existing players, for whom the business model is unprofitable or otherwise unattractive and who therefore avoid or retreat from the market segment.

To find organisations that are creating a catalytic innovation for investment or other purposes, Christensen and his colleagues offer some guidelines:

1. Look for signs of disruption in the process: although not necessarily easily observed, pre-existing catalytic innovators may already be present in a market.
2. Identify specific catalytic innovations: apply the five criteria listed.
3. Assess the business model: determine whether the organisation can effectively introduce the innovation and scale it up and sustain it.

Sources: M. F. Porter and M. R. Kramer (2006) Strategy and society, *Harvard Business Review*, December, 78–82; C. M. Christensen, H. Baumann, R. Ruggles and T. M. Stadtler (2006) Disruption innovation for social change, *Harvard Business Review*, December, 94–101; see also R. Steckel, E. Ford, C. Hilliard and T. Sanders (2004) *Cold Cash for Warm Hearts: 101 Best Social Marketing Initiatives*, Homewood, IL: High Tide Press.

Cause-related marketing

Many firms blend CSR initiatives with marketing activities.[49] **Cause-related marketing** links the firm's contributions to a designated cause to customers' engaging directly or indirectly in revenue-producing transactions with the firm.[50] It is part of corporate social marketing (CSM), which Drumwright and Murphy define as marketing efforts 'that have at last one economic objective related to social welfare and use the resources of the company and/or of its partners'.[51] They also include other activities such as traditional and strategic philanthropy and volunteerism as part of CSM.

Tesco, a leading UK retailer, has created a 'Computers for Schools' programme: customers receive vouchers for every £10 spent, which they can donate to the school of their choice and the school can exchange the vouchers for new computer equipment. British Airways also has a particularly successful and highly visible programme.

UNICEF's Change for Good campaign

This is one of the world's best-known CRM campaigns, as Change for Good is seen whenever people fly on many of the world's best-known and most-used airlines. For more than 15 years UNICEF has raised many, many millions for the world's poorest children from the simple but brilliant idea of collecting travellers' unwanted foreign coins. Administration of the scheme is done by the partner airlines and UNICEF ensures their continued enthusiastic motivation by a carefully planned programme of visits to the field by selected airline staff. The basic concept is the same on all airlines – the airline personnel on international flights collect spare coins and paper currency from passengers in Change for Good envelopes. In-flight videos featuring celebrities supportive of UNICEF inform passengers of the programme and invite them to contribute money that might otherwise never be used again.

Cabin crew who are Change for Good champions, see the results of their collections and visit some of the programmes that receive funds from the Change for Good® scheme.[52]

Cause-marketing benefits and costs

A successful cause-marketing programme can: improve social welfare; create differentiated brand positioning; build strong consumer bonds; enhance the company's public image with government officials and other decision makers; create a reservoir of goodwill; boost internal morale and galvanise employees; drive sales; and increase the market value of the firm.[53] Customers may develop a strong, unique bond with the firm that transcends normal marketplace transactions.[54] Specifically, cause marketing can: (1) build brand awareness, (2) enhance brand image, (3) establish brand credibility, (4) evoke brand feelings, (5) create a sense of brand community and (6) elicit brand engagement. Cause marketing has a particularly interested audience in civic-minded 13–25-year-old millennial customers.[55] The danger, however, is that a cause-related marketing programme could misfire if customers question the link between the product and the cause and see the firm as self-serving and exploitative.[56]

Cadbury

Cadbury (now part of Kraft Foods) created a 'Sports for Schools' promotion that offered sports and fitness equipment for schools in exchange for tokens. The problem was that the public and the media saw a perverse incentive for children to eat more chocolate, a product associated with obesity. As Britain's Food Commission, a non-governmental organisation, said 'Cadbury wants children to eat 2 million kilograms of fat – to get fit.' The commission estimated that to generate the 90 tokens to purchase a £5 netball would require spending £38 on Cadbury's confectionery and consuming more than 20,000 calories and over 1,000 grams of fat. The product and the cause seemed to be at war. Cadbury quickly discontinued the token programme, but it continued its 'Get Active' campaign, offering teachers tips for sporty games in partnership with the Youth Sports Trust and sponsored events such as Get Active Day with British sports stars. Putting a positive spin on a bad press, a Cadbury spokesperson insisted, 'The ensuing debate was very welcome. We have been trying to promote Get Active for two months, I don't think there can be anyone in the country who hasn't heard of it this week.'[57]

The knowledge, skills, resources and experiences of a top firm may be even more important to a non-profit or community group than funding, so they must be clear about what their goals are, communicate clearly what they hope to accomplish and have an organisational structure in place to work with different firms. Developing a long-term relationship with a firm can take a long time. Firms must make a number of decisions in designing and implementing a cause-marketing initiative, such as how many and which cause(s) to choose and how to brand the cause programme.

Choosing a cause

Some experts believe the positive impact of cause-related marketing is reduced by sporadic involvement with numerous causes. For example, Gillette's director of civic affairs states: 'When you're spreading out your giving in fifty-dollar to one-thousand-dollar increments, no one knows what you are doing. . . It doesn't make much of a splash.'[58] Many companies choose to concentrate on one or a few main causes to simplify execution and maximise impact. One such focused marketer is McDonald's. Ronald McDonald Houses in more than 27 countries offer more than 6,000 rooms each night to families needing support while their child is in hospital. The Ronald McDonald

House programme has provided a 'home away from home' for nearly 10 million family members since it began in 1974.

Limiting support to a single cause, however, may limit the pool of consumers or other stakeholders who can transfer positive feelings from the cause to the firm. In addition, many popular causes already have numerous corporate sponsors. Over 300 companies, including Avon, Ford, Estée Lauder, Revlon, Lee Jeans, Ralph Lauren, Yoplait, Saks, BMW and American Express, have associated themselves with breast cancer as a cause.[59] As a consequence, the brand may find itself 'lost in the shuffle'. Most firms choose causes that fit their corporate or brand image and that matter to their employees and shareholders.

Social marketing

Cause-related marketing supports a cause. **Social marketing** has been defined by French and Blair-Stevens as 'the systematic application of marketing alongside other concepts and techniques, to achieve specific goals, for a social good', often by non-profit or government organisations. Typical campaigns encourage consumers to 'say no to drugs' or 'exercise more and eat better'.[60] A number of different types of organisation conduct social marketing in most European countries.

Marketing memo

Key features of social marketing

The key features and concepts for understanding social marketing according to the UK's National Marketing Centre are:

- **Customer or consumer orientation**: a strong 'customer' orientation with importance attached to understanding where the customer is starting from, their knowledge, attitudes and beliefs, along with the social context in which they live and work.
- **Behaviour and behavioural goals**: clear focus on understanding existing behaviour and key influences on it, alongside developing clear behavioural goals, which can be divided into actionable and measurable steps or stages, phased over time.
- **'Intervention mix' and 'marketing mix'**: using a range (or mix) of different interventions or methods to achieve a particular goal. When used at a strategic level, this is commonly referred to as the 'intervention mix', and when used operationally it is described as the 'marketing mix' or 'social marketing mix'.
- **Audience segmentation**: clarity of audience focus using 'audience segmentation' to target effectively.
- **Exchange**: use and application of the 'exchange' concept – understanding what is being expected of the 'customer', the 'real cost to them'.
- **Competition**: use and application of the 'competition' concept – understanding factors that impact on the customer and that compete for their attention and time.[61]

Choosing the right goal or objective for a social marketing programme is critical. Should a family-planning campaign focus on abstinence or birth control? Should a campaign to fight air pollution focus on car sharing or public transport? Social marketing campaigns may have objectives related to changing people's cognitions, values or actions. The following examples illustrate the range of possible objectives:

Cognitive campaigns

- Explain the nutritional value of different foods.
- Explain the importance of conservation.

Action campaigns

- Attract people for mass immunisation.
- Motivate people to vote 'yes' on a certain issue.
- Motivate people to donate blood.
- Motivate women to go for breast screening.

Social campaigns

- Discourage smoking.
- Discourage usage of hard drugs.
- Discourage excessive consumption of alcohol.

Value campaigns

Change attitudes of bigoted people.

Social marketing uses a number of different tactics to achieve its goals. The planning process follows many of the same steps as for traditional products and services (see Table 21.2).

Social marketing programmes are complex; they take time and may require phased programmes or actions. For example, recall the steps in discouraging smoking: raising taxes to pay for anti-smoking campaigns, cancer reports, labelling of cigarettes, banning cigarette advertising, education about secondary smoke effects, no smoking in restaurants and public places. Social marketing organisations should evaluate programme success in terms of objectives. Criteria might include incidence of adoption, speed of adoption, continuance of adoption, low cost per unit of adoption, and absence of counterproductive consequences.[62]

Ethnic marketing

The ethnic minority population in some European countries, such as France, Germany and the United Kingdom, is sizeable and represents a viable and untapped market segment. In today's fragmented and increasingly turbulent markets, ethnic marketing offers a new strategic focus for market/offering (product/market) development and, in many respects, companies that ignore this do so at their own competitive peril. Companies wishing to do business with ethnic minority groups will fundamentally have to review the basic premises of their marketing

Table 21.2 Social marketing planning process

Where are we?
- Determine programme focus
- Identify campaign purpose
- Conduct an analysis of strengths, weaknesses, opportunities and threats (SWOT)
- Review past and similar efforts

Where do we want to go?
- Select target audience
- Set objectives and goals
- Analyse target audiences and the competition

How will we get there?
- Product: design the market offering (tangible and intangible elements)
- Price: manage costs of behaviour change
- Distribution: make the product offering available
- Communications: create messages and choose media

How will we stay on course?
- Develop a plan for evaluation and monitoring
- Establish budgets and find funding sources
- Complete an implementation plan
- Promote a single, doable behaviour in clear, simple terms
- Explain the benefits in compelling terms
- Make it easy to adopt the behaviour
- Develop attention-grabbing messages and media
- Consider an education–entertainment approach

plans to take account of the growing market pluralism and the emergent multi-ethnic reality of European countries.[63]

Marketing as a concept pays a great deal of attention to the individual market transactions, often ignoring the impact of marketing on society at a macro level. In multicultural marketplaces, marketers and consumers of different ethnic backgrounds coexist, interact and adapt to each other. In doing so, consumers act as skilled navigators who frequently engage in culture swapping to sample the many tastes, themes and sounds of different cultures and values. Marketing facilitates this culture swapping and contributes towards tolerance and acceptance of lifestyle among consumers. However, traditional racial or ethnic segmentation could become problematic due to the fact that consumers no longer conform either individually or as a group to any one specific segment or category.[64]

Green marketing

From the earliest of times, humankind has been aware of the importance of the environment. Natural climatic and weather conditions have marked the passage of the seasons. Human activity such as political, population and profit pursuits have all interacted with the rhythm of the natural order but have essentially been subservient to it. In the early decades of the twenty-first century, there is mounting evidence that the environment is changing and that much of the cause of this change can be ascribed to human activity. As a result, there is a growing concern about the natural changes that are occurring and those that are the direct result of the activity of humans.

As a consequence of these concerns, the term 'green marketing' came into prominence in the last two decades of the twentieth century. Green marketing involves the marketing response to the design, production, packaging, use and disposal of products. For marketers this has many implications. Market offerings will require modification so that their use does not damage the environment. Material extraction, preparation and production processes will need rethinking. Conventional packaging approaches will need re-evaluating. Many companies are using recycled materials but many are not. In the United Kingdom, non-degradable plastic bags have been declared undesirable. Marketing communications will have to become less profligate in their use of resources.

Such is the complexity of the environmental challenge facing humankind that, while there is a general recognition of the existence of the problem, there is no commonly accepted creed. Hence the existence of terms such as 'environmental marketing' and 'ecological marketing' that emphasise different aspects of the matter. Not surprisingly, there is little general agreement as to what private and public enterprise should do about it.

Stern review on the economics of climate change

The most comprehensive review ever carried out on the economics of climate change was carried out by Sir Nicholas Stern, Head of the UK's Government Economic Service and former World Bank Chief Economist. The review, published in October 2006, concludes that there is still time to avoid the worst impacts of climate change, if governments, businesses and individuals cooperate to respond to the challenge.

The first half of the review focuses on the impacts and risks arising from uncontrolled climate change, and on the costs and opportunities associated with action to tackle it. The review estimates that the dangers could be equivalent to 20 per cent of gross domestic product (GDP) or more. In contrast, the costs of action to reduce greenhouse gas emissions to avoid the worst impacts of climate change can be limited to around 1 per cent of global GDP each year.

The second half of the review examines the national and international policy challenges of moving to a low-carbon global economy. Three elements of policy are required for an effective response:

- Carbon pricing, through taxation, emissions trading or regulation, so that people are faced with the full social costs of their actions.
- Technology policy, to drive the development and deployment of a range of low-carbon and high-efficiency products.
- Action to remove barriers to energy efficiency and to inform, educate and persuade individuals about what they can do to respond to climate change.

Effective action requires a global policy response, guided by a common international understanding of the long-term goals for climate policy and strong frameworks for cooperation. Key elements of future international frameworks should include:

- emissions trading;
- technology cooperation;
- action to reduce deforestation.

Lord Stern, the world's most authoritative climate economist, issued a stark warning in June 2014 that the financial damage caused by global warming will be considerably greater than current models predict. This makes it more important than ever to take urgent and drastic action to curb climate change by reducing carbon emissions.

Source: S. Dietz and N. Stern (2009) Note – on the timing of greenhouse gas emissions reductions: A final rejoinder to the symposium on *The Economics of Climate Change: The Stern Review and its Critics*, *Review of Environmental Economics and Policy*, 3(1), 138–140; https://www.theguardian.com/environment/2016/oct/27/10-years-on-from-the-stern-report-a-low-carbon-future-is-the-only-one-available.

Approaching a green marketing response

The plurality of environmental beliefs hinders a concerted response to examining these beliefs and thus evaluating their impact on marketing activity. Peattie and Crane concluded that much of what has been commonly referred to as green marketing has not been underpinned by either a marketing or an environmental philosophy.[65] D'Souza et al.[66] suggested that green firms should pay particular regard to the need to:

- build a strong green and competitive advantage for their market offerings;
- develop and project a green consumer profile based on demographic segmentation, targeting and positioning; and
- Meet customers' expectations by acting as well as being recognised as demonstrably environmentally responsible.

Practical advice on how to introduce a green philosophy and the functional activities needed to support it must be a central feature of company strategy, argues Grant.[67] He stresses that it is not a matter of cosmetically 'green theming' and provides a road map to facilitate both the adoption and practical introduction of green marketing.

Existing firms face a harder task

In many respects the task is harder for existing than for new firms. Cynics often argue that few companies pay more than lip service to green marketing in terms of real acceptance and hence resource allocation but are quite happy to gain some PR advantage from time to time. This is, on the whole, a harsh view as companies such as IKEA, LEGO, Marks and Spencer, O2, SUT (Swedish broadcaster), Sky, Tesco, Toyota and the Virgin Group are all making progress. This is highly commendable and represents a real start, but the jury is still out as to whether this is a lasting commitment. The Body Shop and Ben & Jerry's were pioneers in green marketing and it is hoped that the Unilever Group will continue this tradition after acquiring these companies.

Going green

In the past, few companies showed much interest in being eco-friendly and sustainable. Now things have changed as governments and society are encouraging businesses to go green.

BMW

The German car giant is an efficient user of water and energy and committed to actively reducing waste. Its sustainable actions include an increased emphasis on electric vehicles and the linking of senior executive's pay to their sustainability performance.

IKEA

In 2012 the Swedish brand announced its ambition to be powered by 100 per cent renewable energy sources by 2020. At present, over 700,000 solar panels power IKEA's various stores. It currently receives close to 50 percent of its wood from sustainable foresters and 100 per cent of its cotton from farms that meet the Better Cotton Standards; it is also prioritising a lower use of water, energy and chemicals.

Unilever

The Dutch–British consumer goods company has a so-called sustainable living plan that sets targets for sourcing, supply chain and production on everything from energy and water use to treatment of suppliers and communities where the brand operates. Three quarters of its non-hazardous waste does not end up in landfills and the number of its agricultural suppliers that use sustainable practices has tripled since 2010.

Sources: BMW – see Sustainability at the BMW Group website, BMW And Sustainability; IKEA – see People & Planet website, https://www.ikea.com/gb/en/this-is-ikea/people-planet/ (accessed October 2018); *FY17* Sustainability Report from Inter IKEA Group (2017) https://newsroom.inter.ikea.com/publications/fy17-sustainability-report-from-inter-ikea-group—on-our-way-to-becoming-people—planet-positive/s/e7f47a2e-53ca-4d15-88e1-f856dfbdcb06; Unilever –see 'About our Strategy' website, https://www.unilever.com/sustainable-living/our-strategy/about-our-strategy/ (accessed October 2018).

The key challenge for green marketers is to strengthen individuals' emotional perception of the individual benefits to be gained from 'going green' by adding more and stronger emotional values to green brands. Future green market research should extend its analysis to the emotional values and benefits associated with environmentally responsible consumption behaviour.[68] Newsweek's top-ranking green brands in 2017 declared L'Oréal to be in top place, with a further six European brands being in the top ten: Centrica (2), Siemens (4), Accenture (7), BT (8), Adidas (9) and Philips (10).[69]

Companies are increasingly working with public interest groups to avoid perceptions of 'greenwashing' – insincere, false efforts to appear more environmentally sensitive than they really are. Alliances with environmentalists can achieve more satisfying solutions that both address public concerns and increase the firm's image and profits. DuPont once viewed Greenpeace as an enemy; the firm now uses Greenpeace's former head as a consultant. Greenpeace has also worked with McDonald's and others to stop farmers cutting down the Amazon rainforest to grow soya beans.

Digital and traditional marketing are inseparable

Digital marketing has not replaced traditional marketing. It is an invalid exercise to try to separate these routes of reaching customers. Traditional media are used to drive traffic online and increasingly digital channels are being used to deliver 'traditional' content in TV, radio, press and PR channels.[70] Digital technology continues to evolve rapidly but it is the benefit it gives to enable people to engage, experience and communicate with others, i.e. its use, that is the real breakthrough in marketing practice. People are using the new technology to:

- surf the internet;
- view media in a new way;
- build relationships with brands and marketers;
- form and develop relationships with each other;
- engage in co-creation activity;
- partake in collaborative consumption.

As well as expanding the toolkits of media practitioners in regard to seen and heard material, digital technology allows practitioners to research and measure human behaviour in the marketplace. Digital technology is powering the use of big data and fuelling the drive towards the individual targeting of consumers through in-game and smartphone advertising. Internet access is now possible from miniature computers housed in spectacles and wrist watches. Everyone needs social media and web skills at the heart of all they do. That means moving away from simply digitising analogue practices. Practically speaking, this can mean presenting information in innovative and compelling ways – in graphical or video formats, supported by social-media engagement.

The Internet of Things

Kevin Ashton's 'Internet of Things' (IoT)[71] presents the prospect where everyday objects, such as the clothes we wear and even our pets, have sensors embedded in them so that they can communicate with each other. Making sense of IoT challenges marketers to ensure that new developments offer real, life-improving benefits to the public. Indeed, some believe that the impact of IoT on marketing will match that of the internet. Software, such as Hobsbawm's Everything, lets brand owners process information about connected market offerings to personalise them to each consumer. Known as PRM (product relationship marketing), it is likely to become a powerful marketing tool. Hobsbawm have worked with Diageo's whisky brands that enabled purchasers to attach a personalised film tribute on bottles they were giving as Father's Day gifts.

A mass application of IoT in the UK is Hive, an app from British Gas that allows householders to control their central heating via their smartphone. Hive claims to save householders up to £150 a year but calls for an up-front cost of £199 and requires users to take a long-term view. According to the business research firm Gartner, by 2020 there will be 26 billion connected objects, more than three times the number of smartphones, tablets and PCs.[72]

If today the smartphone is the most used tool, in the future devices may get even more personal and even extend to computer chips set under consumers' skin.[73] The rapid evolution of IoT has profound social and economic implications. If its development and performance is insufficiently regulated, Dutton warns it may 'undermine key core values such as privacy, equality and individual choice'.[74]

Marketing revisited

The marketing manager's key tasks

The first two decades of the twenty-first century pose several exceptional challenges to marketers. Many markets in developed countries are oversupplied with most market offerings, leading to fierce competition that is of global proportions. The rapid rate of technological advance, increasingly sophisticated and demanding customers and new market regulations suggests that their functional activity will become of paramount importance to their companies. According to Barwise, there are four key tasks for contemporary marketing managers, as outlined in the 'Marketing in action' box. In August 2014, Procter & Gamble announced that they were dropping the title of marketing director and renaming its marketing function as 'brand management'. Barwise, emeritus professor of management at London Business School, commented that 'P&G's decision reflects how marketing, and a marketing director's influence, needs to be increased to ensure that the brand promise is consistently delivered'.[75]

Marketing in action

Key tasks of marketing managers

1 Develop a detailed understanding of current and prospective customers. Much of this should come from regular direct contact with customers and from programmed ad hoc research to reveal new trends in customer preferences. Suitable customer-perceived value offerings should then be developed and introduced into the market as quickly as possible to gain or maintain a sustainable competitive advantage.

