Part One

Customers, Markets, and Marketing

Chapter 1

Introduction: What is Marketing About?

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Objectives

The objectives of this chapter are:

1. to explain why marketing exists in a modern society;
2. to demonstrate the role of marketing in a modern society;
3. to introduce a number of key marketing ideas that will be considered in greater depth in later chapters of the book.

1 Where does it all start?

YOU need a pair of sandals—what do you do? You go to a shoe shop, where you are able to examine several different styles of sandals within a range of prices. If you find a pair you like and can then afford them, you purchase them, paying in one of a variety of ways, such as with cash, a credit card, electronic fund transfer, and so on.

What you, as a member of a modern society, are incapable of doing is providing sandals from the natural resources at your disposal. You do not know which of the naturally available materials are suitable; neither, even if you were given appropriate materials, do you have the skills needed to create a sandal. Compare this situation with that of the few remaining, so-called primitive societies where people live in small self-sufficient groups. For example, many Australian aborigines lived in such a way until the second half of the twentieth century, and the organization of their lives was a constant trade-off, as they divided their time between obtaining sufficient food from their natural environment, moving on to other areas when the resources in a locality became depleted, and taking time to provide for their minimal material needs (see Insert). So if one of their group needed some sandals, then the group would decide when to give this matter priority over other activities, and, once this was agreed,

Shoes or food?

'The talk about the activities for the day goes on for a long time. . . . The men have decided to hunt emu, so the discussion centres on what the women will do. Nyurapaya has decided that her bark sandals are worn out and need to be replaced. During the day the sand becomes too hot to walk around on comfortably barefoot, so these sandals (called *playkanpa*) get lots of use. Sandals are made from the green bark of *taliwanti*, a plant that grows in the sandhills. Nyurapaya knows where to find some of these plants, but the place lies in a different direction from the area where the women have been lately looking for edible plants. Should they take a chance that they will come across some edible seeds or fruit on the way to the taliwanti-place? Or should they stick with a sure thing and manage with their worn-out sandals for another day?'

Source: Gould (1969: 16).

could produce the sandals from naturally available materials. There was no need to rely on anybody outside the group.

In fact, by the time modern people have got up in the morning and left home for work, we have consumed or used a great many goods and services. These would include food, clothing, and the shelter provided by our homes; there is also a subconscious sense of security arising from the fact that our property is insured, and that, in the event of an accident, the fire, ambulance, and police services are available. What is striking about those of us who live in 'advanced societies' is not only that we consume so much and such a variety of products but that we are incapable of producing the vast majority of these items ourselves. We are, therefore, dependent for our style of living on others producing these items and making them available to us, either by direct purchase with our own funds, or indirectly through public provision paid for through the taxation system or as gifts.

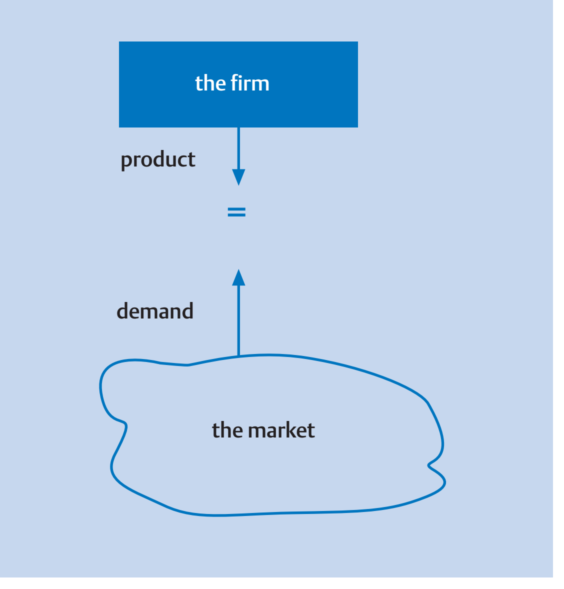
Of course even such a simple activity as making a pair of sandals available for sale in a shop involves a great many organizations trading with each other. Amongst these would be firms supplying the various raw materials (leather, plastic, metal, etc.); converting the raw materials into different forms; cutting up sheets of plastics or leather and assembling the sandals; supplying the packaging; transporting the packaged sandals to warehouses or retail outlets; insuring the products while in transit; and so on. Altogether, to produce even such a basic product involves an immensely complex set of exchanges between many different organizations. At its simplest the subject of marketing is concerned with how such firms decide what they should offer to make and sell and what form their products (be they goods or services) should take. Yet the apparent simplicity of these questions is deceptive and there are numerous and complex factors that need to be taken into account by a firm when deciding what the answers to them should be. To illustrate this Section 2 will consider the problem confronted by a firm as it seeks to decide what it should be making and offering on the market.

2 Factors that influence demand for a product

IMAGINE a small firm producing only one type of product (it could be a physical product or a service), which it sells directly to individual consumers; this firm finds itself in the happy position of having enough customers to be able to run at a profit. This satisfactory situation is illustrated in Fig. 1.1, where the demand from the market is shown as equal to the level of output that the firm needs to achieve to cover its costs.

However, it would be a foolish manager who decided that such a situation was unlikely to change, for the nature of modern markets is that demand seldom remains constant and indeed that changes are often dramatic and disruptive. Most changes in demand derive from a complex interaction of a large number of factors and for simplicity it helps initially to think of these as divided into five broad categories: population; tastes and fashions; economic conditions; technology; and politics and regulations. In reality the demand for most products is affected by a combination of each

Figure 1.1 **The firm with a product meeting a market demand**



of these factors, though some products are more directly influenced by one factor than by the others. So the demand for some products is influenced by population change more than by technology, while for others the opposite may be the case. For ease of understanding, therefore, each of the factors will first be considered independently and examples of their impact given from different industries. Then an illustration will be given of the way the demand for a product is influenced by the interaction of these factors. These five categories are indicated in Fig. 1.2, with the question mark at the end of the time arrow acting as a reminder that the nature and volume of future demand are uncertain.

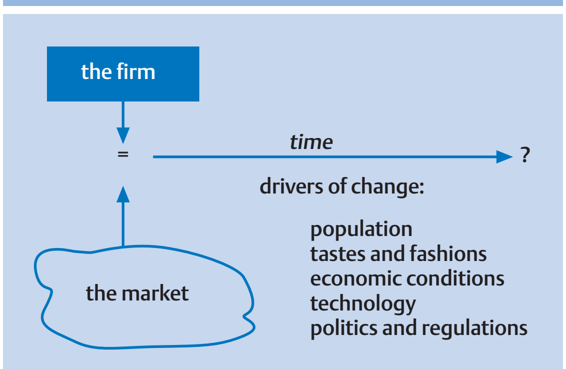
2.1 Population

The population in a given geographic market changes in two ways: first, in terms of its size, and, secondly, in terms of its age distribution. Although these are interconnected, they will initially be considered independently.

2.1.1 Population size

In most countries the size of the population is steadily rising and the effect of this is that there is an ever-increasing demand for products such as food, shelter, and so on. Even so, the demand for individual food items varies and it may be that, even in a country with a rapidly rising population, the demand for a particular type of food may fall, owing, say, to changes in consumer tastes (see below). Assuming that the growth in population does not lead to a reduction in the per capita wealth of the country, then the demand for many non-basic needs will also rise as the population increases. Unless the increase in the population is the result of mass immigration, there are many products for which the demand will be slow to react to any such change in the population. If, for example, the increase—as it most typically will be—is mainly the result of a rise in the birth rate, then the firms most immediately affected will be those concerned with the needs of pregnant mothers and of babies. But other firms will see little if any change in demand for their products for several years as a result of such an increase, even those firms supplying toys for 4–5 year olds will see little effect for a few years after an increase in the birth rate.

Figure 1.2 **The firm with uncertain future market demand**



2.1.2 Age distribution

The second population effect is the age distribution, for, other than in those countries that have been involved in major wars, the split between male and female normally remains fairly steady. There are many products whose demand is mainly derived from members of specific age groups. For example, the demand for chiropody is primarily related to the number of older people in the population. Although the proportion of people in various age groups changes relatively rapidly (see Table 1.1), the numbers in each age group except for the youngest one are predictable well in advance. So, unless the demand for a firm's product is related to the number of babies in the population, the number of people in its target age group may change but will be predictable well in advance.

There is, of course, a link between the age distribution of a population and its size. Clearly the number of births relative to the number of deaths determines the size of the population. The number of births is related to the number of women in the childbearing age groups, though this link is complex because whether or not a woman wishes to have children is determined by a combined set of factors that fall within the other four broad categories of change discussed in this section. The number of deaths, assuming no famine or major epidemics, is predictable with a high degree of accuracy in Western Europe and is primarily determined by the number of people over the age of 70.

Table 1.1 **Age distribution of the UK resident population, 1951–2001**

Age	1951		1961		1971		1981		1991		2001[a]	
	Nos. (000s)	%	Nos. (000s)	%	Nos. (000s)	%	Nos. (000s)	%	Nos. (000s)	%	Nos. (000s)	%
0–4	4,326	8.6	4,272	8.1	4,553	8.1	3,455	6.1	3,886	6.7	3,593	6.0
5–19	10,354	20.5	11,833	22.4	12,778	22.8	12,882	22.9	10,914	18.9	11,424	19.2
20–44	18,279	36.3	17,099	32.3	17,765	31.8	19,069	33.8	21,519	37.2	21,127	35.5
45–64	11,980	23.8	13,393	25.4	13,424	24.0	12,475	22.1	12,388	21.4	14,080	23.7
65+	5,463	10.8	6,208	11.8	7,409	13.3	8,472	15.0	9,099	15.7	9,247	15.5
TOTAL	50,402		52,805		55,925		56,353		57,806		59,471	

[a] Mid-year estimate.

2.2 Tastes and fashions

A significant feature of affluent economies has been the extension of the concept of 'fashions' to a wider and wider range of goods and activities. Fashion in clothing has been accepted for centuries, but it is only in the latter part of the twentieth century that there have been annual changes in what is regarded as being 'in fashion'. Also since the 1980s the concept of 'being fashionable' has extended to an even wider range of items of clothing and other items. For example, people buying new swimming costumes each year is a relatively new phenomenon. It is based not on a need to replace worn-out costumes, as modern materials mean that costumes last much longer than they used to, but from a desire to wear costumes of the latest shape and colour. Similarly the concept of there being fashions in watches is relatively new. The complexity of this is illustrated by the views of the founder of Swatch (see Insert), who believes that Swatch satisfies a desire to identify with a culture of change. The source of new fashions is clearly more often than not an attempt by various industries to create a demand for replacement products. However, from time to time consumers do reject the 'latest fashion': sometimes because they simply do not like it, on other occasions because they cannot afford to replace items that still have a useful life, even if they are no longer fashionable.