2 Develop a detailed and deep understanding of existing and emerging competitors by regarding expenditure on suitable market research as an investment decision rather than a cost sign-off.

3 Develop a detailed and deep understanding of how markets are changing. This needs to be communicated clearly by regular reports to all functional managers to facilitate a holistic approach to marketing in the company. Update topics might include the state of key markets (context), distribution (logistics) and marketing communications (social media).

4 Develop a strategic marketing approach to support corporate strategy. Seek to become a 'market driver' rather than be a company that is 'market driven'.

Keeping a close watch on the four leading marketing management tasks
Source: Serif.

Quo Vadis?

It is both an exciting time and a fearful one for marketers. The excitement lies in the potential of harnessing digital technology and social media platforms to provide customer-perceived value offerings. Increasingly these will become closely tailored to consumers' expectations and the trend away from mass to personal communications mix will gather pace. Consumer marketing is now a philosophy and a process that is partnered by companies and consumers. This shift from people being viewed as consumers to seen as prosumers[76] has emerged powerfully in the 2010s, migrating from B2B marketing practice, and is likely to gather pace in the next decade. As the social web has grown and tools such as Twitter, blogs, Facebook and YouTube have allowed communications to flow faster and farther than ever before – inevitably causing the world to shrink and real-time to be the expectation – people have changed. Those changes affect most aspects of our daily lives, including our roles as individuals with buying power, and that's a shift that businesses and their employees need to understand if they want to stay profitable in the future.

The difficulties associated with competing successfully in buyers' markets have challenged organisational practice in many firms. Many organisations now really regard marketing as a necessary investment to meet their profit forecasts. Others have been lukewarm and have not adopted a holistic approach. In many firms a lack of joined-up thinking is evident.

Back to basics and some new perspectives

Politicians argue that winning elections is all about the economy. For markets it is all about winning customers. In predominately buyers' markets this means providing customers with market offerings (blends of tangible and intangible attributes) that meet customers' expectations. Digital technology and the popularity of social media have created a new global business stage. As actors have to learn new plots and new lines in pursuit of their trade, so companies need to seriously review their roles.

It makes sense to segment, target and position market offerings. However, now consumers need to be involved as co-creators of these packages. In many cases, a great deal of attention will have to be paid to the intangible parts of these packages, providing a challenge for content marketing practice. Firms will have to find appropriate ways of personally engaging with consumers and will need to master how to manage the transition from brand message projection to the provision of multi-sensory experiences. Digital spend will continue to gain at the expense of paper and broadcast media. Social media platforms will become more important than brands in building audiences.

Gone are the days when marketing could be conveniently encapsulated by the 4Ps approach that was often regarded as a functional activity and a not always welcome addition to traditional management practices. Today, marketing must be accepted by senior management as a holistic activity. What has changed is the way in which marketing must be practised. A good foundation thought for firms is to be resolute in putting the customer first. Build forecasts and strategy from the bottom upwards. Quinn et al.[77] researched how target market selection decisions were shaped, challenged and driven in response to the rapidly developing technological landscape. The authors critically evaluated and assessed the implications of rapid technology on the interface between strategic and functional marketing personnel that resulted in an erosion of responsibility for the forming and adoption of critical strategic marketing decisions.

Holding things together

Current buyers' markets place pressure on firms to promise and deliver the right market offering. This should be seen as a holistic response that will require the input of functional skills within the company and those of external parties such as the supply (or rather value) chain and interested stakeholders. Thus, real teamwork is needed. The CEO must ensure that the task is fully understood and all players cooperate to provide the required customer-perceived value offering for a targeted customer. This frequently means that the CEO has to be aware of the dangers of process management techniques such as ISO9000 or Six Sigma that have been shown to have a detrimental effect on long-term strategic marketing because they fail to appreciate the importance of long-term innovation. The same can be said for hurried downsizing programmes (which damage employee morale, lower buy-in commitment and increase employee turnover) and some outsourcing programmes. In this sense, the role of the CEO is similar to that of the conductor of an orchestra. The players in the respective sections, such as brass, percussion, strings and woodwind, are to apply their individual and group skills, in tune. This implies that they must have an appreciation of the nature of each other's functional skills.

Remember TEAM? Together everyone achieves more. This is the prime responsibility of the CEO. Next the CEO must answer the question: Who owns the customer? Is it the marketing department? The sales department? Or is it the accounts department? Worse still is the confusion evident here. The paradigm change from sellers' to buyers' markets has led loyal customers to become highly prized. Repeat business for the company's offerings signifies success is the essence of a good brand. CEOs should strive to interact with and understand their customers and be wary of the isolation that can result from managing behind closed doors and shaded windows.[78]

Marketing insight

Marketing morphs to greater focus on customer engagement, involvement and experience

Marketing managers operating in a highly competitive global marketplace in the age of the internet need to be vigilant to constantly track important developments affecting the delivery of marketing programmes that detect and meet the needs of customers. Practitioners need to answer the call to refocus and redefine marketing in terms of an ever-sharper focus on customer experience and engagement. The case is compelling and emerges from a study of the following topics:

1. Responding to the change in traditional marketing practice from an essential transaction-focused approach to concentration on customer engagement.

2 Marketing is now an end in itself and must create customer-perceived value in co-creation relationships with customers.
3 Ask not what your marketing can do for you, but what your marketing can do for and with your customer.
4 Concentrate on market offerings that are co-created with consumers and deliver customer-perceived value experiences; move from the dogmas of unique selling points (USPs) to customer engagement points (CEPs); rejig the communications mix to gain the right balance between mass and personal approaches in these days of social media power and importance.
5 Move from a tendency to concentrate on mass image projection to a quest to achieve, enhance and retain a sound customer reputation.
6 Understand the need to explore, collaborating both with other companies and customers to achieve attractive customer experiences.
7 Understand the need for marketers to be agile – consumers will expect real-time responses.
8 Learn that practitioners must work in beta. Technology is promoting a 'test-and-learn' mentality as companies will have to innovate to survive.

Marketing used to be thought to be about making people want things. Today it's about understanding consumer behaviour and user experience(UX), which governs how people interact with a company, come back and make additional purchases. In the real world, people do not follow the neat user journeys that are sketched out in traditional workshops. UX professionals research, design and shape strategy to respond and deliver to identified customers. UX is an essential tool for minimising risk, whether it is through an extensive programme of 'test and learn', or by ensuring that customer expectations, habits and motivations are really understood.[79]

The key skill areas that existing and would-be marketers need to master are:

1 Digital technology.
2 Co-creation of content marketing.
3 Big data skills
4 Skilled use of social media.

Nowadays, brand communication has moved from predominantly unidirectional interruption advertising to multichannel, multi-touchpoint customer-experience and engagement marketing. The world is chaotic and ever-changing, and people are not completely rational buyers. The task facing marketers is to make sense of this in order to manage their brands effectively.

Getting started

The mission of this text is to provide readers with the following:

- an understanding of marketing management;
- an appreciation of the main methods used by marketers to capture marketing insights;
- an overview of the ways in which marketers connect with customers with branded market offerings;
- an insight into how practitioners shape the market offering;
- an understanding of how marketers deliver customer-perceived value in global and local supply networks;
- an appreciation of the methods by which marketers communicate customer-perceived value;
- an insight into how marketing management approaches issues of implementation and control.

Marketing in action

Getting to grips with the practice of marketing

1. Study the contextual factors that impact on the marketplace:
   - Is the market domestic or international? (Each national market will need a separate application of this toolbox.)
   - Political, economic, sociocultural and technological factors.
   - Is the market a sellers' or a buyers' market?
   - If a buyers' market, then the concept of customer-perceived value will be relevant.
2. Study the customer factors, such as:
   - Segmentation, targeting and positioning.
   - Product/market offering value circles (quality and price attributes).
   - Branding activity.
3. Study the competition:
   - Perceived market offering expertise.
   - Breadth and width of market offering portfolio.
   - New product (market offering) development skills.
   - Market share.
   - Profitability.
4. Study the cash/cost issues:
   - Invest in market research to make informed decisions on key market characteristics (context, customers, competition, channels and communications mix) to ensure careful use of resources.
   - Pay careful attention to the development of revenue and profitability forecasts.
5. Examine the underlying company corporate philosophy and practice:
   - Is it mainly traditional cost-reduction philosophy with a tendency to view (mass) marketing as a cost item?
   - Is it a holistic or emerging market-orientated company?
   - Is it a listening company?
   - Is it happy to co-create market-perceived value offerings with consumers?

In addition, readers are encouraged to try their hand at some 'hands-on' experience. Marketing is a discipline that requires *know-what* (knowledge) and is developed and fine-tuned by practice (*know-how*). The 'Marketing in action' is offered as a guide to getting under way. For further guidance on developing a marketing plan, see Chapter 3, the €uromart sample marketing plan. At the end of the day, the key question for marketers is 'do you really know your customer?.'

SUMMARY

1 The modern marketing department has evolved from a simple sales department into an organisational structure where marketing personnel work mainly in cross-functional teams.

2 Modern marketing departments can be organised in a number of ways. Some companies are structured by functional specialisation, whereas others focus on geography and regionalisation. Still others emphasise market offering and brand or market-segment management. Some develop a matrix organisation consisting of both market offering (product/service) and segmented market managers.

3 Effective marketing organisations are holistic and customer focused. Major departments, (marketing, R&D, engineering, purchasing, manufacturing, operations, finance and accounting) operate in a customer-centric way.

4 In many ways running a company is similar to driving a car. Senior managers may plan their corporate journeys but things happen on the way. This demands skills in recognising and diagnosing problems, doing something about them and evaluating the results.

5 A marketing department must drive marketing activity and continuously monitor its effectiveness. Marketing plan control involves analysis to ensure that the company achieves the sale, profits and other goals published in its annual plan. The main tools are sales and market share analysis, marketing expense-to-sales analysis and financial analysis of all marketing sector plans. Profitability control measures and assesses the profitability of market offerings, territories, customer segments, trade channels and order sizes. A key practice is to monitor and control costs and revenue of pertinent cost centres. Efficiency control concentrates on finding ways to increase the performance of all marketing functions. Strategic efficiency assesses the impact the company achieves in its chosen markets.

6 Companies should practise social responsibility through their ethical, legal, social activities. Cause marketing can be a means for companies to link social responsibility programmes to consumer marketing. Social marketing is mainly conducted on a non-profit basis to directly address a social problem or cause.

7 Achieving marketing excellence in the future requires marketers to face the challenges presented by the global economy and largely over-supplied markets and to work effectively in the digital and social media age.

8 Marketing is morphing rapidly towards a greater focus on the engaging, involving and providing of winning market offerings for consumers.

APPLICATIONS

Marketing debate

Is marketing management an art or a science? Some marketing observers maintain that good marketing is more of an art and does not lend itself to rigorous analysis and deliberation. Others strongly disagree and contend that marketing management is a highly disciplined enterprise that has much in common with other business disciplines.

Take a position: marketing management is largely an artistic exercise and therefore highly subjective *versus* marketing management is largely a scientific exercise with well-established guidelines and criteria.

Marketing discussion

How does cause or corporate societal marketing affect your personal consumer behaviour? Do you ever buy or not buy products or services from a company because of its environmental policies or programmes? Why or why not?

FURTHER READING

K. Tollin and M. Schmidt (2015) Marketing's contribution from the perspective of marketing executives, *Marketing Intelligence and Planning*, 33(7), 1,047–1,070.

This paper seeks to determine the impact that chief marketing executives' (CMEs) mind-sets about important marketing capabilities have on company performance.

The research identified four categories of mind-set about important capabilities. An investigation into the company performance profile of each mind-set shows that integration and rejuvenation are central qualities of CMEs' mind-sets and important drivers for company performance. Hence, companies that have a CME who prioritises brand management, product development and customer relationship management, as well as a set of specialised and dynamic marketing capabilities, will outperform companies that have a CME who focuses on only one area of cross-functional marketing capabilities.

Practically, top managers, including CMEs, can use the typology of mind-sets to analyse and critically reflect on their own ideas about important marketing processes and capabilities, but also as a tool for initialising change processes in their business unit or particular function (general management or marketing).

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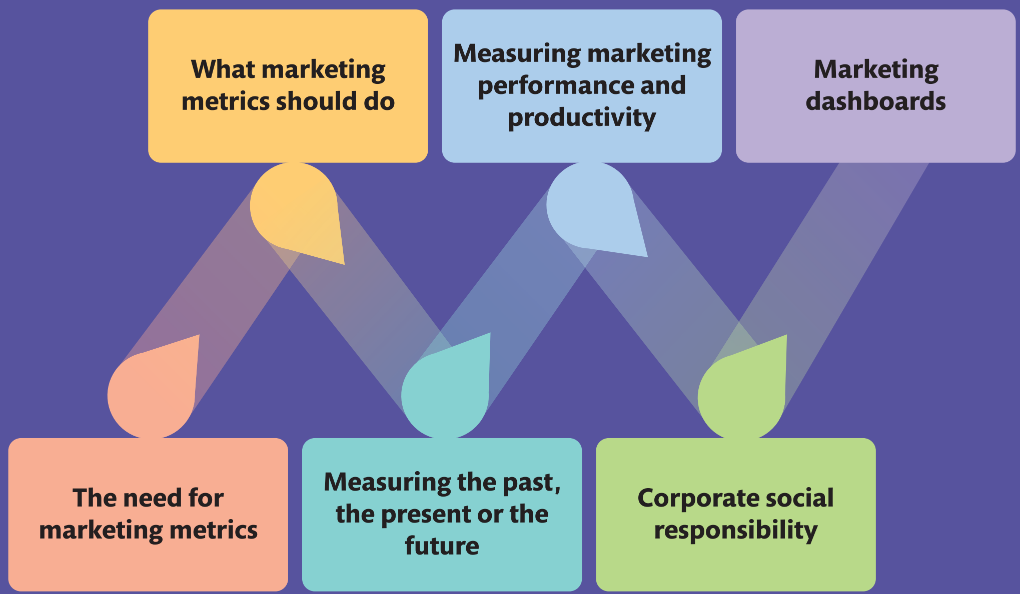
CHAPTER 22
Managing marketing metrics

In this chapter, you will learn about the following topics:

1. The need for marketing metrics
2. What marketing metrics should do
3. Key marketing metrics
4. What metrics companies use
5. The marketing dashboard

What you can't measure you can't manage – this is the true marketing metrics philosophy
Source: PickStock/E+/Getty Images.

Chapter Journey



To stay in business a company needs positive cash flows, which in turn are generated from the company's ability to create value.[1] Since value is defined by customers, marketing makes a fundamental contribution to long-term business success. Recognising that evaluating marketing performance is a key task for management, marketing metrics are concerned with calculating the value of marketing activity in a company.

Brands spend large amounts of marketing money, and the brand owners and their agencies need to be accountable for this money, and how it is spent. There is a constant need to create growth and thus prioritise spend behind campaigns and media that are more effective, to get a bigger 'bang for our buck'. But you only know what is more effective if you measure and monitor the effect properly. BrandScience, a specialist unit within OmnicomMediaGroup, is a global network of econometric and marketing analysis experts specialising in delivering state-of-the-art, 100 per cent tailor-made brand, business and communication evaluation by quantifying and measuring properly what matters to businesses. Advanced statistical modelling methods are employed on hard data on the brand's sales, marketing and communications history, competitors and economic context in order to identify significant drivers of the businesses, separate the effects of different drivers and isolate and quantify the contribution from marketing on a short-, medium- and long-term basis.[2]

Marketing managers are increasingly being held accountable for their investments and must be able to justify marketing expenditures to senior management.[3] Marketing metrics provide valuable data points against which the marketing organisation can track its progress, demonstrate accountability and allow marketers to better know, act upon and align efforts.[4] This chapter explores how companies can measure and improve their marketing performance by applying marketing metrics.

The need for marketing metrics

In the modern business environment, companies to an increasing degree derive substantial and sustained competitive advantage from intangible assets such as brand equity, knowledge, networks and innovative capability. Measuring the return on both tangible assets (fixed assets, e.g. land, buildings and machinery) and intangible assets (assets that have no physical substance, e.g. brand names, copyrights and patents, strong channel relationships, etc.) has therefore now become imperative for managers.[5] Without metrics to track performance, marketing and business plans are ineffective.

Marketing metrics is the set of measures that help firms to quantify, compare and interpret their marketing performance. The American Marketing Association (AMA) has established the following definition of marketing accountability: 'The responsibility for the systematic management of marketing resources and processes to achieve measurable gains in return on marketing investment and increased marketing efficiency, while maintaining quality and increasing the value of corporation.' The overall purpose of marketing metrics is twofold: (1) by increasing the accountability of marketing initiatives, marketing metrics serve to justify spending valuable firm resources on marketing; and (2) they facilitate the identification of drivers of future customer and firm value.[6] Although we can easily quantify marketing expenses and investments as inputs in the short run, the resulting outputs, such as broader brand awareness, enhanced brand image/identity, greater customer loyalty and improved new product prospects, may take months or even years to manifest themselves.[7] Moreover, a whole host of internal changes within the organisation and external changes in the marketing environment may coincide with the marketing expenditures, making it hard to isolate the effects of any particular marketing activity.[8] Nevertheless, an important task of marketing research is to assess the efficiency and effectiveness of marketing activities. In one survey, 65 per cent of marketers indicated that return on marketing investment was a concern.[9]

A number of factors have elevated the importance of measuring marketing performance:[10]

- **Corporate trend for greater accountability of value added.** Companies that want to measure the return on marketing need to treat marketing expenditures as an investment instead of just a short-term expense. The investment perspective allows managers to compare marketing to other assets and thus enables companies to be financially accountable. Being financially accountable is also necessary when a company wants to be cost effective and/or wants to reduce costs. Moreover, marketing is generating a stream of revenue (through sales), and therefore it should be possible to pay for marketing activities by their results.[11]
- **Discontent with traditional metrics.** Conventional methods of productivity and return (e.g. balance sheets, income statements, gross margins) are often historical and say little about the future long-term performance of a company. In a competitive and highly dynamic company environment, past performance is a poor and almost useless predictor of future performance. In compliance with treating marketing as an investment, marketing metrics should be forward looking and should also involve a long-term performance perspective.
- **Availability of ICT and internet infrastructure.** The development of ICT and the internet and social media has facilitated the development of new methods for marketing metrics. In addition, the prevalence of enterprise resource planning software, supply chain management software and customer relationship management software enables the use of more advanced and forward-looking marketing metrics.
- **Identification of new drivers of customer and firm value.** In recent years, still more customer characteristics – such as word of mouth and referral behaviour – have been linked to customer and firm value, which has led to an increase in the number of different types of marketing metrics.

Unfortunately, however, while many companies may be aware of the opportunities associated with marketing metrics, the reality is that many still rely on traditional historic metrics such as balance sheets, gross margins and so on, and many companies lack quantitative metrics to demonstrate the impact of marketing spending.[12]

What marketing metrics should do

More than ever, marketers are being pressured to deliver hard data on how their efforts increased the company's bottom line. This trend seems to be global. A focus on metrics can mean the difference between a marketing department that is considered highly valuable and one on the brink of extinction. For example, research giant IDC surveyed senior marketing executives in IT companies to determine their priorities for the coming year. Measuring and justifying their efforts and steering marketing initiatives towards tangible results were at the top of their lists.[13]

Researchers Seggie et al.[14] have formulated seven themes, or dimensions, that together define the capabilities of the 'ideal marketing metrics' – and at the same time also provide guidelines on how existing marketing metrics may be improved:

1 Marketing metrics should be financial. By speaking the same financial language as the rest of the company, senior management can obtain a greater understanding of marketing initiatives, intervene when necessary and take appropriate remedial action.
2 You cannot drive a car, or a company, by only looking in the rear-view mirror. Companies wanting to survive intense competition have to be at the forefront of environmental development and also need to be able to forecast the future results of actions taken today. In order to be forward rather than backward looking, metrics should not just be projecting past results inflated by an uplift (an adjustment) factor.
3 Marketing actions may have both short- and long-term effects. By regarding marketing as an expense, the short-term perspective has been emphasised at the expense of the long-term perspective. However, the view of marketing as an investment introduces the long-term perspective necessary for the purpose of comparing the real benefits of marketing activities.
4 Looking only at aggregated, or average, tendencies among customers may mask important shifts among customer segments or even individual customers. Sufficient marketing metrics should therefore be capable of transforming data at the macro level into micro-level data.
5 Independent metrics should be moved from separate measures to causal chains, thereby facilitating the direct measure of marketing activities as evaluated by their effect on the bottom line. Intermediate variables such as consumer attitudes and market share should be taken into account.
6 No company exists in a vacuum and value is most often reached in competition with company rivals. Reflecting this, marketing metrics should also be relative – not just absolute – to allow managers to contrast performance with that of the company's competitors.
7 Marketing metrics should be able to deliver objective data, which can be used for comparisons with other companies and with other company activities – and that can facilitate accountability.

Marketing researchers Rust et al.[15] propose that there are three challenges to the measurement of marketing productivity. The first challenge is relating marketing activities to long-term effects. The second is the separation of individual marketing activities from other actions. Third, the use of purely financial methods has proved inadequate for justifying marketing investments.

Non-financial metrics are needed: for example, metrics that relate to innovations or employees. Since the late 1990s the economy has increasingly recognised that intangible (market-based) assets are the drivers of value.[16] A company's tangible or balance sheet assets (e.g. factories, raw materials, and financial assets) have traditionally been seen as its most vital resource. However, in the modern market economy investors increasingly view intangible assets (e.g. brands, company knowledge, reputation, skills and customer trust) as the key to superior business processes.[17]

London Business School's Tim Ambler suggests that if companies think they are already measuring marketing performance adequately, they should ask themselves five questions:[18]

1 Do you routinely research consumer behaviour (retention, acquisition, usage) and why consumers behave that way (awareness, satisfaction, perceived quality)?
2 Do you routinely report the results of this research to the board in a format integrated with financial marketing metrics?
3 In those reports, do you compare the results with the levels previously forecast in the business plans?
4 Do you also compare them with the levels achieved by your key competitors using the same indicators?
5 Do you adjust short-term performance according to the change in your marketing-based asset(s)?

Ambler believes that firms must give priority to measuring and reporting marketing performance through marketing metrics. He believes evaluation can be split into two parts: (1) short-term results and (2) changes in brand equity. Short-term results often reflect profit-and-loss concerns, as shown by sales turnover, shareholder value, or some combination of the two. Brand-equity measures could include customer awareness, attitudes and behaviours, market share, relative price premium, number of complaints, distribution and availability, total number of customers, perceived quality, and loyalty and retention.[19] Google Marketing Platform brings together advertising and analytics to help clients to make quality customer connections, surface deeper insights and drive better marketing results..[20]

Companies can also monitor an extensive set of metrics internal to the company, such as innovation, firm profits, marketing return of investment and others; for example, 3M tracks the proportion of sales resulting from its recent innovations. Ambler also recommends developing employee measures and metrics, such as staff's awareness of goals, desire to learn and job satisfaction, arguing that 'end users are the ultimate customers, but your own staff are your first; you need to measure the health of the internal market'. Table 22.1 shows how both internal and external metrics can be used to compare performance for the prior 12 months across various sectors.

To date, marketing metrics results have been largely internal to the firm, although it has been argued that they should also be communicated to shareholders, subject to commercial confidentiality.[21]

Measuring the past, the present or the future

Most customer metrics used by firms are rear-view mirrors reporting the past, or dashboards reporting the present.[22] Such metrics are simply retrospective snapshots of the ways customers have evaluated the company, its employees, or its products and services in the past, including overall assessments, such as customer satisfaction, perceived quality, perceived value, loyalty, or attitudes toward the brand or organisation. While these easy-viewing metrics have several advantages – they help companies tracking performance over time, benchmarking against competitors, comparing performance across different parts of the company, and the like – they also have critical disadvantages. As noted by marketing professor Valarie A. Zeithaml and her colleagues, 'by the time we get the data from customer surveys, they represent yesterday rather than today. Perceptual measures also typically focus only on current customers, ignoring non-customers whose perceptions are likely to be as important – or more important – than current customers.'[23] Moreover, rear-view mirrors have been shown to offer only limited ability to predict future customer behaviour and firm value.[24] For example, customer satisfaction and repeat-purchase intentions have often only limited ability in explaining or predicting behaviour. As digital technology and CRM have evolved, companies have increasingly measured customers' observed behaviour. Attention has been devoted to 'real-time' metrics such as number of acquired customers, traffic/visits, product returns, average order size and the like. The 'RFM' measure in particular has become popular. RFM reports the time since the customer's last purchase (recency), the customer's purchase frequency (frequency) and the average amount spent by the customer (monetary value). RFM is often used for rank-ordering existing customers based on their purchasing history, although it provides only little information concerning how much future profit each customer is likely to give.

Metrics reporting the past or the present should not be disregarded as they may be highly valuable to the company. For example, measuring customer satisfaction provides good feedback to employees and may be used by managers to determine relative performance and compensate the units responsible. However, in recognition that a company cannot survive solely on the basis of what it has earned yesterday, or what it earns today, marketing research has been increasingly interested in developing metrics that relate to future company performance. Examples of such attempts include assessments of customer lifetime value (CLV), which reflects the present value of the future net cash flows that are expected to be received over the lifetime of a customer, and **customer referral value** (CRV), which seeks to quantify the value of the referrals that each customer gives to the firm.[25] CLV and CRV, and other forward-looking metrics, will be addressed in detail later in this chapter.

Table 22.1 Firm Performance: Rate your firm's financial and market performance during the last 12 months? (−10% to +10%)

	Primary Economic Sector				Sales Revenue						Internet Sales %		
Number Mean SD	**B2B Product A**	**B2B Services B**	**B2C Product C**	**B2C Services D**	**<$25 million A**	**$26–99 million B**	**$100–499 million C**	**$500–999 million D**	**$1–9.9 billion E**	**$10+ billion F**	**0% A**	**1–10% B**	**>10% C**
Sales revenue	51	50	25	24	39	25	26	8	37	15	66	46	36
	4.67	4.50	4.92	5.00	4.10	5.00	5.23	3.38	5.03	5.40	4.35	4.85	5.36
	5.41	4.97	4.44	4.05	5.22	5.54	4.35	5.68	4.87	3.52	5.48	4.28	4.62
Profits	50	49	24	24	39	24	25	8	36	15	64	45	36
	3.84	2.53	3.75	3.96	2.67	1.92	3.92	1.50	4.61	5.87	2.63	4.18	4.14
	5.48	5.59	4.81	4.48	5.65	6.14	4.36	3.78	5.15	3.89	5.52	4.91	5.30
					f	f		f		abd			
Brand value	50	50	24	24	39	25	25	8	36	15	65	45	36
	3.64	2.72	3.75	4.13	3.82	3.24	3.72	2.63	3.17	3.40	3.12	3.53	4.14
	4.14	3.78	4.18	4.39	4.78	3.61	4.26	3.42	3.75	3.98	3.47	4.31	4.75
Customer acquisition	50	50	24	24	39	25	25	8	36	15	65	45	36
	3.26	3.52	1.88	3.54	3.31	2.96	3.24	1.50	3.22	4.40	3.54	2.78	3.33
	4.37	4.00	4.77	3.95	5.20	4.54	3.52	4.28	3.82	3.66	4.24	3.57	5.23
Marketing ROI	51	49	24	24	39	25	25	8	37	14	64	46	36
	3.10	2.61	1.92	3.58	2.97	1.68	2.24	1.25	3.95	3.79	2.16	3.04	3.75
	4.04	4.59	4.30	4.24	4.60	4.62	3.43	1.83	4.61	3.85	3.60	4.24	5.37
Customer retention	50	49	24	24	39	25	25	8	35	15	64	45	36
	2.10	2.20	1.67	2.63	2.51	0.88	1.68	2.63	2.77	2.73	2.25	2.64	1.56
	4.24	4.61	3.76	3.39	4.41	4.70	4.14	3.89	3.68	3.65	4.19	3.98	4.38
Market share	51	50	25	24	39	25	26	8	37	15	66	46	36
	2.00	1.34	2.16	3.46	0.74	2.40	2.46	2.25	1.84	3.80	1.45	2.48	2.14
	3.39	4.00	3.25	4.77	3.41	4.31	3.84	4.03	4.45	3.23	3.96	3.78	4.34
		d		b	F					A			

Significance Tests Between Columns: Lower case: $p<.05$ Upper case: $p<.01$
Source: The CMO Survey® 2018: http://www.cmosurvey.org/results/.

Measuring marketing performance and productivity

Marketing performance and productivity is multidimensional and therefore different metrics should be seen as complements rather than substitutes.[26] Marketing has the main responsibility for achieving profitable revenue growth and this is done by finding, keeping and growing the value of profitable customers.[27] Taking this perspective, marketing metrics must relate to finding customers (customer acquisition), keeping customers (consumer retention) and growing customer value (monetisation). This approach[28] connects marketing to essential business outcomes, customer acquisition to market share, customer retention to lifetime value and monetisation to customer/brand equity and shareholder value. We divide these marketing metrics into three dimensions: (1) counting-based (or activity) metrics; (2) accounting-based (or operational) metrics; and (3) outcome (or forward-looking) metrics. All three dimensions may comprise both external and internal company metrics.

Counting-based metrics

Counting-based metrics include, for example, number of complaints, sales, head counts, number of customers, number of orders and new hires. In principle, any internal and external factor that can be counted may serve as a counting-based metric. Even though counting-based metrics are usually relatively simple to obtain, they still may provide invaluable information to the firm.

Accounting-based metrics

ROI and ROA

Most marketing research on company performance has relied on accounting-based ratio measures, such as return of investment (ROI) and return on assets (ROA).[29] The formula for calculating ROI is:

$$ROI = \frac{\text{net income before tax} \times 100}{\text{investment}}$$

ROI is usually calculated for a specific activity or campaign at a specific point in time. Consider a company that invests €1,500,000 on marketing a new product where the company expects to earn a net profit of €200,000 the first year. ROI can then be calculated as:

$$ROI(\%) = \frac{200{,}000 \times 100}{€1{,}500{,}000} = 13.3\%$$

The investment profitability rate of 13.3 per cent here is reported before taxes – but sometimes it is reported after taxes in comparing geographical areas where taxes vary substantially.[30]

The formula for calculating ROA is:

$$ROA(\%) = \frac{\text{net income before tax} \times 100}{\text{total assets}}$$

Total assets are the invested capital in the company, comprising both debt and equity. The major disadvantage of ROA is that the invested assets have multiple ways of being measured, including historical costs, book values, appraisal value, market value and so on.[31] ROA tells how effectively the company converts invested capital into net income, usually before taxes. Thus, if net income is €1,500,000 and assets are €10,000,000, the ROA(%) is 15 per cent. ROA can vary substantially across industries.

The ROI and ROA measures are both limited by two deficiencies.[32] First, the cost of capital is not considered. The company needs to set a standard for acceptable performance at a level above the company's cost of capital. If the cost of capital is 10 per cent, the estimated ROI or ROA must be higher to make the investment. Second, the measures may lead to potential dysfunctional decision making by unit managers. Some marketing managers acting in self-interest may choose to estimate ROI on the high side to get money for the project, or on the low side to discourage undertaking a project.

Another limitation is that ROI and ROA do not fully measure impact. Studies by the advertising agency Young & Rubicam suggest that only one-third of a brand's impact is realised in current sales and operating earnings, while two-thirds of its influence is obtained via future financial performance. Thus, while ROI analyses may provide some insight into the short-term financial performance of marketing activities, they may capture only one-third of the total value creation of the marketing programme. Net present value (NPV) is a method that explicitly deals with the expected future cash flows as a result of company marketing activity.

NPV

Having €1,000 in your hand today is better than having €1,000 in five years from now. The reason is that over five years that €1,000 that you have today would have a chance to grow by investing it. To calculate the net present value, we discount the anticipated cash inflows with an acceptable discount rate.[33] NPV is the sum of all such discounted cash flows associated with a project. NPV is calculated as:[34]

$$NPV = \sum_{t=0}^{n} \frac{C}{(1 + i)^t}$$

where

t = the time of the cash flow

N = the total time of the project

I = the discount rate

C_t = the net cash flow at time t

The discount rate is usually arrived at as a weighted average cost of capital. The company may also choose to use variable discount rates: for example, by using higher discount rates for riskier projects. Using an appropriate discount rate assures that the company only accepts projects where the expected cash flows add value to the company.

Outcome metrics

Marketing accountability also means that marketers must more precisely estimate the effects of different marketing investments. *Marketing-mix models* analyse data from a variety of sources, such as retailer scanner data, company shipment data, pricing, media and promotion spending data, to understand more precisely the effects of specific marketing activities.[35] To deepen understanding, marketers can conduct multivariate analyses to sort through how each marketing element influences marketing outcomes, such as brand sales or market share.[36]

Advanced econometric modelling methods enable BrandScience to separate the effects of the different drivers and to isolate and quantify the contribution from marketing. Figure 22.1 shows a sales decomposition conducted for a European financial services brand, where the weekly number of credit-card activations has been modelled and the significant drivers and their changing influence over time identified.

The blue dotted line represents the actual number of activations that has been decomposed via econometric modelling. The light blue base is the 'worst case sales' if all marketing activities had not occurred. In the base, the following effects have been aggregated in order to show the impact from marketing more clearly: the base line, seasonality, internal structural changes and increased brand awareness. At the end of the period, the uncompetitiveness (lack of competitiveness) has prevented the company from realising the actual **company sales potential** illustrated by the untapped dark blue area above the blue dotted *actual* line.

Five outcome metrics – shareholder value, customer lifetime value, customer referral value, brand equity measures and balanced scorecard are now described and discussed.

Shareholder value

Metric researcher Peter Doyle maintains that 'the real objective of marketing in the business enterprise is to develop and implement customer-led strategies that create shareholder value'.[37] **Shareholder value** is the value of the firm minus the future claims (future claims are also known as debts):

$$\text{Shareholder value} = \text{company value} - \text{debts}$$

where

$$\text{company value} = \text{present value of all future cash flows} + \text{value of non-operating assets}$$

Non-operating assets are assets that are not essential to the ongoing operations of a business, but may still generate income or provide a return on investment – for example, a company may own some property that generates a yearly income.[38] While the shareholder value can be used

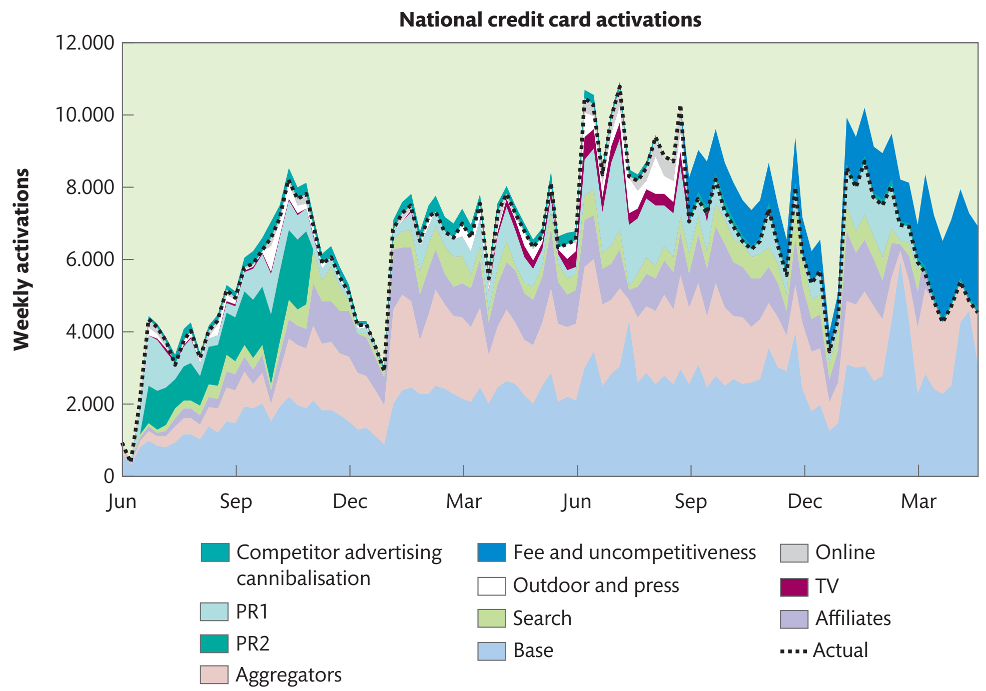


Figure 22.1 Sales decomposition – obtained through advanced econometric modelling
Source: Sales modelling carried out by BrandScience. Copyright © Omnicom Media Group. Reproduced with permission.

to estimate the value of the shareholders' stake in a company or business unit, it can also be used to formulate and evaluate marketing decisions.[39] Consider the box feature on the advertising campaign.

Taking a shareholder perspective may enhance the opportunity of making marketing recognised as a significant corporate value driver. Lukas et al. have emphasised five contributions of a shareholder value approach to marketing:[43]

1 **A shareholder value approach helps marketing properly define its objective.** To the extent that the governing business objective of a company is to maximise shareholder value, marketing should focus on contributing to this objective.
2 **A shareholder value approach provides the language for integrating marketing more effectively with the other functions of the company.** Shareholder value analysis is rooted in the discipline of finance, which is also the most common language in the boardroom. Unless marketing learns to speak this language, its influence will be limited.
3 **A shareholder value approach allows marketing to demonstrate the importance of its assets.** Many marketing assets are intangible (e.g. brand equity, customer loyalty). By relating these assets to shareholder value, marketing has the potential to increase its strategic influence in the company.
4 **A shareholder value approach protects marketing budgets from profit-maximisation policies.** Taking a shareholder value approach may prevent cuts in marketing budgets. Fundamentally, a shareholder approach is long term, with an explicit disdain for short-term solutions. Moreover, the shareholder approach emphasises that marketing assets should be considered as investments, which in turn emphasises that short-term, profit-driven marketing budgets may destroy rather than build company value.
5 **A shareholder value approach puts marketing in a pivotal role in the strategy formulation process.** Creating shareholder value is essential for creating a competitive advantage. Marketing provides the tools for creating such a competitive advantage.

The shareholder perspective should not be confused with the stakeholder perspective. The stakeholder perspective regards the purpose of a company as being to create value for all involved parties. Advocates say that this is even more likely to produce higher profits for the shareholders because the other parties will be more productive and better rewarded.

Launching an advertising campaign for a French women's fragrance: the impact on shareholder value

The marketing department of a French producer of exclusive women's fragrances considers launching a €5 million advertising campaign in upmarket women's magazines such as *Elle* and *Vogue* in order to further promote its already popular series of fragrances.

The advertising campaign will run for five years with €1 million invested each year; the marketing department estimates that sales will increase by 5 per cent each year as a result. The company wants to estimate how the advertising campaign might affect the company's shareholder value. The calculations are shown in Table 22.2.

We assume an operating margin of 10 per cent. **Operating margin** is the ratio of operating profit divided by net sales. In year 1 the operating margin is obtained as: 10.5 (operating profits)/105 (sales) = 0.10. Since operating margin is 10 per cent, this means that operating costs are 90 per cent of sales – for example, in year 1: 94.5/105 = 0.90. Also, we assume that taxes are 25 per cent. Taxes are paid out of operating profits.

In Table 22.2 NOPAT is a company's after-tax operating profit. It is defined as follows:

$$NOPAT = \text{operating profits} \times (1 - \text{tax rate})$$

Following this definition, year 2 NOPAT is obtained as NOPAT = 11.0 × (1 − 0.25) = 8.25, which we round off to €8.3 million.

The opportunity cost of capital is the return the capital could obtain if it was invested elsewhere in projects/activities of similar risk.[40] We estimate the opportunity cost of capital (the discount factor), i, to be 10 per cent. The *annual* discount factor is calculated as:

$$\text{Annual discount factor} = 1/(1 + i)^t \text{ where t} = 1,2,\ldots \text{ is the year}$$

For example, the annual discount factor for year 3 ($t = 3$) is:

$$\text{Annual discount factor, year 3} = 1/(1 + 0.10)^3 = 0.751$$

By multiplying the year 3 cash flow, which is €7.7 million, by the year 3 annual discount factor, which is 0.751, we get €5.8 million (the net present value of cash flow in year 3). Similar calculations can be carried for years 1, 2, 4 and 5. NPV of cash flows during planning horizon is now obtained as the cumulative present value in year, €6.3 + €6.0 + €5.8 + €5.5 + €5.3 = €28.9 million.

Table 22.2 Advertising campaign: calculating cash flow and shareholder value (€ million)

	Year					
	0	**1**	**2**	**3**	**4**	**5**
Sales	100.0	105.0	110.3	115.8	121.6	127.6
Operating costs	90.0	94.5	99.2	104.2	109.4	114.9
Operating profits	10.0	10.5	11.0	11.6	12.2	12.8
Tax (25%)	2.5	2.6	2.8	2.9	3.0	3.2
NOPAT	7.5	7.9	8.3	8.7	9.1	9.6
Advertising campaign		1.0	1.0	1.0	1.0	1.0
Cash flow		6.9	7.3	7.7	8.1	8.6
Discount factor (10%)		0.909	0.826	0.751	0.683	0.621
Net present value of cash flow		6.3	6.0	5.8	5.5	5.3
Cumulative net present value		6.3	12.3	18.1	23.6	28.9
Net present value of cash flows after planning horizon						59.6
Value of company operation (including advertising campaign)						88.5
Initial shareholder value (before advertising campaign)						75.0
Shareholder value added from advertising campaign						13.5

How will an advertising campaign for women's fragrance impact on shareholder value?
Source: BJI/Lane Oatey/Getty Images.