A personal culture on offer

To Nicolas Hayek, originator of the Swatch, vision is the basis of Swatch's success. 'To him this success is not simply because Swatch is a fashion item, but lies in the fact that, "we are offering our personal culture. If it were just a fashion item, it could be easily copied, but Swatch have tapped deep into the roots of change, to respond to the feelings of wanting to be identified with what you do." '

Source: Irons (1994: 71).

Fashions also arise in markets not associated with clothing. For example, the skateboard craze that hit many European countries in the 1970s turned out to be quite short lived. While in the 1990s skateboards were still sold in quite large numbers, the tremendous enthusiasm that existed for a period of about two years when it seemed that almost every teenager wanted a skateboard dissipated within a few years.

Consumers' tastes also seem to change in the literal sense of the word 'taste', as exemplified by changes in demand for products as different as coffee, whisky, wine (see Insert), and foreign cuisines.

A substitute for Viagra?

Consumption of Western-style wines—particularly red wine—is rising fast in the more prosperous and cosmopolitan cities of China. Although part of the reason is that the Chinese government has been discouraging consumption of spirits and beer (because their production uses staples such as grain), the main reason seems to be a belief that red wine is good for your health and in particular for your virility.

2.3 Economic conditions

The state of a country's economy obviously has a direct effect on the demand for many products. However, the population's *perception* of the state of the economy and its implications for their personal financial security is probably more important in the short term than its actual state. When people feel confident about their economic situation, they will not only spend the money they have more readily, but will also be more willing to borrow money. So, as members of a population perceive their economic situation to be more secure, their expenditure will increase. The pattern of their expenditure will also change, and typically they will begin to purchase more items that they might previously have classified as luxuries and not felt able to afford. Their changed pattern of purchasing will also include some substitution effects, with, for example, a reduction in purchases of cheaper foods and the substitution of more expensive items—say, steak instead of sausages.

However, what is difficult to understand is how people's perception of their economic well-being relates to actual economic conditions. This is obviously very complex. For example, people may be very aware of the price increase on one product that they purchase, but they may not reflect on the other items they purchase on which there have been no increases. Consumers' perceptions can also be influenced by the topics on which the press decides to concentrate. There is also the complication that, just because people buy an item when they feel better off, it does not follow that they will cease to buy that item if harder economic times return. For example, a family may decide that it is now affluent enough to be able to own a car. If, later, the family perceives that their economic situation is becoming less secure, it is unlikely that it will immediately dispose of the car. The experience of owning the car will have resulted in changes in the family's behaviour, and the family may now place a lower relative value on items that, when it was previously less well off, would have been seen as too important to do without.

2.4 Technology

The impact of technology on the demand for products is particularly complex because it has three aspects. Technology developments result in: changed production methods, improved existing products, and the introduction of new products. The lay person often remains totally oblivious to the effects of the first of these categories, and may not notice many of those of the second.

2.4.1 Production methods

Engineers are constantly seeking to improve the efficiency of the plant that they run. Similarly, managers in service organizations try to improve the efficiency of their operations. However, the customer often remains unaware of this, even when quite dramatic improvements are achieved. For example, a new method of mixing two or more solids together resulted in the 1970s in a reduction in the number of batches that failed the stringent quality tests in the pharmaceutical industry (where it is critically important to create an even mix, as the active components of some tablets are less than 0.05 per cent of their weight). The tablets reaching the market were no better or worse than before, but the cost of manufacturing the tablets was reduced because of the reduction in the number of tablets failing quality-control tests. In these circumstances the manufacturers were then able to reduce their prices, which could equally have led to an increase in demand. In other industries an improvement in production technology and service delivery organization has led either to a visible reduction in prices or at least to price increases at less than the rate of inflation. The result of this has been a maintenance or even an increase in demand over that which would have been achieved without these improvements in efficiency (see Insert overleaf).

2.4.2 Improved existing products

The nature of competitive markets is such that each firm is constantly seeking to improve its product offering in an attempt at least to keep up

Faster photos

A modern Kodachrome film processor is rather large (occupying 1,000 square metres), costs £750,000, and requires ten staff to operate it. However, a recent development means that in future machines will fit into a space of only 60 square metres, cost about £75,000, and require only one operator. This will mean that, instead of having to send a Kodachrome film away for processing and then waiting some time for it to be developed and returned, it will in future be possible to get it developed at a local store. Even if this is done at the existing price, it is expected that the reduction in inconvenience will result in a growth in demand for this type of film.

Source: The Economist, 15 Feb. 1997, 79–80.

with, and ideally to keep ahead of, its competitors. It follows that few products remain the same over any period of time, for their suppliers are constantly trying to find ways of making improvements, which they believe will be appreciated by the customers.

In many cases the customers are well aware of and do appreciate these improvements. For example, the reduction in the size of mobile phones is both visible to and valued by the majority of their users. In other cases customers do not notice improvements, often because, in spite of the advertising claims of some manufacturers that their product now has a 'new formula', the changes are so marginal and started from an already high standard. Alternatively, the product may be used so infrequently that the customer cannot make a valid comparison between the old and the improved product.

The impact of product improvements on the demand for many products is often not very dramatic (at least compared with the effect of the introduction of a new product—see below). However, in some cases they do have an effect both on the demand for the product itself and also on the demand for other products. For example, the improvement in the quality of house paint has led to both a decrease in the demand for the services of professional decorators and an increase in the demand for paint. These effects have arisen because modern paints can easily be applied by a householder, who then can save money by not employing a professional decorator. Then, although modern paints last longer, the householder perceives repainting as being less expensive and is consequently prepared to redecorate rooms more frequently than before.