In principle, cash flows for all future years beyond the planning period (year 6, year 7, year 8, etc.) should be estimated in a similar way in order for the value of the advertising campaign to be accurately determined. However, a short-cut approach is often used in practice.[41] Here the NPV of cash flows after the planning horizon is calculated by the standard perpetuity model, which is the year 5 NOPAT/i multiplied by the year 5 discount factor ($=$ 0.621). Thus, the perpetuity method simply assumes that beyond the five-year planning period, competition will drive down profits to a level such that new investments just earn the company's cost of capital.[42] The year 5 NOPAT is €9.6 million (Table 22.2) and the discount factor, i, is 10 per cent. Thus we can now calculate NPV of cash flows after planning horizon as 9.6/0.10 $\times$ 0.621 $=$ €59.6 million.

Future cash flows have thus been divided into two time periods: those that occur during the planning horizon, and those that occur after the planning horizon. We add the cash flows from these two time periods and get the value of company operation: €28.9 $+$ €59.6 $=$ €88.5 million.

The perpetuity method can also be used for calculating the initial shareholder value of the company. The company's initial shareholder value before the advertising campaign is €75 million. This is estimated by dividing the year 0 NOPAT ($=$ €7.5 million) by the cost of capital: €7.5/0.10 $=$ €75 million. The expected shareholder value added from the advertising campaign is then the 'value of company operation' (including advertising campaign) less the 'company's initial shareholder value': €88.5 $-$ €75 $=$ €13.5 million.

Customer lifetime value

As modern economies become predominantly service based, companies increasingly derive revenue from the creation and sustenance of long-term relationships with their customers. In such an environment, marketing serves the purpose of maximising customer lifetime value. The case for maximising long-term customer profitability is captured in the concept of customer lifetime value.[44] Customer lifetime value is rapidly gaining acceptance as a metric to acquire, grow and retain the 'right' customers in customer relationship management.[45]

ING Direct

The Dutch-owned global financial services group ING Direct appreciates that the customers are the most important asset to the business, along with its staff. ING Direct's marketing intelligence function plays a critical role in ensuring that product launches through to customer communications and customer service reflect what is known about those savers. 'It is an information-hungry business. There is a culture in which everyone from the CEO down is using information and doesn't make a decision without information to support it', says head of database marketing, Ian Trudgett.

Understanding customer lifetime value is essential for ING Direct as it looks to extend its share of customers. Losing sight of the long-term customer value because of short-term opportunities is not something the company will be guilty of.[46]

The CLV approach assumes that customers who stay with a company for a long period generate more profits as compared with customers who only stay for a short period. It is more cost effective to deal with established customers whose needs and wants are known, and satisfied customers are also more likely to increase their purchases and to recommend the company to other customers. CLV can be seen as the series of transactions between a company and a customer over the period of time that the customer remains with the company.[47] CLV can be measured as the present value of the future net cash flows that are expected to be received over the lifetime of a customer, consisting of the revenue obtained from the customer less the cost of attracting, serving and satisfying the customer.[48] A key decision is what time horizon to use for estimating CLV – typically, 3–5 years is reasonable.

The formula for estimating customer lifetime value is:

$$CLV = \sum_{t=0}^{T^*} \frac{(p_t - C_t)}{(1 + i)^t} - AC$$

where

p_t = price paid by a consumer at time t
C_t = direct cost of servicing the customer at time t
i = discount rate
t = excepted lifetime of a customer
AC = acquisition cost

The formula can be applied for an individual customer and for segments of customers. CLV is a suitable metric for both business and consumer markets.

For example, a company may invest €10,000 in attracting a business customer. This acquisition cost (AC) consists of the costs associated with convincing a consumer to buy your product or service, including marketing, advertising costs, negotiating expenses in terms of human resources and travelling, conducting research and preparing various analyses on how to serve the customer in the best way, and so on. The customer stays with the company for three years, each year generating a €5,000 NOPAT to the company. The company estimates the opportunity cost of capital, *i*, to be 10 per cent. The annual discount factor for year 1 is calculated to be 0.909, for year 2 it is calculated to be 0.826, and for year 3 it is calculated to be 0.751. The lifetime value of the customer can now be calculated as

$$\text{CLV} = -10{,}000 + 5{,}000/1.10 + 5{,}000/1.10^2 + 5{,}000/1.10^3 = €2{,}434$$

We find the lifetime value of this customer to be €2,434. Since the lifetime value is larger than zero, this customer is expected to contribute positively to the value of the company.

It is useful for a company to find out what types of customer are the most profitable, how much it should spend on them and what product offerings should be made. The service and repair company Midas uses customer lifetime value as a tool for its direct marketing effort in several European countries. Midas tracks cars based on vehicle mileage and contacts customers to remind them of service and brake opportunities over the life of their vehicle.[49]

By comparing CLV with different types of customers, service activities and product offerings, the company can obtain highly useful knowledge and may also estimate **customer equity**. Customer equity (CE) is defined as the lifetime value of current and future customers.[50] CLV and CE focus on the long-term rather than the short-term profit or market share. Therefore, maximising CLV, and hence CE, is effectively maximising the long-term profitability and financial health of a company.[51]

Variations in customer lifetime value

Customers may vary dramatically in their overall value to a company. Niraj et al.[52] studied the drivers of current customer profitability in a supply chain for a large distributor with a heterogeneous client base. They found that a small percentage of customers contribute to a large percentage of total profits, and that a substantial percentage of customers (32 per cent of total) are unprofitable.

An important question relating to CLV is whether shareholder value would benefit from changing the level of marketing investment in a certain customer. Spending too much on an individual customer, or a segment of customers, can have a damaging impact on shareholder value. Some bankers are known for lavish dinners or rounds of golf with VIPs – long-term customers who are probably unlikely to switch to another bank. On the other hand, insufficient spending can also decrease shareholder value because an underserved customer may defect to a competitor or reduce spending volume.[53]

Companies wanting to take advantage of the CLV measurement should build individual-level customer databases. Without such data, true longitudinal data analysis of customers' behavioural responses to marketing actions – and related costs – cannot be implemented.[54]

Customer referral value

Marketing researcher Frederick F. Reichheld proposes that the key to business growth lies in the positive word of mouth (WOM) of a firm's customers.[55] When a customer defects from a firm, the lost value stemming from that customer is not only a function of lost purchases, but also a function of the lost WOM the customer may spread about the product, causing losses of potential future sales. Marketing research results even suggest that customers who are acquired via WOM are significantly more profitable in the long term than customers who are acquired via advertising and promotion.[56] For instance, it has been suggested that customers who are acquired using costly, short-term marketing advertisements and promotions may provide fewer than half the future profits of customers acquired using cheap long-term investments in word-of-mouth marketing.[57] The emergence of social media, which facilitate WOM, underlines the importance of understanding customer referral value. Indeed, tracking approximately 10,000 customers of a leading German bank for almost three years, Schmitt et al. found that referred customers have a higher contribution margin, though this difference erodes over time; have a higher retention rate, and this difference persists over time; and are more valuable in both the short and the long run.[58] Notably, customers with a high CLV may not be the same as customers with a high customer referral value (CRV), making it especially important to know which customers are spreading word of mouth. Managers therefore need to have separate metrics to measure the value of their customers according to their referral behaviour (CRV) or their own transaction behaviour (CLV), although a positive relationship between the two measures is likely. High CLV customers are typically more attached to and involved with the firm than low CLV customers, and are therefore more likely to involve other customers actively when making referrals. Hence, prospects receiving referrals from high-CLV customers are more likely influenced by these referrals. In addition, highly satisfied customers have higher CLVs and refer other customers more frequently.[59]

While several different measures of customers' CRV have been proposed (see V. Kumar et al.[60] for a review), we here illustrate with the following CRV formula proposed by Cornelsen, which quantifies the annual referral value of customer X:[61]

$$RV_x = \left[\sum_{i=1}^{n} (P_j^* W_j)\right]_x {}^*OL_x{}^*CS_x{}^*RR_z$$

where

RV_x = referral value of customer X

P_j = number of referral communications in social sphere j

W_j = weighting index of communication intensities within social sphere j

OL_x = opinion leader index of customer X

CS_x = customer satisfaction index of customer X

RR_z = industry-specific referral volume (average purchase volume × net average referral rate)

The formula builds on the distinction between two main elements of referral value, as displayed in Figure 22.2:

- an industry-specific average referral volume; and
- the individual customer's referral potential.

Consider a car dealer in the upper price segment who wishes to determine CRV. In order to specify industry-specific referral volume RR_z the car dealer needs to estimate both annual purchase volume per customer and net average referral rate. If we assume that customers on average purchase a new car every fifth year and that the average cost price is €35,000, then annual average purchase volume amounts to €7,000. Average net referral rate is calculated using a separate customer survey (see Chapter 6) that focuses on different information sources and their influence

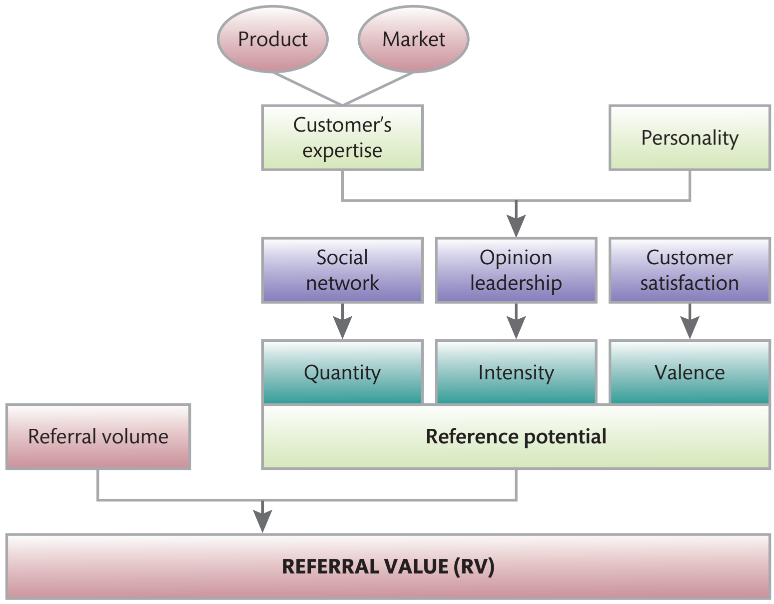


Figure 22.2 The determinant model of referral value

Source: Adapted from S. Helm (2003) Calculating the value of customers' referrals, *Managing Service Quality*, 13(20), 126.

on the customer buying decision. For example, the car dealer may discover that referrals explain 21 per cent of a purchase decision, meaning that the average referral rate is 21 per cent and that other information sources account for 79 per cent of the purchase decision. From the conducted survey, it is known that the annual average number of people a customer talks to concerning cars is 11. This means that a single referral influences 0.21/11 = 1.91 per cent of the decision to buy a new car. RR_z can now be calculated as €7,000 × 0.0191 = €133.70.

Opinion leadership (OL) for each of the car dealer's customers is also measured by the customer survey using each respondent's answers to a range of statements, which in turn is summarised into an index. For example, the following three statements can be used to measure opinion leadership concerning cars:[62] (1) my friends or neighbours often come to me for advice about cars; (2) I sometimes influence what car my friends buy; and (3) people come to me more often than I go to them for information about car brands. If a six-point Likert scale (1 = strongly disagree; 6 = strongly agree) is utilised for each of the statements, the maximum OL score would be 3 × 6 = 18. This means that if customer X has an OL score of 12 the OL-index for this customer results in 12/18 = 0.67.

P_j denotes the number of referral communications that customer X carries out in her/his social sphere per year. For customer X we assume that the total number of referral communications is 50, which for this customer divides into classes of social spheres in the following way: family members and relatives (25), friends (15) and work colleagues (10). Obviously, not all these communications may involve cars and therefore we multiply P_j by a weighting factor W_j, which we obtain in the survey by asking how often customer X's referral communications involve cars. For each of the three classes of social spheres, we use a five-point frequency scale ranging from 1 (= never) to 5 (= very often), where 'never' (=1 on the scale) is given a weighting factor of 0, 'rarely (= 2 on the scale) is given weighting factor 0.25, 'sometimes' (= 3 on the scale) is given weighting factor 0.50, 'often' (= 4 on the scale) is given weighting factor 0.75, and 'very often' (= 5 on the scale) is given weighting factor 1.00. If customer X 'never' talks to work colleagues about cars, but talks about cars to family members and relatives 'sometimes' and to friends 'rarely', the total 'social network' index score $(\Sigma(P_j \times W_j)$ would be $(10 \times 0 + 25 \times 0.50 + 15 \times 0.25) = 16.25$.

In the survey, we measure the degree of customer satisfaction (CS) on a four-point scale (ranging from 1 = 'very satisfied' with weighting factor +2, to 2 = 'very dissatisfied' with weighting factor −2). We assume that customer *X* is 'satisfied', resulting in a weighting factor of +1. The annual referral value of customer *X* can now be calculated as:

$$CRV = 16.25 \times 0.67 \times 1 \times 133.70 = €1{,}455.66$$

We find the referral value of this customer to be €1,456. Since the customer referral value is larger than zero, the referrals of this customer are expected to contribute positively to the value of the company. The overall value of customer X is €8,456, meaning that the referral value represents about 17 per cent of the customer's total annual value. It should be noted that the CRV measurement reviewed here is only indicative of the referral value of a customer. First, in addition to the variables included in the CRV formula, other variables – such as involvement and perceived risk – may also influence customer referral value. Second, if a 'true' referral value were to be measured, the model would need to be more complicated. For example, the effects of customers' referrals should also take into account 'spin-off referrals' (i.e. referrals addressed to persons who do not consider buying a product themselves, but who refer to others). Third, the variables included in the formula may be subject to measurement errors. Fourth, managers should carefully consider the weighting of the variables. For example, in some cases dissatisfaction may be weighted more intensely than satisfaction.[63] This being said, one of the clear strengths of the method is that it brings into the open one of marketing's most brilliant treasures: the value of positive customer WOM.

Brand equity and financial performance

Brand equity is probably the most prized measure for many companies of the value of the marketing asset. We conceptualise brand equity as 'the added value endowed to products and services' by the brand name. This value may be reflected in how consumers think, feel and act with respect to the brand. Brand equity is an important intangible asset that has psychological and financial value to the company. Positive equity is likely to be associated with behaviour that benefits the brand through purchase frequency, brand loyalty, price insensitivity and willingness to recommend.[64]

There are two primary perspectives related to brand equity, one based on financial outcomes for the company and the other, and softer, consumer-based perceptions of company performance. Most studies have focused on the consumer-based perspective. Also, much of the data necessary to test the financially based brand equity perspective are confidential and not available to marketing researchers.[65]

In the **consumer-based brand equity** (CBBE) perspective, the power of a brand lies in what customers have learned, thought, felt, seen and heard about the brand as a result of their experiences over time.[66]

There is a direct and an indirect approach to measuring CBBE. The indirect approach requires measuring potential sources of brand equity by identifying and tracking consumer brand knowledge structures. The direct approach requires experiments in which one group of customers responds to an element in the marketing programme when it is attributed to the brand, and another group of customers responds to the same element when it is attributed to a fictitiously named or unnamed version of the product or service. 'Blind tests' constitute an example of the direct approach.[67] The indirect approach is concerned with detecting the causes of brand equity, whereas the direct approach is concerned with assessing the added value of the brand.

Examples of operationalising direct measures include price premiums for brand switching and purchase intention, while examples of indirect measures include unaided and aided recall (awareness), familiarity, brand image favourability and rating of beliefs of associations (brand image strength). No single concept or dimension can be applied for measuring CBBE since it is a multidimensional construct.

One view suggests that brand equity arises from the strength and favourability of the two components of consumer-based brand knowledge structures: brand awareness and brand image. Brand awareness relates to the strength of a brand in memory, and the likelihood and ease with which the brand will be recognised or recalled under various conditions. Brand image is defined as 'perceptions about the brand as reflected by the brand associations held in consumer memory'.[68] Netemeyer and his colleagues[69] found that in the fast-food industry, the dimensions of 'perceived brand quality' and 'perceived brand value for the cost' (which were collapsed into one dimension) and brand uniqueness are highly relevant in predicting customer-based brand equity.

Brand equity was operationalised (measured) as the willingness to pay a price premium for a brand. This operationalisation included four measurement items:

1 The price of (brand name) would have to go up quite a bit before I would switch to another brand of (product).

2 I am willing to pay a higher price for the (brand name) brand of (product) than for other brands of (product).
3 I am willing to pay *X* per cent more for the (brand name) brand over other brands of (product): 0 per cent, 5 per cent, 10 per cent, 15 per cent, 20 per cent, 25 per cent, 30 per cent, or more.
4 I am willing to pay a lot more for the (brand name) than for other brands of (product).

Items were measured on seven-point 'strongly disagree' to 'strongly agree' scales.

Higher levels of brand awareness and positive brand image are thought to increase the probability of brand choice, as well as produce greater customer loyalty and decrease vulnerability to marketing actions.[70] Some researchers have suggested that brand equity measures should also rely on market-based, objective measures because consumer attitude and preference measures are inherently subjective. Silverman et al.[71] have explored the relationship between customer-based and financial/market-based brand equity measurements. They found only small, but positive, relationships between brand awareness – assessed by familiarity, usage and favourability – and market-based outcomes of brand value – measured by annual sales and *Financial World* brand ratings (see www.financialworld.co.uk).

Advertising agency Young & Rubicam has developed a model of brand equity called brand asset valuator (BAV), which can be accessed on its website: www.yrbav.com. BAV measures brand value by applying four broad factors:[72] (1) differentiation (the ability of a brand to stand apart from its competitors); (2) relevance (consumers' actual and perceived importance of the brand); (3) esteem (consumers' perceived brand quality together with their assessment of the popularity of the brand); and (4) knowledge (consumers' brand awareness together with their understanding of the brand's identity).

Young & Rubicam[73] has investigated to what extent BAV contributes to a company's financial performance.[74] Using unanticipated change in stock price as the dependent variable (i.e. financial measure), the relative contribution of individual brand components to changes in stock price was explored. The results revealed that energised brand strength (a combination of energy, differentiation and relevance) demonstrates a significant relationship with market value. BAV's energised brand strength was found to be 81 per cent as effective as sales growth in explaining changes in market value.

The balanced scorecard approach

Kaplan and Norton developed and advocated a balanced scorecard approach (BSC) on the grounds that purely financial metrics may tell the wrong story about a company. Consider the following racing car metaphor offered by Andra Gumbus.[75]

The need for both financial and non-financial metrics

Organisations that focus solely on financial measures can be compared to a racing car driver who only monitors his or her speed during a race. Suppose you are a driver in Formula 1 and are monitoring your car by looking at the RPM (revolutions [of the engine] per minute) gauge on your dashboard. You are not noticing the MPG (miles per gallon, of fuel), nor the MPH (miles per hour, or speed your car is travelling), nor the temperature gauge. You might win the race, but you are putting yourself and your car at risk by not monitoring *all* the gauges while focusing exclusively on the RPM dial. You might run out of fuel, overheat the engine, crash into another car and make other errors in navigating the course.

Installing BSC in a company requires active participation from top management and sustaining the practice over time.[76] BSC provides a systematic tool that combines financial and non-financial performance metrics in one coherent measurement system. Metrics are constructed according to a predefined strategy, and the company's processes are aligned towards this strategy. BSC systematically measures the company in four areas:[77]

1 The *financial perspective* uses traditional accounting measures in order to evaluate a firm's short-term financial results. Metrics include ROI, cash-flow analyses and return on equity.
2 The *customer perspective* relates to customer satisfaction within identified target groups and is generally marketing focused. Metrics include delivery performance to customers, customer satisfaction rate and customer retention.

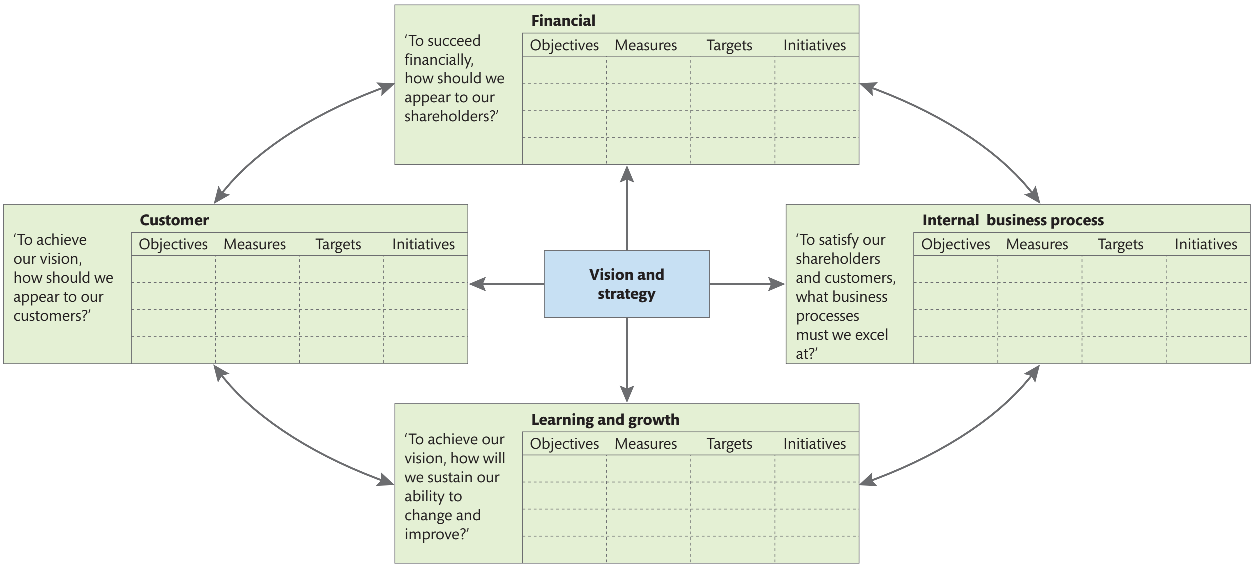


Figure 22.3 Translating vision and strategy: four perspectives
Source: reprinted by permission of *Harvard Business Review*, from R. S. Kaplan and D. P. Norton (2007) Using the balanced scorecard as a strategic management system, *Harvard Business Review*, July–August.

3 The *internal business process perspective* is based on the concept of the (firm-internal) value chain, including the process (or steps) needed to realise the intended product or service. Metrics include opportunity success rates, number of activities and defect rates.
4 The final dimension comprises the *innovation and learning perspective* that is inherent in a company by measuring various human resources-focused effects as well as learning systems support effectiveness. Metrics include illness rate, internal promotions in per cent and employee turnover.

By combining these four measures, Kaplan and Norton establish the BSC as a representation of a company's shared vision (see Figure 22.3).

BSC is not only a tool for measurement, but also a tool for strategic management.[78] It has not been developed to serve strategy formulation, but to implement strategy. BSC can be regarded as a tool for translating a company's strategy into measurable goals, actions and performance measures. According to Kaplan and Norton, the set of measures gives top managers a fast but comprehensive view of the business. Kaplan and Norton[79] have developed four management processes that contribute to linking long-term strategic objectives with short-term actions (see Figure 22.4):

1 **Translating the vision**: assists managers to build a consensus around the company's vision and strategy. For example, a top management vision that the company wants to be the 'number one supplier' offers by itself little guidance on how to operationalise that vision.
2 **Communicating and linking**: assists managers to communicate their strategy up and down the organisation and link it to objectives at the departmental and individual level – for example, by linking rewards to performance measures.
3 **Business planning**: assists companies to integrate their business and financial plans – for example, by setting targets and allocating sufficient resources.
4 **Feedback and learning**: enables companies to achieve strategic learning. The feedback and learning process facilitates feedback on all four perspectives (financial performance, customers, internal business processes, and learning and growth).

Accounting professor Erkki K. Laitinen argues that it is difficult to identify the relative importance of and the trade-offs between the suggested four perspectives of the approach.[80] Moreover, it is also difficult to identify the links between financial and non-financial performance measures. Kaplan and Norton acknowledge this criticism to a certain degree when stating that 'accumulating sufficient data to document significant correlations and causation among balanced scorecard measures can take a long time – months or years'.[81] Such data may enable a company to establish correlations between the various measures from the four perspectives.

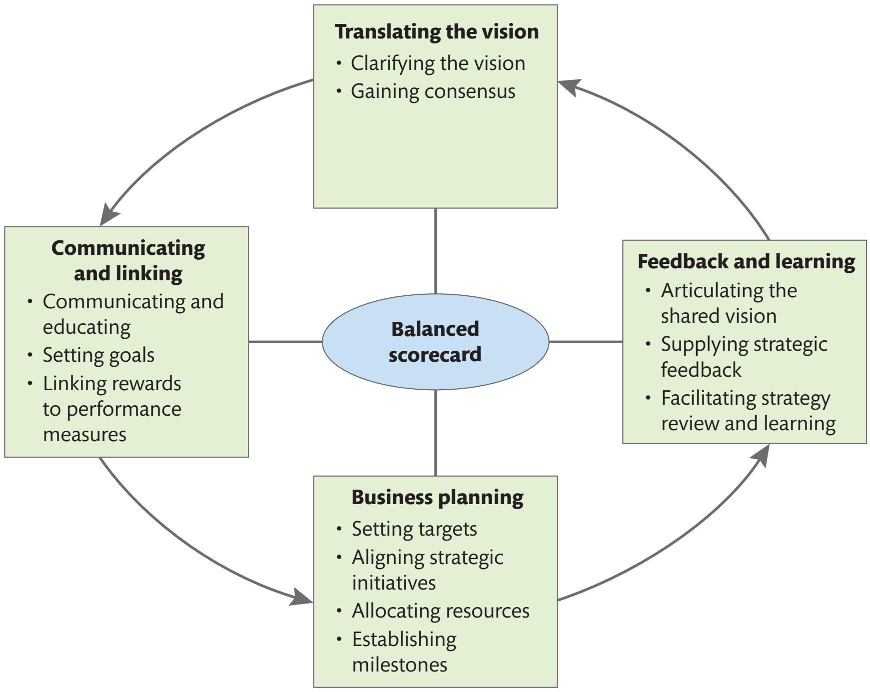


Figure 22.4 Managing strategy: four processes

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Big data and social media metrics

Big data is a popular term often used to describe the exponential growth and availability of data, both structured and unstructured.[82] More specifically, big data is generated from various sources including internet clicks, mobile transactions, user-generated content and social media, as well as sales queries and purchase transactions. With big data the typical statistical approach of relying on *p* values to establish the significance of a finding should be treated with care because the large volume of data means that almost everything is significant.[83] Techniques such as data fusion and integration, data mining, genetic algorithms and machine learning are among the useful tools for handling big data.[84] Big data investments will account for over €56 billion in 2018 and these are further expected to grow at a CAGR of approximately 14 per cent over the next three years. [85] (CAGR is the compound annual growth rate and is calculated as the mean annual growth rate of an investment over a specified period of time longer than one year.) One important source of big data is social media. Social media is becoming ever more important for marketing purposes, with social media spending as a percentage of marketing budgets being expected to increase from approximately 7 per cent in 2014 to more than 18 per cent before 2020.[86] Naturally, a prerequisite for managing social media is their effective measurement.[87] Social media make it easier for consumers to share opinions about companies and brands, which, in turn, may create exposure, build knowledge, generate attitudes and ultimately prompt purchase.[88]

Corporate social responsibility

As discussed in Chapter 21, although the meaning of **corporate social responsibility** (CSR) can be very broad, the concept can be described as a stakeholder-orientated concept that extends beyond the organisation's boundaries and is driven by an ethical understanding of the organisation's responsibility for the impact of its business activities.[89] Companies may wish to report their CSR initiatives according to the global reporting framework issued by the Global Reporting Initiative (GRI).

The Global Reporting Initiative

CSR reporting measures an organisation's economic, social and environmental performance and impacts. The measurement of CSR's three dimensions is commonly called the triple bottom line (TBL).[90] The Global Reporting Initiative (GRI) is a network-based organisation that pioneered what is now the internationally accepted standard for TBL reporting. GRI's Reporting Framework is developed through a consensus-seeking, multi-stakeholder process. Participants are drawn from global business, civil society, labour, academic and professional institutions. The Sustainability Reporting Framework consists of the Sustainability Reporting Guidelines, Sector Supplements and the Technical Protocol – Applying the Report Content Principles. The framework is applicable to organisations of any size or type, from any sector or geographic region, and has been used by thousands of organisations worldwide as the basis for producing their sustainability reports.

A Swedish study reveals that CSR activities only have small direct effects on company profitability. However, the study also finds that while financial markets do not always react to *positive* CSR performance news, they react relatively strongly and negatively to *negative* news about companies' CSR efforts.[91] Consistent with this finding, many companies primarily use various CSR initiatives (such as reducing greenhouse gases, engaging in welfare work and improving ethical regulations) to build and strengthen *relationships* with multiple stakeholder groups, including not only customers, suppliers, channel members and competitors, but also shareholders, employees, society regulators, media and financial markets. For instance, Puma CEO Jochen Zeitz pointed out that many shareholders are 'beginning to ask companies to behave in even more sustainable ways'.[92]

In that respect, marketing metric researchers Priya Raghubir, John Roberts, Katherine N. Lemon and Russell S. Winer[93] have recently developed a stakeholder utility model, which is also useful in determining how stakeholders might evaluate the outcome of company CSR activity:

$$U_{ij} = \sum\nolimits_k w_{ik} \times y_{ijk}$$

where

- y_{ijk} denotes how stakeholder i evaluates the outcome of CSR activity j on a range of relevant dimensions k
- w_{ik} denotes the weight that stakeholder i assigns to each CSR dimension
- U_{ij} determines the utility (or disutility) to be gained from the activity from stakeholder i's perspective

Time can also be incorporated into the calculation, since in the formula determining U_j, y_{ijk} may be calculated as:

$$y_{ijk} = \sum\nolimits_i^T \frac{y_{ijk}}{(1 + r_{ik})^t}$$

where r_{ik} is the discount rate (which may be specific to individual stakeholder i). This takes into account that net benefits (or net costs) of the outcome on dimension k may accrue over time. The impact on total public welfare, U_j, is given by the sum of each stakeholder's utility, weighted by the strength of the claim of that stakeholder(λ):

$$U_j = \sum\nolimits_{i\lambda_i} \times U_{ij} = \sum\nolimits_{i\lambda_i} \sum\nolimits_k w_{ik} \times y_{ijk}$$

As can be seen, the model uses a standard multi-attribute utility calculation to determine stakeholder utility. See Chapter 7 for a further illustration and discussion of this type of model.

Marketing dashboards

Firms are also employing organisational processes and systems to make sure they maximise the value of all the different metrics. Management can assemble a summary set of relevant internal and external measures in a *marketing dashboard* for synthesis and interpretation. **Marketing dashboards** are like the instrument panel in a car or plane, visually displaying real-time indicators to ensure proper functioning. They are only as good as the information on which they are based, but sophisticated visualisation tools are helping bring data alive to improve understanding and analysis.[94]

Table 22.3 Sample customer-performance scorecard measures

- Percentage of new customers to average number of customers
- Percentage of lost customers to average number of customers
- Percentage of win-back customers to average number of customers
- Percentage of customers falling into very dissatisfied, dissatisfied, neutral, satisfied and very satisfied categories
- Percentage of customers who say they would repurchase the product
- Percentage of customers who say they would recommend the product to others
- Percentage of target-market customers who have brand awareness or recall
- Percentage of customers who say that the company's product is the most preferred in its category
- Percentage of customers who correctly identify the brand's intended positioning and differentiation
- Average perception of the company's product quality relative to chief competitor
- Average perception of the company's service quality relative to chief competitor

Some companies are also appointing marketing controllers to review budget items and expenses. Increasingly, these controllers are using business intelligence software to create digital versions of marketing dashboards that aggregate data from disparate internal and external sources.

As input to the marketing dashboard, companies should include two key market-based scorecards that reflect performance and provide possible early warning signals:

1 A **customer-performance scorecard** records how well the company is doing year after year on such customer-based measures as those shown in Table 22.3. Management should set norms for each measure and take action when results get out of bounds.

2 A **stakeholder-performance scorecard** tracks the satisfaction of various constituencies who have a critical interest in, and impact on, the company's performance: employees, suppliers, banks, distributors, retailers and stockholders. Again, management should take action when one or more groups register increased or above-normal levels of dissatisfaction.[95]

Some executives worry that they will miss the big picture if they focus too much on a set of numbers on a dashboard. Others are concerned about privacy and the pressure that the technique places on employees. But most experts feel the rewards offset the risks.[96] The 'Marketing insight' box provides practical advice about the development of these marketing tools.

Marketing insight

Marketing dashboards to improve effectiveness and efficiency

Marketing consultant Pat LaPointe sees marketing dashboards as providing all the up-to-the-minute information necessary to run the business operations for a company – such as sales versus forecast, distribution channel effectiveness, brand equity evolution and human capital development. According to LaPointe, an effective dashboard will focus thinking, improve internal communications and reveal where marketing investments are paying off and where they are not.

LaPointe observes four common measurement 'pathways' that marketers are pursuing today (see Figure 22.5):

1 The *customer metrics pathway* looks at how prospects become customers, from awareness to preference to trial to repeat purchase. Many companies track progression through a 'hierarchy of effects' model to follow the evolution of broad market potential to specific revenue opportunities.

2 The *unit metrics* pathway reflects what marketers know about sales of product/service units: how much is sold by product line and/or by geography; the marketing cost per unit sold as an efficiency yardstick; and where and how margin is optimised in terms of characteristics of the product line or distribution channel.

3 The *cash-flow metrics pathway* focuses on how well marketing expenditures are achieving short-term returns. Programme and campaign ROI models measure the immediate impact or net present value of profits expected from a given investment.

4 The *brand metrics pathway* tracks the development of the longer-term impact of marketing through brand equity measures that assess both the perceptual health of the brand from customer and prospective customer perspectives as well as the overall financial health of the brand.

LaPointe emphasises that a marketing dashboard can present insights from all the pathways in a graphically related view that helps management see subtle links between them.

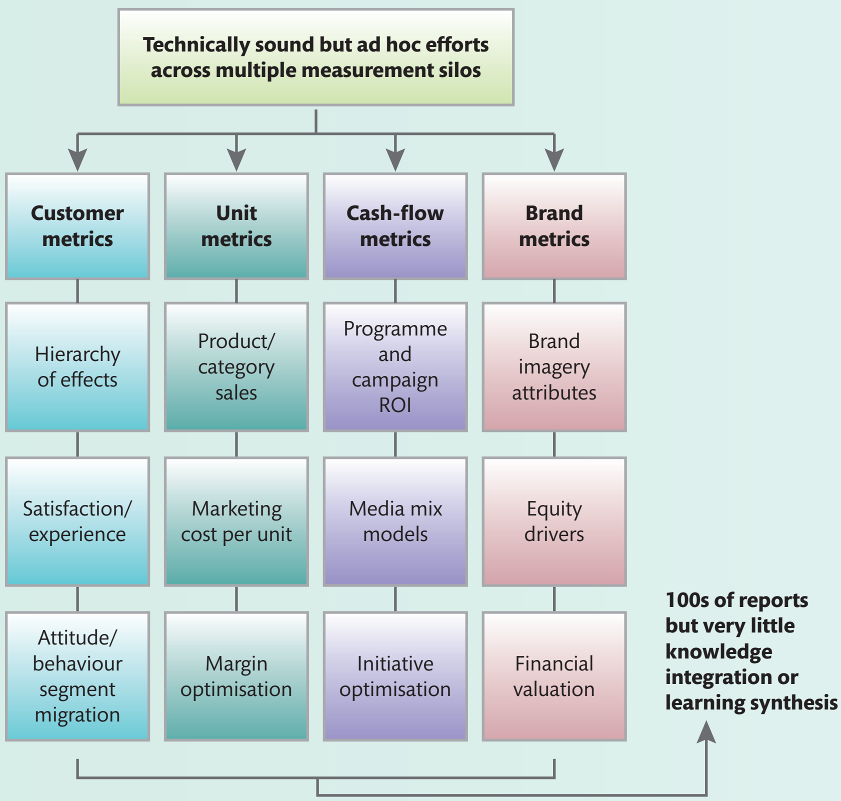

Figure 22.5 Marketing measurement pathways

Source: Adapted from D. Schultz, Chapter 3, in P. Kotler and A. Tybout (eds) (2005) *Kellogg on Branding: The Marketing Faculty of the Kellogg School of Management*, New York: John Wiley & Sons. Copyright © 2005 John Wiley & Sons, Inc. Reproduced with permission.

A well-constructed dashboard can have a series of 'tabs' that allow the user to toggle easily between different 'families' of metrics organised by customer, product, brand, experience, channels, efficiency, organisational development and macroenvironmental factors. Each tab presents the three or four most insightful metrics, with data filtered by business unit, geography or customer segment based upon the user's needs (see Figure 22.6 for an example).

Ideally, the number of metrics presented in the marketing dashboard would be reduced to a handful of key drivers over time. Importantly, the process of developing and refining the marketing dashboard will undoubtedly raise and resolve many key questions about the business.

Sources: P. Kotler and A. Tybout (eds) *Kellogg on Branding: The Marketing Faculty of the Kellogg School of Management*, New York: John Wiley & Sons; P. LaPointe (2005) *Marketing by the Dashboard Light – How to Get More Insight, Foresight and Accountability from Your Marketing Investments*. Patrick LaPointe.

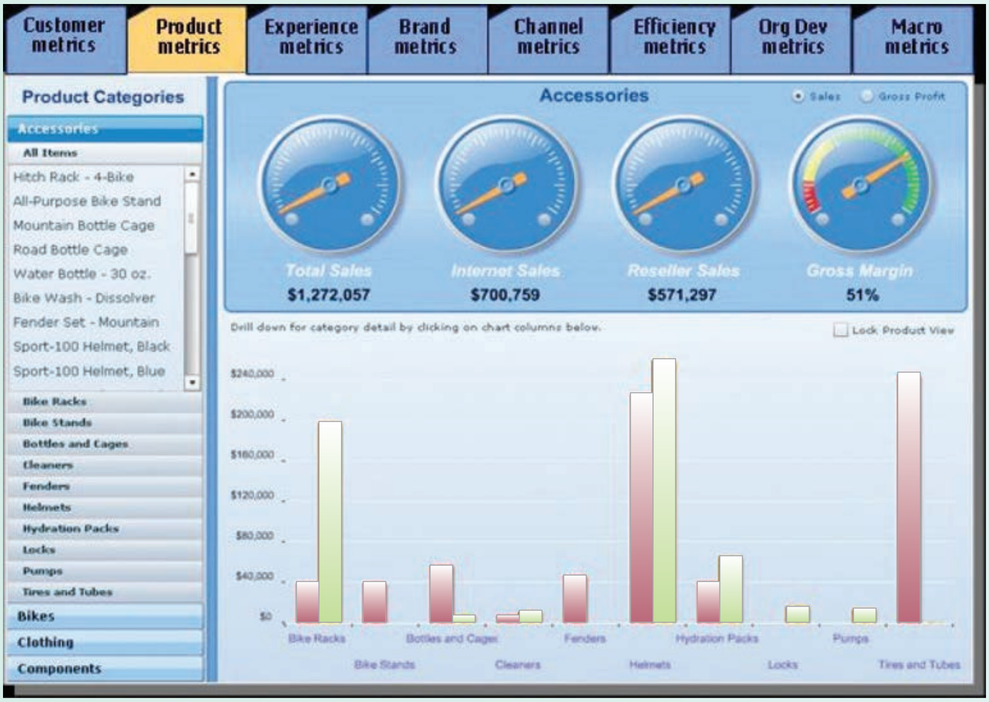

Figure 22.6 The marketing dashboard

Source: Adapted from P. LaPointe (2005) *Marketing by the Dashboard Light – How to Get More Insight, Foresight and Accountability from Your Marketing Investments*.

SUMMARY

1 Marketers must be able to justify marketing expenditures to company management. Marketing metrics is the set of measures that helps firms to quantify, compare and interpret their marketing performance.
2 Good marketing metrics are financial, forward looking and capture both short-term and long-term effects.
3 Marketing performance and productivity is multidimensional and therefore different metrics should be seen as complements rather than substitutes. Marketing has the main responsibility for achieving profitable revenue growth and this is done by finding, keeping and growing the value of profitable customers.
4 Marketing metrics are divided into three dimensions: (1) counting-based (or activity) metrics; (2) accounting-based (or operational) metrics; and (3) outcome metrics. All three dimensions comprise both external and internal metrics.
5 While ROI analyses may provide some insight into the financial performance of marketing activities, they may at the same time capture only one-third of the total value creation of the marketing programme. Net present value is a method that explicitly deals with the expected future cash flows as a result of company marketing activity.
6 Marketing should develop and implement customer-led strategies that create shareholder value. Taking a shareholder perspective enhances the opportunity of making marketing recognised as a significant corporate value driver.
7 Customer lifetime value is the net profit or loss to a company from a customer, flowing from the lifetime of that customer's transactions with the company. CLV assumes that customers who stay with a company for a long period of time generate more profits than customers who stay for only a short period of time.
8 Customer referral value (CRV) seeks to quantify the value of the referrals that each customer gives to the firm.
9 There are two primary perspectives related to brand equity, one based on financial outcomes for the company and one based on softer, consumer-based perceptions of company performance. Marketing performance during a period will be judged by whether brand equity has risen, is static, or has declined.
10 The balanced scorecard approach provides a systematic tool that combines financial and non-financial performance metrics in one coherent measurement system. Metrics are constructed according to a predefined strategy, and the company's processes are aligned towards this strategy. BSC systematically measures the company from four perspectives: the financial perspective, the customer perspective, the internal business process perspective, and the innovation and learning perspective.
11 Corporate social responsibility reporting measures an organisation's economic, social and environmental performance and impacts. The measurement of CSR's three main dimensions is commonly called the triple bottom line (TBL).
12 A marketing dashboard provides up-to-the-minute information necessary to run the business operations for a company – such as sales versus forecast, distribution channel effectiveness, brand equity evolution and human capital development.