2.4.3 New products

While it is sometimes difficult to differentiate between improved products and new products, there are many products that, when they were first introduced to the market, were regarded as genuinely new (see Chapter 24). These would have included CDs, videos, and telephone banking. Clearly, if people do start to purchase a product that is newly arrived on the market, they will have to adjust their expenditure to pay for it. Sometimes these adjustments have a dramatic effect on the demand for other industries: when you started to buy CDs, you probably reduced your purchases of cassette tapes. In other cases, the changes in expenditure are not obvious: if you buy a mobile phone, you do not usually give up your traditional landline phone, though you will probably use it less. It is, however, difficult to predict on what items expenditure will be reduced.

2.5 Politics and regulations

Politics with both a small and a large 'P' affect the demand for many products, and, although many regulations are based on political decisions, there are also many that are not. For example, many professional organizations have regulations that their members must obey if they wish to retain their membership. These regulations are seldom codified in the country's laws, but they can nevertheless exercise great influence over the members' behaviour.

New laws may create markets, expand markets, destroy markets, or make the product unnecessary. The Australian market for bicycle crash helmets, was created by the passing of laws that made wearing them compulsory. The decision reached by many governments to make seat belts in cars compulsory caused the rapid expansion of an existing but small market. In comparison, the decision of the UK Government to ban the ownership of handguns by the public has effectively destroyed the market for these weapons within the UK. The UK Government's ruling that it was unnecessary for cars to show lights when parked on a lit road after dark meant that the market for clip-on parking lights was effectively destroyed. In this case, while it was not illegal to show lights, the demand for clip-on parking lights disappeared almost immediately because most people had purchased them only because of the legal requirement to show lights.

Political decisions may particularly affect market demand through their impact on prices. In some cases governments use increased taxation as a method of raising the prices of products and services whose consumption they believe should be reduced. So taxes on tobacco have been progressively increased in many countries in an attempt to reduce the amount of smoking. In other cases, governments seek to encourage demand for a product by reducing its price through reducing taxes payable on the product or by offering subsidies. For example the Government of Queensland has offered financial incentives to households to encourage them to purchase solar-energy systems.

Political decisions can also affect the supply of raw materials and consequentially their price. For example, the Arab Oil States' decision to quadruple the price of oil in the period 1973–5 was unequivocally a political one. Other countries that control the supply of other strategically important raw materials (such as nickel) have also used their monopoly or near-monopoly power to influence their prices and thus exercise political influence.

Regulations other than those created by governments are also very influential. For example, in England and Wales the market for pocket calculators was transformed when the National School Examination Boards (which are independent of the Government) decided to allow students to take calculators into examinations. Before this happened, many teachers and parents had discouraged schoolchildren from purchasing calculators, because they feared that, if they did become accustomed to using them, they would lose the facility to do calculations without them and thus would have been disadvantaged in examinations.

2.6 Combined effects

As was suggested above, in reality all five of these factors can influence the demand for a product. To use the pocket-calculator example again, the rapid increase in demand for these items in England and Wales was not only affected by the changed examination regulations. Other important factors were that, at the time of the changed regulations, the number of young people in secondary schools was increasing. In addition, the price of calculators was falling, and their capabilities were being extended as a result of improvements in production technologies and product improvements. The economic situation at the time was relatively positive, so both schools and individuals felt able to afford the purchase of these new items, and to some extent young people (who often seem to be the most fashion-conscious sector of the population) saw a calculator as a prestige item to own.

2.7 Second-order effects

It is important to recognize that the effects of these five factors on demand can often have an impact on organizations far removed from the consumer. This can be illustrated by examining developments in the cosmetics market, where concern about and interest in the ingredients used in cosmetics have forced the cosmetic manufacturers to develop products that use a much greater proportion of natural products. The cosmetic manufacturers purchase their ingredients from chemical suppliers, and so this change in consumer preferences has had an effect on these chemical-processing firms—remote as they at first seem to be from the consumer of cosmetics (see Insert).

Natural raw materials are 'in'

Karl Raabe, a Product Management Director at Henkel, a firm that, amongst other things, manufactures cosmetic ingredients, stated: 'In Germany there is a strong trend toward natural ingredients, such as plant extracts used as active components, or surfactants based on natural raw materials such as cocoa nut or palm oil. Petrochemical-free ingredients are also in vogue. In general, the industry is moving towards animal free vegetable-based ingredients. There is also a trend to use ocean-derived products in ingredients such as seaweed, chitin from shrimp shells, or fish oils.'

Source: Gain (1996: 35).

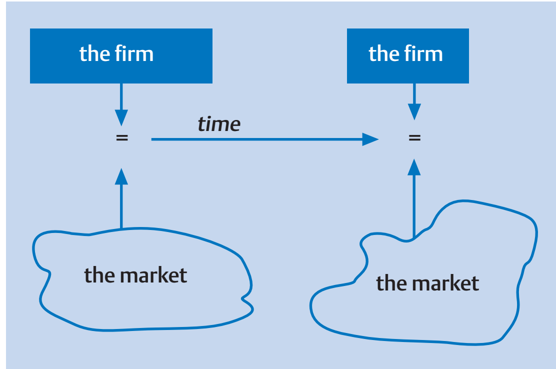
The arrival of new products on the market can also lead to the decline—sometimes to the point of extinction—in the demand for particular products. The development of the market for pocket calculators has led to the near extinction of at least two other products. The first is the slide rule and the second is log tables, both of which enabled students, engineers, etc. to carry out a range of calculations. However, both have been displaced by the calculator, which not only can carry out more functions than either slide rules or log tables, but also is much easier to use and more accurate than either of them. Indeed, it is now difficult to purchase a slide rule in Europe, because there are almost no suppliers left.