APPLICATION

Marketing debate

Take a position: For any marketing activity there should be an established link between the activity and its measurement in terms of cash flow, ROI, effect on shareholder value and so on. Otherwise that activity should not be carried out *versus* Marketing activities are often based on feelings, experiences and so on, which are difficult to quantify. Therefore the outcome of a marketing activity need not be measurable for the marketing activity to be carried out.

Marketing discussion

What marketing activities need to be measured? Why? Which ones do not? Which metrics should be used in relation to which companies and in relation to which activities?

FURTHER READING

N. T. Bendle, P. W. Farris, P. E. Pfeifer and D. J. Reibstein (2015) Marketing Metrics, 3rd edn, Harlow, UK: Pearson Education Limited.

This book shows how to choose the right metrics for different challenges and expands its treatment of these issues to social marketing, web metrics, and brand equity. Systems for organising marketing metrics into models and dashboards are also provided.

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Part 7 Case study

Unilever: implementing and measuring corporate sustainability

Co-headquartered in London, England and Rotterdam, the Netherlands, Unilever is among the world's largest consumer-goods companies. With a turnover of €53.7 billion in 2017 and with more than 400 brands focused on health and wellbeing, hardly any other company touches so many people's lives in so many different ways.

In 2010 Unilever launched a ten-year Sustainable Living Plan. The plan focuses on three overall dimensions: improving health and wellbeing (focusing on health and hygiene and improving nutrition), reducing environmental impact (focusing on greenhouse gases, waste and packaging, among others) and enhancing livelihoods (focusing on fairness in the workplace, opportunities for women and inclusive business). With this plan Unilever, whose global brands include Dove, Omo, Knorr and Lipton, aims to achieve several key goals before 2020, including:

- changing the hygiene habits of 1 billion people in Asia, Africa and Latin America so that they wash their hands with Lifebuoy soap at key times during the day, helping to reduce diarrheal disease, the world's second-biggest cause of infant mortality;
- making safe drinking water available to half a billion people;
- improving livelihoods in developing countries by working with Oxfam, Rainforest Alliance and others to link more than 500,000 smallholder farmers and small-scale distributors into its supply chain.

As an overall goal, Unilever wants to halve the environmental footprint of its products. A couple of years on from launching its sustainability plan, Unilever claims that brands that have made sustainability central to their brand proposition or product innovation have accelerated sales. 'Sustainability is contributing to our virtuous circle of growth. The more our products meet social needs and help people live sustainably, the more popular our brands become and the more we grow. And the more efficient we are at managing resources such as energy and raw materials, the more we lower our costs and reduce the risks to our business, and the more we are able to invest in sustainable innovation and brands', says Paul Polman, CEO of Unilever.

Unilever's logo expresses the company's core values, with each icon representing an aspect of the business
Source: www.unilever.com.

Implementation of the sustainability plan

Hardly any other company has a sustainability plan as wide and deep as Unilever's. However, just having a plan for sustainable living moves nothing unless it is implemented. That is, the plan needs to be turned into action assignments in order to ensure that the stated objectives are accomplished. While the plan considers the what and why of marketing activities, implementation addresses the who, where, when and how.

As part of Unilever's effort to embed and implement sustainability into its brand marketing, the company has developed a range of activities. Its plan includes 60 targets with timetables, such as:

- adding a week-long sustainability marketing initiative into its training programme for all new brand managers;
- joining with a group of more than 40 partners to launch Global Forest Watch – a dynamic online monitoring and alert system to help protect forests worldwide;
- extending sales of its low-cost in-home water purifier, Pureit, from India to other countries; Pureit sells for just €35 and removes bacteria, viruses, parasites and other pollutants from water;
- innovating new products: as an example, Unilever's researchers are working to develop a laundry detergent that can clean clothes in just a few minutes at any temperature;
- launching its first consumer-facing brand campaign, using Project Sunlight to spread its sustainability message; the company wants consumers to perceive the Unilever brand as a trustmark for sustainable living.

Measuring the sustainability plan

While Unilever's sustainable living plan needs to be implemented, it also needs to be measured. Naturally, it may be hard to measure the direct financial success of the entire plan, although Polman is in no doubt about its success: 'Sustainable solution – it drives our top line, it drives our costs out, it motivates our employees, it links up with retailers', he says.

As an example of how Unilever intends to measure the impact of the sustainable living plan, the company has developed a metric that measures the greenhouse gas (GHG) emissions associated with the life cycle of a product on a per-consumer-use basis, e.g. the GHG impact of drinking a single cup of tea:

$$\text{Greenhouse gases per consumer use} = CO^2 \text{ equivalents across the product life cycle (grams)}$$

Using this metric, Unilever has set a baseline by calculating the GHG emissions across the life cycle of more than 1,600 representative products. The calculation covers 70 per cent of the company's volumes.

So far, the results suggest that manufacturing and transport represent just 5 per cent of Unilever's total GHG impact, while sourcing of raw materials and consumer use together account for over 90 per cent. The analysis also highlights that the product categories that make the largest contribution to the company's GHG footprint are those where the consumer requires heated water – showering, washing hair and laundry. Among the company's targets, Unilever aims to halve the GHG impact of the company's products across the life cycle by 2020, halve the water associated with consumers' use of the company's products and halve the waste associated with disposal of the company's products.

Greenhouse gas (GHG) emission across the life cycle of Unilever's products

Questions

1 In your opinion, what are the chances of Unilever succeeding with its sustainable living plan? Are there any pitfalls?
2 Advise Unilever on how it could extend its sustainable living marketing activity.
3 Do you agree with the way that Unilever measures sustainable living?

Sources: www.unilever.com, Unilever sustainable living plan – small actions – big difference; M. Gunther (2013) Unilever's CEO has a green thumb, *Fortune*, 167(8), 124–127; R. Baker (2013) Unilever sends marketers on sustainability training, *Marketing Week*, 22 April; Strategic Direction (2013) In the green corner: How IBM, Unilever and P&G started winning again: Why big business is wising up to sustainability, 29(5), 19–22.

Glossary

A

accessibility the degree of ease with which the customer can get to or avail themselves of a service.

activity-based cost (ABC) accounting procedures that can quantify the true profitability of different activities by identifying their actual costs.

administered VMS coordinates successive stages of production and distribution through the size and power of one of the members.

adoption an individual's decision to become a regular user of a product or service.

advertising any paid form of non-personal presentation and promotion of ideas, goods or services by an identified sponsor.

advertising agency an organisation that specialises in providing specialist services such as media selection, creative work, production and campaign planning for clients.

advertising goal (or advertising objective) a communication targeted at a pre-selected audience at a specific time to stimulate increased sales.

advertising message the use of words, symbols and graphical illustrations to communicate with a targeted audience in a selected media mix.

advertorials print advertisements that offer editorial content reflecting favourably on the brand and that are difficult to distinguish from newspaper or magazine content.

agents companies that search for customers and may negotiate on the producer's behalf but do not take title to the goods.

AIO factors used in psychographic profiles to describe individual life styles and cover activities, interests and opinions of targeted consumers.

ambient smell the smell that creates an ambience – such as the smell of coffee beans in a coffee shop.

anchoring and adjustment heuristic when consumers arrive at an initial judgement and then make adjustments of their first impressions based on additional information.

artifical intelligence (sometimes called machine intelligence) is the ability of technology to move beyond automation of tasks to emulate or preform human traits that ultimately could result in machines that can think.

aspirational groups groups a person hopes to or would like to join.

associative network memory model a conceptual representation that views memory as consisting of a set of nodes and interconnecting links, where nodes represent stored information or concepts and links represent the strength of association between this information or concepts.

atmosphere the creation of a sense or experience.

attitude a person's enduring favourable or unfavourable evaluation, emotional feeling and action tendencies towards some object or idea.

attributes intangible or tangible components of a customer/market offering.

augmented product a product that includes features that go beyond consumer expectations and differentiate the product from competitors'.

augmented reality a set of technologies that superimposes digital data and images on physical objects and environments, bridging the gap between digital and real, and could become the new interface between human and machine.

autocratic management style where the manager is fully responsible for making decisions.

availability heuristic when consumers base their predictions on the quickness and ease with which a particular example of an outcome comes to mind.

available market the set of consumers who have interest, income and access to a particular offer.

average cost the cost per unit at a given level of production; it is equal to total costs divided by production.

B

banner ads (internet) small, rectangular boxes containing text and perhaps a picture to support a brand.

basic product what specifically the actual product is.

behaviour skills how people interact with others: for example, are they good at helping others and deciding that others might need help?

belief a descriptive thought that a person holds about something.

benefit segments the grouping of people based on different benefits they see from a market offering.

benefits product or service characteristics that customers perceive as advantageous.

big data extremely large data sets that may be analysed computationally to reveal patterns, trends and associations, especially relating to human behaviour and interactions; the focus is normally on predictive analytics, user behavior analytics, or certain other advanced data analytics methods that extract value from data, rather than as a reference to the size of data set.

blog a mix of the word web and log, usually a type of personal online diary posted on the web in chronological order – the content of the blog does not have to be personal but can also be professional.

Born global is company that from the beginning have a global vision and adopts global patterns of internationalization from their very inception without preceding domestic or internationalization period.

bounce rate the percentage of visits in which the person left the website after they arrived on the entrance (landing) page.

Bottom of the Pyramid a socio-economic concept of wealth that clearly indicates that almost two thirds of the world's population are in the poorest socio-economic group, experiencing poverty, and thus are often invisible or an under/unserved part of the market.

brainstorming the technique where a group of people generate ideas without initial evaluation.

brand a name, term, sign, symbol or design, or a combination of them, intended to identify the goods or services of one company or group of companies and to differentiate them from those of competitors; to learn more about corporate branding, go to www.pearsoned.co.uk/marketingmanagementeurope for additional commentary from the authors.

brand advocate a powerful consumer who is willing to recommend a brand to their friends or advocate for the brand.

brand associations all brand-related thoughts, feelings, perceptions, images, experiences, beliefs, attitudes and so on that become linked to the brand.

brand audit a consumer-focused exercise that involves a series of procedures to assess the health of the brand, uncover its sources of brand equity and suggest ways to improve and leverage its equity.

brand awareness consumers' ability to identify the brand under different conditions, as reflected by their brand recognition or recall performance.

brand charter details in writing what the brand is and what it is not.

brand community a group of people who share their interest in a specific brand and create a parallel social universe with its own values, rituals, vocabulary and hierarchy.

brand culture the values and beliefs that people have about a brand in their hearts and minds.

brand development index the index of brand sales to category sales.

brand dilution when consumers no longer associate a brand with a specific product or highly similar products, or start thinking less favourably about the brand.

brand elements those trademarkable devices that serve to identify and differentiate the brand, such as a brand name, logo or character.

brand equity the added value endowed to products and services.

brand extension a company's use of an established brand to introduce a new product or service.

brand identity the way a company aims to identify or position itself or its product or service in the mind of the consumer.

brand image the perceptions and beliefs held by consumers, as reflected in the associations held in consumer memory.

brand knowledge all the thoughts, feelings, images, experiences, beliefs and so on that become associated with the brand.

brand line all products, original as well as line and category extensions, sold under a particular brand name.

brand management uses the choice, design and implementation of marketing mix activities to build, measure and manage the brand value.

brand mantra an articulation of the heart and soul of the brand, closely related to other branding concepts such as 'brand essence' and 'core brand promise.'

brand mix the set of all brand lines that a particular company makes available to buyers.

brand narrative branding based on deep metaphors that connect to people's memories, associations and stories.

brand personality the specific mix of human traits that may be attributed to a particular brand.

brand portfolio the set of all brands and brand lines a particular company offers for sale to buyers in a particular category.

brand promise the marketer's vision of what the brand must be and do for consumers.

brand reinforcing involves ensuring innovation in product design, manufacturing and merchandising, and ensuring relevance in user and usage imagery.

brand religion model describes the evolution of the role of brands in consumers' lives as a five-stage process and highlights the steps that customers can go through as they move forward in their beliefs about brands.

brand report card a process to periodically audit brands' strengths and weaknesses on certain relevant characteristics and comparing these with strong brands in the same category; Kevin Keller identified ten attributes that would measure the brand's strength.

brand revitalisation requires either that lost sources of brand equity are recaptured or that new sources of brand equity are identified and established.

brand slogans sometimes called tag lines, sentences that are intended to convey something good about a brand or to remind consumers of a brand's attributes.

brand tracking studies collect quantitative data from consumers on a routine basis over time to provide marketers with consistent, baseline information about how their brands and marketing programmes are performing on key dimensions.

brand valuation an estimate of the total financial value of the brand.

brand value the intangible asset and goodwill that becomes part of the purchase price of a company when it is acquired.

brand value chain a structured approach to assessing the sources and outcomes of brand equity and the manner in which marketing activities create brand value.

brand vision a clear and consistent message about the value of the brand.

branded variants specific brand lines uniquely supplied to different retailers or distribution channels.

branding endowing products and services with the power of a brand.

branding strategy the number and nature of common and distinctive brand elements and marketing programmes applied to the different products and services sold by the firm.

breakeven analysis a means by which management estimates how many units of the product the company would have to sell to break even with the given price and cost structure.

brexit the UK political policy to leave the European Union following a referendum in 2016.

brick-and-click existing companies that have added an online site for information and/or e-commerce.

business database complete information about business customers' past purchases, past volumes, prices and profits.

business market all the organisations that acquire goods and services used in the production of other products or services that are sold, rented or supplied to others; to learn more about business markets, go to www.pearsoned.co.uk/marketingmanagementeurope for additional commentary from the authors.

business mission the organisation's purpose that sets out its competitive domain and core values that distinguish it from the competition.

buyers' market a market environment where the supply of goods exceeds the demand.

buzz a term used in word-of-mouth marketing (viral marketing) when a marketer conveys new relevant brand-related information through unexpected or even outrageous means to privileged trend setters, or to create a stir that will be spread by word of mouth.

C

capital items long-lasting goods that facilitate developing or managing the finished product.

cash cows brands that may be kept despite dwindling sales because they still manage to hold on to enough customers and maintain their profitability with virtually no resource outlay.

category extension using the parent brand to brand a new product or service outside the product category currently served by the parent brand.

category membership the products or sets of products with which a brand competes and that function as close substitutes.

cause-related marketing marketing that links a firm's contributions to a designated cause to customers engaging directly or indirectly in revenue-producing transactions with the firm.

channel conflict when one channel member's actions prevent the channel from achieving its goal.

channel coordination when channel members are brought together to advance the goals of the channel, as opposed to their own potentially incompatible goals.

channel power the ability to alter channel members' behaviour so that they take actions they would not have taken otherwise.

channel stewardship the ability of a given participant in a distribution channel – a steward – to create a go-to-market strategy that simultaneously addresses customers' best interests and drives profits for all channel partners.

click and collect where a customer can buy products from a store's website or online (click) and collect them from a local branch or at a physical location (collect).

club membership programme a tool used to attract and retain customers and to build long-term brand loyalty for their products or services.

clustered preferences result when natural market segments emerge from groups of customers with shared preferences.

co-branding (also called dual branding or brand bundling) when two or more well-known brands are combined into a joint market offering or marketed together in some fashion.

co-creation an open, ongoing collaboration between a company and its customers to define and create products, services, experiences, ideas and information together.

co-creation of value emphasises the generation and ongoing realisation of mutual firm–customer value. It views markets as forums for firms and active customers to share, combine and renew each other's resources and capabilities to create value for each party.

coercive power when a company threatens to withdraw a resource or terminate a relationship if intermediaries fail to cooperate; this power can be effective, but its exercise produces resentment and can lead the intermediaries to organise countervailing power.

cohorts groups of individuals who are born during the same time period and travel through life together.

collaborative robots (also called a cobot or co-robot) robots designed to work safely with humans; a development of what was called industrial robots, which were designed to operate autonomously or with limited guidance.

commercial clutter confusion or noise caused by multiple messages in multiple media.

communication-effect research determining whether an advertisement is communicating effectively.

company sales forecast the expected level of company sales based on a chosen marketing plan and an assumed marketing environment.

company sales potential the sales limit approached by company demand as company marketing effort increases relative to that of competitors.

competitive advantage a company's ability to perform in one or more ways that competitors cannot or will not match.

conative consumers' actions upon their attitude towards a product or service.

concentric strategy occurs when a company seeks to develop new market offerings that have technological or marketing synergies with existing market offerings.

conformance quality the degree to which all the produced units are identical and meet the promised specifications.

conglomerate strategy when a company seeks to spread risk by seeking new business opportunities that have no relationship with its own market offerings.

conjoint analysis a method for deriving the utility values that consumers attach to varying levels of a product's attributes.

conjunctive heuristic the consumer sets a minimum acceptable cut-off level for each attribute and chooses the first alternative that meets the minimum standard for all attributes.

consumer-based brand equity the differential effect that brand knowledge has on a consumer response to the marketing of that brand.

consumer behaviour the study of how individuals or groups buy, use and dispose of goods, services, ideas or experiences to satisfy their needs and wants.

consumer decision journey the stages the customer goes through, from consider and evaluate to buy, enjoy and advocate.

consumer involvement the level of engagement and active processing undertaken by the consumer in responding to a marketing stimulus.

consumerist movement an organised movement of citizens and government to strengthen the rights and powers of buyers in relation to sellers.

consumption system the way the user performs the tasks of getting and using products and services.

contractual sales force manufacturers' reps, sales agents and brokers, who are paid a commission based on sales.

contractual VMS consists of independent firms at different levels of production and distribution integrating their programmes on a contractual basis to obtain more economies or sales impact than they could alone.

controlling generally involves comparing actual performance to a predetermined standard.

convenience goods goods the consumer purchases frequently, immediately and with a minimum of effort.

convenience items items that sell in high volume but receive less promotion; these items can carry higher margins.

conventional distribution channel an independent producer, wholesaler(s) and retailer(s).

cookies digital codes in the form of small data tags that are created through the information accessed, websites visited and behaviour on the web, which is tracked and stored on the server.

copy testing a market research technique used to analyse advertisement copy text prior to the main launch or 'roll-out'; this form of pre-testing will indicate whether an advertisement carries a strong enough message to be deemed useable by the company, and if not, where its effectiveness can be increased by editing.

core benefit the service or benefit the customer is really buying.

core business processes must be coordinated for a firm to achieve success and include market sensing, new market offering realisation, customer acquisition, customer relationship management and the fulfilment management process.

core competency an attribute that (1) is a source of competitive advantage in that it makes a significant contribution to perceived customer benefits, (2) has applications in a wide variety of markets, (3) is difficult for competitors to imitate.

core product offering items that produce high sales volume and are heavily promoted but with low margins because they are viewed as undifferentiated commodities.

core values the belief systems that underlie consumer attitudes and behaviour, and that determine people's choices and desires over the long term.

corporate culture the shared experiences, stories, beliefs and norms that characterise an organisation.

corporate social responsibility the ethical principles that affect the interaction between an organisation and the environment and society.

corporate VMS combines successive stages of production and distribution under single ownership.

countertrade exchanging items that are paid for, in whole or part, with other items.

critical path scheduling a network-planning technique that calls for developing a master chart showing the simultaneous and sequential activities that must take place to launch a product or service.

cross-functional activities activities where individuals from different departments come together, managed by a preselected team leader.

cues stimuli that determine when, where and how a person responds.

culture the fundamental determinant of a person's wants and behaviour.

customer churn rate of customer defection.

customer consulting data, information systems and advice services that the seller offers to buyers.

customer database an organised collection of comprehensive information about individual customers or prospects that is current, accessible and actionable for marketing purposes.

customer equity the lifetime value of current and future customers.

customer experience all the experiences a customer has with a product or service, over the duration of their relationship with that company.

customer lifetime value the net present value of the stream of future profits expected over the customer's lifetime purchases.

customer mailing list a set of names, addresses and telephone numbers.

customer-perceived value the difference between the prospective customer's evaluation of all the benefits and all the costs of an offering and the perceived alternatives.

customer-perceived value analysis a review of a company's strengths and weaknesses relative to those of various competitors.

customer-perceived value hierarchy five product levels that must be addressed by marketers when planning a market offering.

customer-performance scorecard how well the company is doing year after year on particular customer-based measures.

customer profitability analysis a means of assessing and ranking customer profitability through accounting techniques such as activity-based costing (ABC).

customer referral value the value that a customer creates through recommending the company to other people.

customer relationship capital the net value of a company's satisfied customers should the business be put up for sale.

customer relationship management the process of carefully managing detailed information about individual customers and their encounters or interactions with the brand or product to maximise customer loyalty.

customer satisfaction the fulfilment of customers' perceived-value expectations.

customer-to-customer interactions/encounters direct or indirect, face-to-face or technology-mediated, active or passive interaction between two or more customers in the service setting or outside the service setting, which may or may not involve verbal communication.

customer training training the customer's employees to use the vendor's equipment properly and efficiently.

customer value analysis report of the company's strengths and weaknesses relative to various competitors.

customerisation see customisation.

customisation combination of operationally driven mass customisation with customised marketing in a way that empowers consumers to design the product and service offering of their choice.

cyborgs short for cybernetic organism – a being with both organic and biomechatronic body parts, a cyborg is a person whose physical abilities are extended beyond normal human limitations by mechanical elements built into the human body.