3 Factors that influence the way a product is produced

It is also the case that, even if an organization's own market is not changing, the manner in which it can be most efficiently organized is altered by the need to respond to the changing environment. Indeed the five factors that influence demand also influence the organization of the supply of goods and services. Thus developments in production technologies can obviously impact very considerably on a manufacturing firm, and new advanced manufacturing technologies make it possible for firms to offer quite different product mixes—often at lower costs than previously. Changes in governmental and other regulations can impact on the supplying firm in a variety of ways. Thus firms with a large proportion of female staff have had to re-examine their methods of operation because of the need to absorb increased costs following the implementation of the equal-opportunity regulations being introduced in most European countries. It is also obvious that economic conditions have an impact on a great many decisions that firms make. Clearly, when there is too much economic uncertainty, firms are reluctant to make new investments, and decisions as to whether or not to launch a new product may be influenced by the management's expectation of the level of future economic activity.

Population changes too can have an impact on organizations. In the period 1981–91 the numbers of young people in the 15–19-year-old group (roughly covering the school-leaving age group) in the UK fell by about 970,000. If the severe economic recession that hit the UK during those ten years had not occurred, those organizations whose employment practices had assumed a steady supply of school-leavers entering the labour market would have faced severe problems.

Figure 1.3 **The firm adapted to changes in market demand**



Thus, as shown in Fig. 1.3, both the market and the supplying organization can be seen changing over time as a result of the influence of these five factors.

The above discussion has centred around the problems faced by a single-product firm. In reality there are very few single-product firms and most of these are very small. Most firms market a number of different products and therefore a significant decision is how many different products to offer and what, if any, their relationship should be. These questions are discussed in Chapters 14 and 15, but the essential issues for each individual product are those raised above. This is true even where the differences between the products are no more fundamental than, say, their size or their colour.

4 Demand and supply in organizational markets

The discussion in Sections 2 and 3 considered a firm selling directly to the consumer market (i.e. a market made up of individuals making purchases for their own use or the use of the households to which they belong). An identical discussion could be applied to the problem faced by a firm selling to other firms. Indeed, the brief comment in Section 2.7 on second-order effects implicitly touched on this, as it referred to cosmetic firms purchasing from chemical firms. It is, however, very important to recognize that in a modern economy the majority of firms are involved in selling to other organizations.

Some firms, because of the nature of their products, sell only to organizations. For example, the market for multi-spindle lathes consists of manufacturing organizations, for, while there is nothing to stop a rich individual from buying such a machine, there can be few if any individuals who would wish to buy one. Even a keen amateur machinist would not want a multi-spindle lathe. There is also a group of firms that sell both to individuals and to organizations. Thus car manufacturers sell the same car (though by using a totally different marketing mix—see Chapter 9) to individuals and also to organizations, such as hire car companies, which have fleets of cars. A third category of firms that sell to organizations consists of those that need to do so through other organizations if they are to get efficient access to individual consumers. Examples of such organizations are those in the food-processing industry and those in the domestic-appliance industries. Given the structure of the retailing industry, such firms need to sell through the retail chains, for, unless these organizations purchase their products, access to the mass consumer market would be very costly (see Chapters 4 and 11).

The same patterns of behaviour can be observed in business-to-business markets as in consumer markets. For example, when an organization feels financially confident, it will be more ready to consider replacing old equipment, spending on 'luxuries' like replacing the carpets in its offices, investing in new computer systems, and so on. Then, again like an individual, when a firm becomes economically less assured, it does not reverse these behaviours, but cuts back on other items of expenditure. This happens because, like an individual, the relative value the firm places on the items it purchases has been changed by the experience of purchasing and using new items.

In business markets fashions and management fads also rise and fade (see Insert). For example, after a period when any firm that was not re-engineering was, in the opinion of some commentators, destined for the scrap heap, the enthusiasm for re-engineering was by 1997 on the decline. This was partially, but not entirely, because the creator of the concept was signalling by his creation of another management technique that re-engineering was 'old hat'. So consultants who had been advising their clients on the benefits of re-engineering found the demand for their services declining.

'I promote fads'

'I and other management consultants continue to promote fads despite frequent derision from users of our services. Experience shows time and again that clients are more willing to buy the latest fad than a rational bespoke improvement programme based on careful analysis of the organization's position, environment and aspirations.'

Source: Letter to *The Economist*, 8 Feb. 1997.

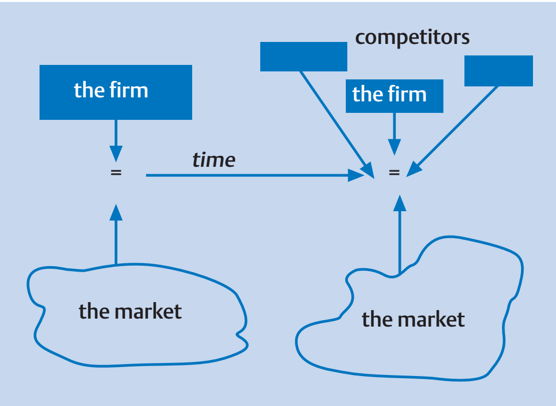
5 Management's matching problem

As Fig. 1.3 shows, developments in the environment mean that, over time, both market demand and the nature of the supplying organization change. Management's problem is to determine how best to respond to such developments. There are three possible approaches or orientations that an organization might pursue as it seeks to respond. As is discussed in Chapter 2, these are a production orientation, a sales orientation, and a market orientation.

Most modern organizations are now committed to attempting to pursue a market orientation. Underpinning such an approach is the marketing concept that was described by a successful business executive as 'to make the firm do what is in the interests of the customer and not make the customer do what is in the firm's interest' (McKitterick 1957: 79).

However, in practice interpreting this concept and working out its implications in the context of a specific organization are far from easy. First, it is not always clear what the 'interests of the customer' are. Secondly, customers' perceptions of their wants—especially future wants—are often limited. Thirdly, organizations are made up of a bundle of assets into which considerable investments have been made. Fourthly, few organizations do not face competition in some form. The presence of competitors is shown in Fig. 1.4 and Chapters 18 and 19 consider various aspects of the

Figure 1.4 **The firm facing competitive activity**



impact of competition on a firm's marketing strategies.

6 The interests of the customer

THERE is certainly a particular difficulty for organizations that believe that they understand the 'interests of the customer' if the customer is unaware of what might be considered their best interests. For example, car seat belts were marketed in most European countries years before wearing them was made legally obligatory. However, many car-owners apparently did not recognize that it would be in their interest to fit and use these items, and sales remained relatively low until their use was made a legal requirement. Arguably the problem is that consumers themselves often do not know what their best interests are and also regard advertising as little more than a cynical attempt to manipulate them. Certainly with regard to the use of seat belts, even after government-backed campaigns to encourage their use and legislation to make wearing them legally obligatory, many people remained unconvinced that seat belts were necessary. Some continued to believe that wearing them could increase the risk of injury in an accident. Again, sometimes consumers receive so much advice—much of which appears to be contradictory—that they are unable to determine what action is in their own best interests. For example, with regard to the issue of healthy eating, the steady flow of advice from a wide range of experts leaves many consumers muddled about what is and what is not 'healthy eating and drinking' (see Insert).

People tend to exaggerate their virtuousness

'For a good cautionary tale about how you can't trust everything your customers say, look no further than the recent forays of several fast-food restaurants into diet cuisine. McDonald's McLean, KFC's skinless fried chicken, and Pizza Hut's low-cal pizza all have the dubious distinction of being responses to customers and also flops. For all the millions and marketing savvy expended, the companies failed to see that, when it comes to diet, people tend to exaggerate their virtuousness. A 1993 study by the National Restaurant Association found a gross disparity between what people intend to eat (fresh fruit, bran muffins) and what they really eat (whole lotta burgers).

People asked for diet burgers, but a greasy one still holds the allure. Sales of McDonald's McLean have been, well, lean.'

Source: Martin (1995: 85).

Consumers' perceptions of their future wants are also usually very poor. There are innumerable examples of new products that have been successes even though consumer research had indicated that consumers would not buy them. There are also many examples of changes being made to existing successful products that have resulted in a dramatic fall in sales even though consumer research had indicated apparent enthusiasm for the changes. There are also examples of new-product failures where consumer research had clearly indicated that the new product would sell well. Unfortunately many people use such examples to assert that consumer research is a waste of time. However, as will be discussed, the term 'consumer research' covers a wide range of activities and sometimes the research on which decisions have been made was inappropriate.

Consumers are also 'poor' at predicting the uses to which they may put new technologies. It is also the case that the originators of these technologies often fail to predict how they will be used. For example, digital cameras, which store their pictures on disks or in computer-type memories (see Insert), cannot yet produce the same quality of picture as film-based cameras. Therefore over several

The market that the industry did not know existed

A snazzy new camera is always welcome in the photographic industry, but the digital camera seems to be creating a new market for 'temporary imaging' that the industry never knew existed. Suddenly business people who have never needed a camera at work have found room for one. Many commercial web sites are now assembled with the help of pictures taken directly by digital cameras. Other business people, such as estate agents and insurance assessors, still use film cameras when they want to produce detailed (or especially alluring) pictures. But they have become big users of digital cameras in order to obtain instant pictures.

Source: The Economist, 30 Aug. 1997, 49–50.

years they have not been much of a threat to the traditional camera. However, the demand for these cameras is suddenly booming with the development of a new market for 'temporary imaging'. This is the use of these cameras by business people to create an image that can be put onto a computer display, a website, and so on.

The use of e-mail is another illustration of this phenomenon. In 1997 it was still very difficult for the average householder to give much of a response to questions about his or her likely use of e-mail in 2000. Most simply would not have known what e-mail was, what it could do at the time, and what it was anticipated it would be capable of doing by 2000. Even those that had some knowledge of what e-mail could do would have tended to regard it as a method of communication suitable for businesses rather than for personal communications. This inability to respond is partly a matter of the consumer lacking the technical knowledge to determine the product's capabilities and what it offers. It is also the conservatism that consumers (both individuals and firms) show. This was pointed out by a Motorola executive who said 'Our biggest competitor, by the way, isn't IBM or Sony. It's the way in which people currently do things.'

What is evident is that listening naïvely to what consumers say may produce information that can lead to wrong decisions (see Box 1.1). It has been suggested that an alternative approach is: 'Ignore what your customers say; pay attention to what they do.' However, such an approach needs careful handling, as, where a really radical innovation is being considered, it has to be recognized that what consumers do is determined by the technologies currently available to them. The essential thing is to 'pay attention to what consumers do' and then try to understand 'the want' they are satisfying through that action. Once that has been identified, then an innovator will be in a position to evaluate his product with respect to that want.