D

dashboards on-screen easy-to-read summaries of key marketing metrics; a marketing dashboard is a personalised view of all marketing information relevant to a specific job and role.

data minimisation the collecting, using, disclosing and storing of only the minimal amount of data needed.

data mining the extracting of useful information about individuals, trends and segments from the mass of data.

data warehouse a collection of current data captured, organised and stored electronically, designed to facilitate reporting and analysis.

database marketing the process of building, maintaining and using customer databases and other databases for the purpose of contacting, transacting and building customer relationships.

delivery how well the product or service is delivered to the customer.

demand chain planning the process of designing the supply chain based on adopting a target market perspective and working backwards.

democratic management style where the manager usually delegates power to the subordinates and leaves the decision-making process to them.

department a higher-level division within companies, which encompasses many functions.

developing markets nations with social or business activity in the process of rapid growth and industrialisation, as distinct from the developed markets which are countries that have achieved a level of economic growth and security.

diffused preferences exist when customers' preferences vary greatly in their requirements.

digital brand community also called online or virtual brand communities, a social network of individuals who interact online, often across geographical boundaries, in order to pursue mutual interest in a specific brand.

digital branding the creation and management of brands through the use of all forms of digital technologies, many of which are controlled by the consumer.

digital marketing describes the management and execution of marketing using electronic or digital media such as the web, email, interactive TV, wireless media, mobile technology and self-service technology in conjunction with digital data from a range of databases and software applications about customers' characteristics and behaviour.

digital technology digitised information that is recorded in binary code of combinations of the digits 0 and 1, also called bits, which represent words and images; this enables immense amounts of information to be compressed on small storage devices that can be easily preserved and transported.

Digitalisation the integration of digital technologies into everyday life by the digitisation of everything that can be digitised.

direct channel the manufacturer or service organisation going directly to the final consumer, such as direct mail or use of internet advertising.

direct exporting occurs when a company manages their own exporting, which can be through opening a branch or a subsidiary, using their own sales force or hiring an agent.

direct marketing the use of consumer-direct (CD) channels to reach and deliver goods and services to customers without using marketing middlemen.

direct (company) sales force full-or part-time paid employees who work exclusively for the company as sales representatives.

disclaimant groups groups to which a person belongs but whose values, norms or behaviour an individual seeks to avoid.

discrimination the process of recognising differences in sets of similar stimuli and adjusting responses accordingly.

display advertisements (or banner advertisements) small, rectangular boxes containing text and perhaps a picture that companies pay to place on relevant websites or in other media.

dissociative groups those groups whose values or behaviour an individual rejects.

distribution channels sets of dependent or independent organisations involved in the process of making a product or service available for use or consumption.

distribution intermediary any individual or firm (such as an agent, distributor, wholesaler, retailer, online platform) that links companies to other intermediaries or the ultimate buyer.

drive a strong internal stimulus impelling action.

durability a measure of a product's expected operating life under natural or stressful conditions.

durable goods product offerings that have a longer use-lifetime, e.g. refrigerators and machine tools.

E

earned media all the PR and word-of-mouth benefits that a firm receives without directly having paid for anything.

e-commerce a company or site offers to transact or facilitate the selling of products and services online.

effectiveness doing the right thing, making the right strategic decisions.

efficiency the wise stewardship of an organisation's resources in achieving its strategic and tactical objectives – conventionally referred to as 'doing things right.'

elimination-by-aspects heuristic a situation in which the consumer compares brands on an attribute selected probabilistically, and brands are eliminated if they do not meet minimum acceptable cut-off levels.

emotional branding engaging the consumer on the level of senses and emotions; forging a deep, lasting, intimate emotional connection to the brand that transcends material satisfaction; it involves creating a holistic experience that delivers an emotional fulfilment so that the customer develops a special bond with and unique trust in the brand.

emotional intelligence (EI) the ability, skill or self-perceived ability to identify, assess and control the emotions of oneself, others and groups.

emotional turn or, as it is sometimes known, affective marketing (also affective economics), emphasises the emotional engagement that marketers seek to gain with their target audiences.

emotions mental and physiological states associated with a wide variety of feelings, thoughts and behaviour.

environmental threat a challenge posed by an unfavourable trend or development that would lead to lower sales or profit.

escalator clause the company requires the customer to pay today's price and all or part of any inflation increase that takes place before delivery.

ethics the moral principles and values that underlie the actions and decisions of an individual or group.

everyday low pricing in retailing, a constant low price with few or no price promotions and special sales.

evoked set the set of brands the consumer will consider from the range of brands in the product or service category.

exclusive distribution severely limiting the number of intermediaries in order to maintain control over the service level and outputs offered by resellers.

expectancy-value model consumers evaluate products and services by combining their brand beliefs – positive and negative – according to their weighted importance.

expected product a set of attributes and conditions that buyers normally expect when they purchase this product.

experience curve (learning curve) a decline in the average cost with accumulated production experience – as an individual or an organisation gets more experienced at a task, they usually become more efficient at it.

experience environment see physical evidence.

experimental research research designed to capture cause-and-effect relationships by eliminating competing explanations of the observed findings.

expert power occurs when the manufacturer has special knowledge or expertise that the intermediaries value.

F

facilitators assist in the distribution process but neither take title to goods nor negotiate purchases or sales.

fad a craze that is unpredictable, short-lived and intense.

family brand a situation in which the parent brand is already associated with multiple products through brand extensions.

family of orientation parents and siblings.

family of procreation spouse and children.

fixed (overhead) costs costs that do not vary with production or sales revenue.

flanker brands (or 'fighter' brands) are positioned with respect to competitors' brands so that more important (and more profitable) main or flagship brands can retain their desired positioning.

flexible market-perceived value offering (1) a naked solution containing the product and service elements that all segment members value, and (2) discretionary options that some segment members value.

fmcg an abbreviation of the business term – fast-moving consumer goods.

focus group a gathering of six to ten people who are carefully selected based on certain demographic, psychographic or other considerations and brought together to discuss various topics of interest.

forecasting the art of anticipating what buyers are likely to do under a given set of conditions.

form the size, shape or physical structure of a product.

framing the manner in which choices are presented to and seen by a decision maker.

franchising a form of licensing where the franchisor offers a complete brand concept and operating system.

frequency programmes designed to provide rewards to customers who buy frequently and in substantial amounts.

functional structure a very popular form of organisational structure with the organisation divided into smaller groups, each based on specialised functional areas, such as IT, finance or sales; these stand-alone units report hierarchically to the top of the organisation.

functions a distinct group of staff who serve as specialists in achieving a set of given objectives and corresponding activities; they are usually permanent within organisations.

G

gamification the use of game principles in non-game contexts.

geodemographics the process of grouping households into geographic clusters on the basis of information such as accommodation type and location, occupation, number of children, interests and ethnic background.

global brand a brand that is available in many nations and where, though it may differ from country to country, the localised versions have a common goal and a similar identity.

global brand equity measurement system a set of research procedures designed to provide timely, accurate and actionable information for marketers on brands, so that they can make the best possible decisions in all relevant markets.

global community where people around the world view themselves as potential partners or even family members in a vast, increasingly interconnected human family.

global firm a firm that operates with multinational branches and captures R&D, production, logistical, marketing and financial advantages in its costs and reputation that are not available to purely domestic competitors.

global industry an industry in which the strategic positions of competitors in major geographic or national markets are fundamentally affected by their overall global positions.

globalisation the decoupling of space and time, emphasising that with instantaneous communications, knowledge and culture can be shared around the world simultaneously.

glocal marketing allows for local and global marketing activities to be optimised simultaneously.

glocal strategy standardises certain core elements and localises other elements; it is a compromise between global and local (domestic) marketing strategies.

goal formulation the process of developing specific goals for the planning period.

goals/objectives the tangible measure of an achieved vision.

going-rate pricing pricing based largely on competitors' prices.

grassroots marketing a local marketing strategy in which a business attempts to get as close and personally relevant to targeted consumers as possible.

grey market branded products diverted from normal or authorised distributions channels in the country of product origin or across international borders; the trade of something legal through unofficial, unauthorised or unintended distribution channels.

guerrilla marketing an unconventional approach originally practised by small businesses to create targeted customer awareness in markets where the mainstream media is cluttered; it is increasingly being used by large businesses to achieve instant impact.

H

harvesting a strategy that calls for gradually reducing a market offering or business's cost while trying to reap profitable sales.

hedonic bias the phenomenon that people have a general tendency to attribute success to themselves and failure to external causes.

heuristics rules of thumb or mental short cuts in the decision process.

high–low pricing charging higher prices on an everyday basis but then running frequent promotions and special sales.

holistic marketing philosophy a philosophy based on the development, design and implementation of marketing programmes, processes and activities that recognises their breadth and interdependencies.

homogeneous preferences when all customers have roughly the same preferences.

horizontal marketing system where two or more unrelated companies at the same level put together resources or programmes to exploit an emerging market opportunity.

house brands the use of corporate, family or house brand names across a range of products or services.

hub-and-spoke system a system of marketing organisation where the brand or product manager is figuratively at the centre, with spokes emanating out to various departments.

hygiene factors factors within the company that can cause dissatisfaction if missing, but do not necessarily satisfy if increased.

hype cycle a cycle designed by the Gartner Group showing trends for how technologies, services and strategies evolve from market hype and excitement to becoming a mainstream part of business and IT.

I

iconic brands those brands that customers 'regard with awe'.

image the set of beliefs, ideas and impressions that a person holds regarding an object.

indirect exporting companies typically start with export through independent intermediaries.

individual (or generic) brand name a brand name that does not identify with a named company.

industry a group of firms that offers a product or service or class of products or services that are close substitutes for one another.

infomediaries usually an internet-based company that gathers and organises large amounts of data and receives compensation for connecting the provider of the information with people who want this information; often seen in companies directing online traffic to other firms' websites, such as online exchanges eBay or Alibaba.

information management technologies all the technologies used to support information gathering, research, analysis, planning and monitoring.

informational appeal an appeal that elaborates on market-offering quality and payment attributes or benefits.

ingredient branding a special case of co-branding that involves creating brand equity for materials, components or parts that are necessarily contained within other branded products.

innovation any good, service or idea that is perceived by someone as new.

innovation diffusion process the spread of a new idea from its source of invention or creation to its ultimate users or adopters.

installation the work done to make a product operational in its planned location.

institutional market schools, hospitals, nursing homes, prisons and other institutions that must provide goods and services to people in their care.

instrumental controls specific tangible costs and rewards designed to induce desired behaviour.

intangible product service attributes that are essential components of a successful brand in today's fiercely competitive buyers' market environment.

integrated marketing mixing and matching marketing activities to maximise their individual and collective efforts.

integrated marketing communications a concept of marketing communications planning that recognises the added value of a comprehensive plan in order to integrate and coordinate its message and media to deliver clear and reinforcing communication.

integrative growth identifies opportunities to build or acquire businesses that are related to the current business activity.

intensive distribution the manufacturer placing the goods or services in as many outlets as possible.

interaction technologies technologies that support communications, connections and collaborations with customers and businesses.

interactive kiosk a computer terminal featuring specialised hardware and software designed to provide access to information and applications for communication, commerce, entertainment and education.

interactive marketing online and offline activities and programmes designed to engage customers or prospects and directly or indirectly raise awareness, improve image, or elicit sales of market offerings by moving from a transaction-based effort to a conversation or interaction with the customer.

intermediary any channel member that plays some role in bringing the product or service to market.

internal marketing the development and training of staff to ensure high levels of customer-experienced satisfaction.

internationalisation the process through which a firm moves from operating solely in the domestic or home marketplace to operating in international markets.

internet a ubiquitous, 24/7 communications technology that, through a low-cost, open standard, is available to individuals and companies to exchange products and services, money and information in an online setting.

Internet of Things (IoT) where 'things' communicate with 'things' so that data and information are transferred from product to system to product over the internet without the need for human intervention, thus merging the physical and the digital world.

interstitials advertisements, often with video or animation, that pop up between changes on a website.

J

joint venture a company in which multiple investors share ownership and control.

L

laissez-faire management style where the manager sets the tasks but then gives staff complete freedom to complete the task as they see fit.

leadership the process of influencing others to understand and agree about what needs to be done and how to do it, and the process of facilitating individual and collective efforts to accomplish shared objectives.

leading influencing others to achieve organisational objectives; involves energising, directing and persuading others and creating a vision.

learning changes in an individual's behaviour arising from experience.

least-cost production paradigm describes a business strategy that places cost reduction at the centre of its operations.

legitimate power where the manufacturer requests a behaviour that is warranted under the contract.

lexicographic heuristic consumers choosing the best brand on the basis of its perceived most-important attribute.

licensed product or service one whose brand name has been licensed to other manufacturers that actually make the product, or to another service provider.

licensing where a licensor issues a licence to a foreign company to use a manufacturing process, trademark, patent, trade secret, or other item of value for a fee or royalty.

life-cycle cost the product's purchase cost plus the discounted cost of maintenance and repair less the discounted salvage value.

lifestyle a person's pattern of living in the world as expressed in activities, interests and opinions.

lifestyle branding a focus on using the brand to symbolise the values and aspirations of a group or culture.

line extension where the parent brand is used to brand a new product or service that targets a new market segment within a product category currently served by the parent brand.

line stretching where a company lengthens its product or service line beyond its current range.

location-based services new forms of mobile service, which are delivered location dependent (it depends on where you are) and context sensitive (related to what you are doing or your particular needs) to mobile users.

logistics the flow of products from point of origin to end user.

long-term memory a permanent repository of information.

loyalty a commitment to rebuy or repatronise a preferred product or service.

M

maintenance and repair the service programme for helping customers keep purchased products in good working order.

management a process that involves the major functions of planning, organising, leading and controlling resources in order to achieve goals; management centres on trying to achieve objectives using the four major functions.

managers the people within the organisation charged with running the organisation on behalf of the owners.

market describes various groupings of customers who buy products or services.

market-buildup method identifying all the potential buyers in each market and estimating their potential purchases.

market demand the total volume of a product or service that would be bought by a defined customer group in a defined geographical area in a defined time period in a defined marketing environment under a defined marketing programme.

market forecast the market demand corresponding to the level of industry marketing expenditure.

market mavens consumers possessing a broad expertise concerning many different products and decisions related to the marketplace.

market opportunity analysis a system used to determine the attractiveness and probability of success.

market partitioning the process of investigating the hierarchy of attributes that consumers examine in choosing a brand if they use phased decision strategies.

market penetration index a comparison of the current level of market demand to the potential demand level.

market positioning a strategy to influence consumer perception of a market offering relative to the perception of competing brands.

market share the proportion of the available market that is being serviced by a company.

market targeting a strategy that selects a group of customers towards which a business has decided to aim its marketing efforts.

market testing the limited and experiential trial of new market offerings prior to national or international roll-out.

marketer someone who seeks a response (attention, purchase, vote, donation) from another party, called the prospect.

marketing process of planning and executing the conception, pricing, promotion and distribution of ideas, goods and services to create exchanges that satisfy individual and organisational goals.

marketing channel system the particular set of marketing channels employed by a firm.

marketing channels sets of interdependent organisations involved in the process of making a product or service available for use or consumption.

marketing communications the means by which firms attempt to inform, persuade and remind consumers – directly or indirectly – about products, services and brands that they sell.

marketing communications mix nine major modes of communication: advertising, sales promotion, events and experiences, public relations and publicity, direct marketing, interactive marketing, word-of-mouth marketing, social media marketing and personal selling.

marketing dashboard see dashboard.

marketing decision support system a coordinated collection of data, systems, tools and techniques, with supporting software and hardware, by which an organisation gathers and interprets relevant information from business and the environment and turns it into a basis for marketing action.

marketing implementation the process that turns marketing plans into action assignments and ensures that such assignments are executed in a manner that accomplishes the plan's stated objectives.

marketing information system people, equipment and procedures to gather, sort, analyse, evaluate and distribute information to marketing decision makers.

marketing insights provide diagnostic information about how and why we observe certain effects in the marketplace, and what that means to marketers.

marketing intelligence system a set of procedures and sources that managers use to obtain everyday information about developments in the marketing environment.

marketing management the art and science of choosing target markets and getting, keeping and growing customers through creating, delivering and communicating superior customer value.

marketing metrics the set of measures that helps firms to quantify, compare and interpret their marketing performance.

marketing mix the marketing activities used to create, communicate and deliver value to the customer; there were originally four marketing mix variables, expanded to seven to include the product/service, price, place, promotion, process, physical evidence and people.

marketing network the company and its supporting stakeholders, with whom it has built mutually profitable business relationships.

marketing opportunity an area of buyer need and interest in which there is a high probability that a company can profitably satisfy that need.

marketing philosophy the organisation should strive to satisfy its customers' wants and needs while meeting the organisation's profit and other goals.

marketing plan a written document that summarises what the marketer has learned about the marketplace, indicates how the firm plans to reach its marketing objectives and helps direct and coordinate the marketing effort.

marketing public relations publicity and other activities that build corporate or brand image to facilitate marketing goals.

marketing research the systematic design, collection, analysis and reporting of data and findings relevant to a specific marketing situation facing the company.

market-management organisation where companies organise marketing activities to meet the needs of customers who fall into different user groups with distinct buying preferences and practices.

market offering a term that embodies the tangible and intangible components of a product.

market-offering/product-mix pricing a set of prices that maximises profits on the total mix of products.

market-penetration pricing a pricing strategy where prices start low to drive higher sales volume from price-sensitive customers and produce productivity gains.

marketplace a physical place of exchange, such as the shop you purchase in.

market-skimming pricing a pricing strategy where prices start high and are slowly lowered over time to maximise profits from less price-sensitive customers.

marketspace a digital place of exchange, such as when you buy online, conduct your banking online or use an ATM, or when you use a kiosk for booking, ordering or confirming.

mark-up pricing an item by adding a standard increase to the product's cost.

mass customisation the ability of a company to meet each customer's requirements – to prepare on a mass basis individually designed products, services, programmes and communications.

mass marketing when a seller engages in the mass production, distribution and promotion of one item for all buyers.

materials and parts goods that enter the manufacturer's product completely.

means–end chain a theory suggesting that products are not purchased for themselves or their characteristics, but rather for the meanings they engender in the mind of the consumer.

media selection finding the most cost-effective media to deliver the desired number and type of exposures to the target audience.

megamarketing the strategic coordination of economic, psychological, political and public-relations skills, to gain the cooperation of a number of parties in order to enter or operate in a given market.

megatrends large social, economic, political and technological changes that are slow to form and, once in place, have an influence for 7–10 years or longer.

membership groups groups having a direct influence on a person.

memory encoding how and where information gets into memory.

memory retrieval how and from where information gets out of memory.

mental accounting the manner by which consumers code, categorise and evaluate financial outcomes of choices.

metamarket a cluster of complementary products and services that are closely related in the minds of consumers, but spread across a diverse set of industries.

metamediaries intermediaries that bring together collections of companies or people.

micromarketing a strategy in which marketing efforts are focused on a small group of highly targeted consumers.

microsite a limited area on the web, managed and paid for by an external advertiser/company.

mission statements statements that organisations develop to share with managers, employees and (in many cases) customers.

mobile marketing presentation of still and video promotional material on mobile phones and tablet computers.

moments of truth any contact or interaction between a customer and a company that gives the customer an opportunity to form (or change) an impression about the firm/brand.

motivator factors factors that provide satisfaction and derive from the actual service or experience.

motive what drives consumers to act in order to reach a desired goal.

multibrand strategy involves having several brands in the same product category.

multichannel marketing occurs when a company uses two or more distribution channels to reach one or more customer segments.

multichannel marketing systems occur when a single firm uses two or more marketing channels to reach customer segments; these are sometimes called hybrid channels.

multichannel strategy where the company has cross-channel benefits based on the management of multiple channels.

multiplicity of channels the practice where customers seek information and products and services from an ever-increasing range of channels rather than just one.

multitasking doing two or more things at the same time; for instance, you may use a computer while listening to the radio.