Organizations may be convinced that they know what is in the consumer's interests but are unable to persuade consumers to purchase the product. For example, there can be little doubt that it is in the interest of a married person with young children to ensure that his or her partner is adequately insured against premature death. However, the insurance companies have not

Box 1.1 **'Post-it' notes**

The adhesive used in Post-its was discovered accidentally by Dr Spencer Silver, a 3M's scientist trying to produce an adhesive with the opposite characteristics (i.e. a super strong adhesive). Art Fry, another research scientist, was a member of a church choir who was fed up with the fact that the markers he put into his hymn book were constantly falling out, so he tried making up a set of bookmarkers using the 'failed' adhesive; in so doing he 'came across the heart of the idea. It wasn't a bookmarker at all, but a note. These notes were a systematic approach to communicating because the means of attachment and removal were built in. This was the insight.'

Although the samples that Fry created and passed around the firm were praised and people requested further supplies, there remained a reluctance to launch the product on the market. Indeed, it is said that Post-its failed when formally test marketed. In particular it became apparent that the only way to get people to use the product was to provide them with samples, as once people used them they ordered more—though they 'still couldn't talk intelligently about the product'. The product was initially seen as a not-very-adhesive adhesive that replaced paper clips, staples and glue—all things used to stick two pieces of paper together. Such a description did not indicate their true value, but users, while not able to articulate their approval, were prepared to prove it by repurchasing the product.

Source: Kucmarski (1988).

found it easy to market such products. First, as with many insurance products, there is a problem in making people aware of the likelihood of 'unpleasant' incidents occurring. Secondly, even if people accept that there is a risk, the financial consequences of which can be reduced by an insurance policy, many regard the price (i.e. the cost of the insurance premium) as beyond their means.

However, some organizations exist primarily to help consumers to understand what their best interests are. For example, many professional service organizations and charities would maintain that their role is to offer advice to their customers (and the fact they usually describe those who use their services as 'clients' rather than 'customers' is an indicator of their perception that their relationship is different). A lawyer, for example, will explain to a client what their legal rights and responsibilities are and, if legal action is a possibility, which approach is most likely to be successful. A charity's objective might be to make people more environmentally aware, believing that access to such knowledge will encourage its clients to act in a manner that the founders of the charity believe is in the consumer's interests.

7 The firm's investments in its assets

The marketing concept does not mean that a change in consumers' requirements should be blindly followed. There will be occasions when it is inappropriate to do this, for a successful organization will have made a considerable investment into its asset base.

As Fig. 1.3 showed, market demand changes over time because of developments in the environment, and so does the nature of the supplying organization. Management's problem is to find ways of ensuring that there is a 'match' between its organization's capabilities and the market's needs—a match that will enable it to achieve its objectives (see Chapter 15). The challenge is to strike a balance between the apparent advantage of adapting to market developments and the need to exploit as fully as possible investments made in its asset base. Consequently, as Davidson stated, successful marketing

> involves balancing the company's need for profit against the benefits required by consumers so as to maximize long-term earnings per share. There is a continuing tug of war between the firm's need for efficiency and the customer's needs for unique benefits. Getting the balance right is not easy. It requires a thorough knowledge of a company's assets and an ability to relate these to profitable opportunities in the market place. (Davidson 1998)

(Davidson's statement was made in the context of a book discussing marketing within the profit-making sector of the economy. In the case of not-for-profit organizations like charities, whose financial objectives are often merely to cover their costs, then this statement is not appropriate. Here the following adaptation of Davidson's definition might be helpful: 'marketing involves balancing the organization's need to cover its costs against the benefits required by clients so as to maximize the probability of achieving its objectives. There is a continuing tug of war between the organization's need for efficiency and the client's needs for unique benefits. Getting the balance right is not easy. It requires a thorough knowledge of the organization's capabilities and an ability to relate these to the needs of its clients.')

It is important to recognize that an organization's asset base is much more than its physical assets—significant though these often are. An organization's asset base will include, not only its physical assets, but also its reputation, its brand names, its staff—their knowledge and attitudes—its business links, its patents and licences, and so on. Such features will have become assets as a result of careful and continuous activity by the firm's employees over lengthy periods of time. For example, a really strong brand name (see Chapter 20) is created not just by clever advertising and promotion (though these are required) but through the identification of appropriate specifications for the product and the consistent delivery to the customers of products of that specification. Such consistent delivery is achieved only through the expenditure of substantial sums of money on a wide range of activities, such as training staff, supplier development, quality control, product development, development of manufacturing processes, control of distribution and distributors, and so on.

Sometimes as a market develops and changes it is relatively easy for the management of an organization to ensure that its capabilities evolve in such a way that it can continue to put a product on the market that satisfies customers' requirements. This might require some retraining of existing staff or some additions to its production facilities, but overall nothing very dramatic or expensive. However, a difficult problem arises when the change in the market demand is so dramatic that the organization has to question whether it can follow the market because the changes that it will need to make to do so are so radical. For example, to follow the market it might need to invest in new technologies that are totally outside its existing range of expertise.