N

net price analysis analysis that encompasses company list price, average discount, promotional spending and co-op advertising to arrive at net price.

network interlinking of diverse members; each member has to reflect or be aware of other members and their needs.

network marketing aims to build mutually satisfying long-term relationships with key constituents in order to earn and retain their business.

niche marketing a strategy that focuses all marketing efforts on a small but specific and well-defined segment of the market.

non-compensatory models in consumer choice, when consumers do not simultaneously consider all positive and negative attribute considerations in making a decision.

non-durable goods offerings, usually termed fast-moving consumer goods (fmcgs), that are normally consumed in one or a few uses (e.g. beer and soap).

normative behaviour focuses on emotional rather than rational behaviour and involves shame, blame or pride; it uses peer pressure, norms of behaviour and other social influence to shape behaviour in the service environment.

O

offshoring the relocation of a business process from one country to another.

omnichannel approach a multichannel approach that seeks to provide customers with a seamless or integrated customer experience across all the digital and physical channels; this approach allows customers to engage with the company through multiple options at the same time (can also be spelled omni-channel).

one-level channel a channel that contains one selling intermediary, such as a retailer or selling agent.

online branding digital or virtual world interactions supported by a variety of technologies; though the term is often used to refer to the internet, it includes any digital technology used.

online distribution (or digital or web-based distribution) the use of the web to transact or facilitate the sale and/or distribution of products and services online, often bypassing physical or traditional distribution such as paper.

online marketing uses a website to transact or facilitate the sale of products and services online.

open innovation where companies use external ideas as well as internal ideas, and internal and external paths to market.

operating margin the ratio of operating profit divided by net sales.

opinion leader the person in informal, product- or service-related communications who offers advice or information about a specific product or product category.

ordering ease how easy it is for the customer to place an order with the company.

organisation a company's structures, policies and corporate culture.

organisational buying the decision-making process by which formal organisations establish the need for purchased products and services, and identify, evaluate and choose among alternative brands and suppliers.

organisational context the way the organisation is structured and how it operates.

organisational design the process by which managers select and manage aspects of an organisation's structure and culture so that the organisation can control the activities necessary to achieve organisational goals.

organising the process of making sure the necessary human, physical, technological, financial and informational resources are available to carry out the plan that will achieve the organisational goals.

out-of-home advertising see place advertising.

outsourcing subcontracting a part of a company's operations, such as product manufacturing, to a third-party company; the decision to outsource is often made in the interest of lowering costs as companies can often gain in effectiveness and efficiency by outsourcing to companies who can perform that task better and cheaper.

own-label brands brands that are created and owned by distributors and/or retailers.

owned media all online media activities that boost a business or organisation.

P

packaging all the activities of designing and producing the container for a product or market offering.

paid media includes company-generated advertising, publicity and other promotional activities.

paid-search advertisements (or pay-per-click advertisements) search terms that trigger relevant links to market offerings alongside search results from Google, MSN and Yahoo!; advertisers pay only if people click on the links.

paradigm change a term used to describe the change from a sellers' to a buyers' market environment, experienced strongly by many businesses and organisations over the last two decades.

parent brand an existing brand that gives birth to a brand extension.

participative management style where the manager gives his staff and subordinates the chance to be involved in the decision-making process.

partner relationship management activities the firm undertakes to build mutually satisfying long-term relations with key partners such as suppliers, distributors, ad agencies and marketing research suppliers.

pay-per-click advertisements see paid-search advertisements.

penetrated market the set of consumers who are buying a company's product or service.

people management the art of giving direction to people.

perceived value the value promised by the company's value proposition and perceived by the customer.

perception the process by which an individual selects, organises and interprets information inputs to create a meaningful picture of the world.

performance marketing requires understanding the financial and non-financial returns to business and society from marketing activities and programmes and is often referred to as marketing metrics.

performance value the level at which the market offering's primary characteristic attributes operate.

personal influence the effect one person has on another's attitude or purchase probability.

personal media face-to-face interaction with existing and potential customers.

personality a set of distinguishing human psychological traits that leads to relatively consistent responses to environmental stimuli.

physical evidence (the servicescape or experience environment) the surroundings where the service takes place – buildings, furnishings, layout, colour, packaging, signs, uniforms and products associated with the service, such as carrier bags, tickets, brochures and labels – which all combine to create the brand image desired.

place advertising (out-of-home advertising) ads that appear outside of home and where consumers work and play.

planning the process of establishing goals and objectives and selecting a future course of action in order to achieve them; it involves figuring out how to achieve the overall goals.

point of purchase the location where a purchase is made, typically thought of in terms of a retail setting.

points-of-difference attributes or benefits that consumers strongly associate with a brand, positively evaluate, and believe they could not find to the same extent with a competing brand.

points-of-parity associations consumers make that are not unique to a brand and may be shared with other brands.

positioning the act of designing a company's customer/market offering and image to occupy a distinctive place in the minds of the target market.

potential market the set of consumers who profess a sufficient level of interest in a market offer.

potential product all the possible augmentations and transformations that the product or offering might undergo in the future.

price discrimination a company sells a product or service at two or more prices that do not reflect a proportional difference in costs.

primary groups groups with which a person interacts continuously and informally, such as family, friends, neighbours and co-workers.

private labels brands that retailers and wholesalers develop and market.

product anything that can be offered to a market to satisfy a want or need; it consists of a set of attributes, including physical goods, services, experiences, events, persons, places, properties, organisations, information and ideas.

product assortment the set of all products and items that a particular seller offers for sale.

product concept proposes that consumers favour products offering the most quality, performance or innovative features.

product map shows which competitors' items are competing against company X's items.

product mix see product assortment.

product placement the deliberate placing of products and/or their logos in films and TV programmes, usually on a fee basis.

product portfolio the full range of products offered by a company.

product system a group of diverse but related items that function in a compatible manner.

production philosophy holds that consumers prefer products that are widely available and inexpensive; managers of production-orientated businesses concentrate on achieving high production efficiency, low costs and mass distribution.

product philosophy proposes that consumers favour products offering the most quality, performance or innovative features; companies with this focus overemphasise the development of the product or service, always searching for improvements.

profitable customer a person, household or company that, over time, yields a revenue stream that exceeds by an acceptable amount the company's cost stream of attracting, selling and servicing that customer.

prospect theory when consumers frame decision alternatives in terms of gains and losses according to a value function.

prospecting searching for and seeking engagement with prospective customers.

prosumers where the consumer moves from a passive role to an active role and becomes involved in the design and manufacture of products or services; the word is formed by linking the word 'producer' with the word 'consumer'.

psychographics the science of using psychology and demographics to better understand consumer-market consumers.

public any group that has an actual or potential interest in or impact on a company's ability to achieve its objectives.

public relations a variety of programmes designed to promote or protect a company's image or its individual products or services.

publicity the task of securing editorial space – as opposed to paid space – in print and broadcast media to promote something.

purchase probability scale a scale to measure the probability of a buyer making a particular purchase.

pure-click companies that have launched a website without any previous existence as a firm.

Q

QR code a matrix barcode (or two-dimensional code) that is readable by dedicated QR barcode readers, mobile phone cameras and, to a less-common extent, computers with webcams; the QR code usually sends the user to a particular website.

quality function deployment a structured approach to defining customer needs or requirements and translating them into specific plans to produce market offerings to meet those needs; the 'voice of the customer' is the term to describe these stated and unstated customer needs or requirements.

questionnaire a set of questions that is presented to a number of respondents.

R

radio-frequency identification device a technology that uses radio waves to transfer data from an electronic tag, called an RFID tag or label, attached to an object, through a reader for the purpose of identifying and tracking the object.

reach the percentage of the target market exposed to an advertisement at least once during a specified period.

rebranding the changing of a brand or corporate name concept.

recession a general slowdown in economic activity over a sustained period of time, or a business cycle contraction.

reference groups all the groups that have a direct or indirect influence on a person's attitudes or behaviour.

reference prices pricing information that a consumer retains in memory, which is used to interpret and evaluate a new price.

referent power the ability of a leader to influence a follower because of their interpersonal skills.

relationship marketing a form of marketing that places a strong emphasis on building a longer-term, more intimate bond between an organisation and its key customers.

relative market share market share in relation to a company's largest competitor.

reliability a measure of the probability that a product will not malfunction or fail within a specified time period.

repairability a measure of the ease of fixing a product when it malfunctions or fails.

representativeness heuristic when consumers base their predictions on how representative or similar an outcome is to other examples.

results what have been accomplished, the actual outcome, the objective(s) attained.

retailer an intermediary that buys products either from manufacturers or from wholesalers and resells them to consumers.

reverse-flow intermediaries include manufacturers' redemption centres, community groups, rubbish or waste-collection specialists, recycling centres, rubbish-recycling brokers and central processing warehousing.

reward power when a company offers intermediaries an extra benefit for performing specific acts or functions; typically produces better results than coercive power, but intermediaries may come to expect a reward every time the manufacturer wants a certain behaviour to occur.

risk analysis a method by which possible rates of return and their probabilities are calculated by obtaining estimates for uncertain variables affecting profitability.

role the activities a person is expected to perform.

S

sales analysis measuring and evaluating actual sales in relation to goals.

sales budget a conservative estimate of the expected volume of sales, used for making current purchasing, production and cash-flow decisions.

sales promotion a variety of short-term incentives to encourage trial or purchase of a product or service (market offering).

sales quota the sales goal set for a product or service, company division or sales representative.

satisfaction a person's feelings of pleasure or disappointment resulting from comparing perceived performance or outcome in relation to his or her expectations.

scenario analysis developing plausible representations of a firm's possible future that make different assumptions about forces driving the market and include different uncertainties.

search engine optimisation attempts to discern patterns in search engine listings, and then to develop a methodology for improving rankings.

secondary brand associations can create brand equity by linking the brand to other mental associations that convey meaning to consumers.

secondary groups groups that tend to be more formal and require less interaction than primary groups, such as religious, professional and trade union groups.

selective attention the mental process of screening-out certain stimuli while noticing others.

selective distortion the tendency to interpret information in a way that fits consumer perceptions.

selective distribution the use of more than a few but less than all of the intermediaries who are willing to carry a particular product or service.

selective retention the process of remembering only a small part of what a person is exposed to; people remember more accurately messages that are close to their interests, views and beliefs.

self-service technologies provide customers with a technological interface that allows them to produce services without direct-service-employee involvement.

sellers' market a market environment where the demand for goods (market offerings) is greater than the supply.

selling philosophy holds that consumers and businesses, if left alone, won't buy enough of the organisation's offerings and therefore selling to customers is the core focus of the company; the company's success is judged through sales figures only, or predominantly.

served market all the buyers who are able and willing to buy a company's product or service.

served market share a company's sales expressed as a percentage of the total sales to its served market.

service any act or performance that one party can offer to another that is essentially intangible and is a process rather than a unit of output, focusing on dynamic resources such as skill or knowledge and an understanding of value as a collaborative process between providers and customers.

service blueprint a pictorial map of the essential components of the service performance.

service-level agreements formal service contracts (promise of service levels) normally agreed between companies.

service personnel any staff member that customers see or encounter, often called front-line staff.

service process the way in which the service system operates.

service process delivery how and by whom the service is to be delivered.

service process design describes and prescribes the procedures to be followed in service delivery.

service recovery the response to what is perceived as a service failure; focuses on the actions taken by the company to avoid or rectify the deviation, to prevent breaches in customer confidence and loyalty, and to return the customer to a state of satisfaction.

services traditionally viewed as intangible, inseparable, variable and perishable offerings, e.g. haircuts, legal advice and appliance repairs.

servicescape the impact on customer and employee behaviour of a service firm's physical surroundings or environment; it emphasises the importance of the physical environment in which a service process takes place.

share penetration index a comparison of a company's current market share to its potential market share.

shareholder value the value of the firm minus the future claims.

sharing economy when consumers share bikes, cars, clothes, couches, apartments, tools and skills, and extract more value from what they already own.

shopping goods goods that the consumer, in the process of selection and purchase, characteristically compares on such bases as suitability, quality, price and style.

short-term memory a temporary repository of information.

showrooming the practice of browsing and purchasing on different channels and even different stores or online.

smartphone a mobile phone that offers more advanced computing ability and connectivity than a contemporary mobile phone and may be thought of as a handheld computer integrated with a mobile telephone.

social classes homogeneous and enduring divisions in a society, which are hierarchically ordered and whose members share similar values, interests and behaviour.

social marketing marketing done by a non-profit or government organisation to further a cause, such as 'say no to drugs'.

social media a group of internet-based applications that build on the ideological and technological foundations of Web 2.0 and that allow the creation and exchange of user-generated content.

social media marketing a collective term that refers to low-cost communication tools that combine technology and social interaction.

social media platforms include online communities and forums, blogs (individual and networks) and platforms such as Facebook, LinkedIn, Instagram, Twitter and YouTube.

social networking the grouping of individuals into specific groups, mostly carried out in its most popular form online.

social systems relates to the culture, shared norms and expectations within an organisation and also the use of power and influence; it can also reflect the informal networks or social relationships among organisational members.

spam the use of email to send unsolicited bulk messages indiscriminately.

specialities items with lower sales volume but that might be highly promoted or might generate income for services.

speciality goods goods that have unique characteristics or brand identification for which a sufficient number of buyers are willing to make a special purchasing effort.

sponsorships financial support of an event or activity in return for recognition and acknowledgement as the sponsor.

stakeholder-performance scorecard a measure to track the satisfaction of various constituencies who have a critical interest in and impact on the company's performance.

standardisation means 'one size fits all' and helps keep costs low by using the same activities and reaching out to as many people as possible with the same marketing.

staples items with lower sales volume and no promotion that yield a somewhat higher margin.

status one's position within his or her own hierarchy or culture.

strategic brand management the design and implementation of marketing activities and programmes to build, measure and manage brands to maximise their value.

strategic business unit a single business or collection of related businesses that can be planned separately from the rest of the company, with its own set of competitors and a manager who is responsible for strategic planning and profit performance.

strategic group firms pursuing the same strategy directed to the same target market.

strategic marketing plan long-term decisions, such as the target markets, market position and value proposition that will be offered, based on analysis of the best market opportunities.

strategy a company's game plan for achieving its goals.

style a product's look and feel to the buyer.

sub-brand a new brand combined with an existing brand.

subculture subdivisions of a culture that provide more specific identification and socialisation, such as nationalities, religions, racial groups and geographical regions.

subliminal perception receiving and processing subconscious messages that affect behaviour.

supplies and business services short-term goods and services that facilitate developing or managing the finished product.

supply chain set of three or more entities (organisations or individuals) directly involved in the upstream or downstream flows of product, service, finances and/or information from a source to a customer.

supply chain management procuring the right inputs (raw materials, components and capital equipment), converting them efficiently into finished products or services and dispatching them to the final destinations.

supply network a system of partnerships and alliances that a firm creates to source, augment and deliver its offerings.

sustained competitive advantage a long-term competitive advantage that is not easily duplicable or surpassable by competitors.

switchers consumers who are not loyal to any one brand within a market category.

T

tactical marketing plan related to the first year of the strategic plan, it is short term and gives specific actions. It is a highly detailed, heavily researched and well-written report that focuses internally in order to understand fully the results of past marketing decisions, focuses externally in order to understand fully the market in which it operates and sets future goals and provides direction for future marketing efforts that everyone within the organisation should understand and support. It is a key component in obtaining funding to pursue new initiatives.

talent management the skills of attracting highly skilled staff, integrating new staff and developing and retaining current staff to meet current and future business objectives.

tangible product that part of a market offering that is composed of attributes that are permanent, including design, branding and product features; today's buyers' markets require the addition of intangible or service attributes to engage with and meet customers' expectations.

target costing deducting the desired profit margin from the price at which a market offering will sell, given its appeal and competitors' prices.

target market the part of the qualified available market that the company decides to pursue.

target-return pricing determining the price that would yield the firm's target rate of return on investment (ROI).

task competency having the skills required for a specific job/role.

team a group of people linked through a common purpose.

technology management management concerned with exploring and understanding information technology as a corporate resource that determines both the strategic and operational capabilities of the firm in designing and developing products and services for maximum customer satisfaction, corporate productivity, profitability and competitiveness.

telemarketing the use of telephone and call centres to attract prospects, sell to existing customers and provide services by taking orders and answering questions.

test marketing the restricted launch of a new market offering in a discrete area selected to be representative of the whole market.

theory of planned behaviour a theory that regards a consumer's behaviour as determined by the consumer's behavioural intention, subjective norm and perceived behavioural control.

theory of reasoned action a theory that regards a consumer's behaviour as determined by the consumer's behavioural intention and subjective norm.

three-level channel where there are three different intermediaries between the company and the consumer.

total costs the sum of the fixed and variable costs for any given level of production.

total customer benefit the perceived monetary value of the bundle of economic, functional and psychological benefits that customers expect from a given market offering because of the products, services, personnel and image involved.

total customer cost the bundle of costs that customers expect to incur in evaluating, obtaining, using and disposing of the given market offering, including monetary, time, energy and psychic costs.

total market potential the maximum amount of sales that might be available to all the firms in an industry during a given period, under a given level of industry marketing effort and environmental conditions.

total quality management an organisation-wide approach to improving continuously the quality of all the organisation's processes, products and services.

touchpoints the many ways in which a customer comes into contact with the business.

tracking studies collecting information from consumers on a routine basis over time.

transaction a trade of values between two or more parties: A gives X to B and receives Y in return.

transaction costs include costs of obtaining relevant information, costs of evaluating a relevant product, order costs, and the like.

transaction marketing attracting and satisfying potential buyers by managing the elements in the marketing mix, and actively managing communication 'to' buyers in the mass market in order to create discrete, arm's-length transactions.

transformational appeal an appeal that elaborates on a non-market offering-related benefit or image.

trend a direction or sequence of events that has some momentum and durability.

two-level channel where there are two levels of different kinds of intermediaries between the company and the consumer; the most typical format is a retailer and a wholesaler.

tying agreements agreements in which producers of strong brands sell their products to dealers only if dealers purchase related products or services, such as other products in the brand line.

U

undifferentiated marketing a market strategy where a company decides to ignore single market segments and seeks to develop a marketing mix for the whole market.

unsought goods those goods the consumer does not know about or does not normally think of buying, such as smoke detectors.

user-generated content any form of content such as videos, blogs, discussion form posts, digital images, audio files and so on, created or posted by consumers or end users and publicly available to other consumers and end users.

V

value chain (value network) a company's supply of partnerships and alliances and how the company partners with specific suppliers, distributors, manufacturers and so on to source, create, augment and deliver products and services to the market; at each activity along the chain or within the network, the product or service gains either tangible or intangible value.

value co-creation see co-creation.

value delivery system all the expectancies the customer will have on the way to obtaining and using the offering.

value network a system of partnerships and alliances that a firm creates to source, augment and deliver its offerings.

value pricing winning loyal customers by charging a fairly low price for a high-quality offering.

value proposition the whole cluster of benefits that the company promises to deliver.

variable costs costs that vary directly with the level of production.

venture team a cross-functional group charged with developing a specific product or business.

vertical integration a situation in which manufacturers try to control or own their suppliers, distributors or other intermediaries.

vertical marketing system producer, wholesaler(s) and retailer(s) acting as a unified system.

viral marketing any form of advertising and/or communication that spreads like a virus and is passed on from consumer to consumer and market to market; the use of the internet (particularly social networking sites) increases the speed and geographic coverage of these communications.

virtual brand community a social network of individuals who interact through specific technologies, potentially crossing geographical and political boundaries in order to pursue a mutual interest in a specific brand.

virtual reality the use of computer technology to create a simulated environment using a head set that allows the users to view and experience a different reality.

virtual world an online community that operates in an online simulated environment through which users can interact with one another using avatars.

W

warranties formal statements of expected product/market offering performance by the manufacturer.

Web 2.0 a collection of open-source, interactive and user-controlled online applications expanding the experiences, knowledge and market power of the users as participants in business and social processes.

Web 3.0 known as the semantic executing web, which will improve the ability of the web to understand communication in context.

Web 4.0 a mobile web where humans will communicate with machines and there will be further developments in digitalisation, particularly connecting offline and online.

Weber's law a rule saying that people are more likely to notice stimuli whose deviations are large in relationship to the normal size of the stimuli.

webrooming researching and browsing online and then visiting the store for final evaluation and purchase; online browsing leads to buying in the shop or retail outlet.

wholesaler an intermediary that buys in bulk from manufacturers with a view to reselling to customers, usually via retailers.

word-of-mouth marketing people-to-people oral, written or electronic communications that relate to the merits or experiences of purchasing and consuming market offerings.

Y

yield pricing a situation in which companies offer (1) discounted but limited early purchases, (2) higher-priced late purchases and (3) the lowest rates on unsold inventory just before it expires.

Z

zero-level channel a manufacturer selling directly to the final customer.

zone or range of tolerance a range where a service dimension would be deemed satisfactory, anchored by the minimum level that consumers are willing to accept and the level they believe can and should be delivered.

Index

Name index

Organisations and Brands Index

Subject index

Note: Page numbers in **bold** indicate Glossary entries.

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