A good illustration of this type of problem arose within Great Britain with the switch from the use of aluminium to plastic frames for domestic double glazing. Originally, domestic double glazing used aluminium frames and therefore the firms that marketed double-glazing were expert extruders of aluminium. (At first plastic frames were not a success, as they tended to warp and discolour in warm weather.) However, once the market found plastic frames more acceptable, the challenge for the companies was which of the four policies to pursue:

- invest in plastic-moulding technology—to them a totally new and very different technology—and continue to use their existing sales force to sell double glazing; at the same time find another market in which their expertise with aluminium would be valued and develop a new and additional sales force with skills appropriate to that market;
- invest in plastic moulding technology and continue to use their existing sales force, but divest themselves of their aluminium capability;
- find another market in which their expertise with aluminium would be valued and retrain their sales force with skills appropriate to that market;
- find another market in which their expertise with aluminium would be valued and replace the existing sales force with one that had the skills appropriate to that market.

Each of these alternatives presented different difficulties, challenges, risks, and costs. Furthermore, each of the several companies that faced this dilemma made their decision as to which to pursue on the basis of a different assessment of the importance of each of these factors.

It is very important to recognize that the development of any asset incurs considerable expenditures. For example, Heinz Beans is a powerful brand name that is a major asset. However, it has been created by expenditure on a wide range of activities, including: the continuous and careful improvement of Heinz's recipe for baked beans; the maintenance of quality standards in all aspects of the purchasing, manufacturing, and distribution of the product; developments in appropriate processing technologies. Heinz used to have an advertisement in Great Britain stating 'A million people every day say "beans means Heinz" '—the implication being that at least a million people consume Heinz beans each day and the consequence being that the maintenance of the Heinz brand name requires the consistent delivery of a quality product to at least a million people a day. This can only be achieved through the development and implementation of advanced manufacturing, distribution, and management systems, all of which are costly. If this is true for a 'simple' product like baked beans, it is obviously even more of a challenge for complex items such as personal computers.

The term 'asset-based marketing' has sometimes been used to describe this approach of taking account of the organization's asset base when making marketing decisions. Davidson's view was quoted above; Webster has stated: 'It is often unreasonably constraining to define a firm's distinctive competence in terms of the customer need satisfied. The firm's unique competence, especially for an industrial marketer, may be defined more appropriately by its internal strengths, and especially its technical competence, rather than its market relationships' (Webster 1979: 256). Many marketing academics and professionals are ill at ease with this approach because they foresee the danger of companies that follow this approach slipping back into a product orientation, but 'companies have to be production-oriented to be market-oriented' (Ford 1998: 47). However, all that is being asserted is that marketing creates value by utilizing the activities of other parts of the organization. As one commentator suggested, marketing takes devices made in the factory and converts them into products that satisfy customers. Furthermore, it is being suggested that circumstances external to the organization will determine the appropriate emphasis to give to the creation of value by marketing as against other parts of the organization.

8 What does it mean to have 'enough customers'?

THE idea of having 'enough customers' (a phrase used above (see Section 2)) sounds simple but in fact needs careful examination. If a firm is to be profitable, it needs to have customers who place sufficient value on the product it offers them for them to feel it is worth paying a price that is higher than the costs the firm incurs in supplying them. However, the costs of supplying the product will, in most cases, be related to the total volume of sales, and so the numbers of customers together with the amount that they each purchase are also important. In other words, the customers have to be willing to pay a price per unit and to purchase enough units to provide the firm with sufficient income to cover the costs of supplying that number of units. Obviously, if a firm finds that it is not covering its costs at its current level of sales, and raises its prices, there is a danger that sales will fall and actually exacerbate the situation. On the other hand, if a firm lowers it prices, it may turn out that its sales increase but still do not provide sufficient revenue to enable the firm to cover its costs.

This balancing of costs and prices is a complex managerial problem, and it is not just a matter of juggling prices around to achieve a profitable volume of sales, as other elements of the company's products also affect sales levels—indeed some non-price factors may have a greater impact on sales levels than do price changes. Moreover, making changes to the product usually means that the supplier will incur extra costs, and so the process of attempting to balance the numbers of units sold at a given price relative to the price of supplying those products begins all over again.

9 Customers' needs and wants

CUSTOMERS make purchases to satisfy their needs and wants, but people living in a modern economy who are themselves capable of providing even their basic needs are rare indeed. Most people, therefore, have to resort to paying others to provide them with even those goods and services needed to meet their basic physiological needs.

There is, of course, in principle a difference between a need and a want, but in practice there is often a difficulty in making the distinction. The usual distinction is that a *need* is a generic condition—for example, 'I need a drink because I am thirsty'—and a *want* is the specific form of satisfaction that the individual is seeking—for example, 'I need a drink and I want to satisfy that need with a Coke.' However, it is not possible to classify items unequivocally as either 'need satisfying' or 'want satisfying'. For example, while people will often say that they need a 'Big Mac and a Coke', from the point of view of the human body's essential needs, all that is needed is a sufficient and regular supply of food and potable liquid. Thus for most people it is impossible to claim that beer satisfies a need, for clearly for most people beer satisfies 'wants' and not 'needs' (even though people may state 'I'm dying for a beer!'). However, alcoholics do need alcohol or they can become unwell, and thus for them any beer may satisfy a need.

The distinction between needs and wants gets even more complex as one considers those needs other than the basic physiological ones. To try to argue that a person *needs* a Walkman would seem, in a world where so many do not have even their nutritional needs met, to trivialize the concept of need. Yet, in the so-called developed world, to be the only child in a school class who does not own a Sony Walkman can, to a child who already lacks self-esteem (and having a sense of one's worth is surely a need), mean that for that child owning a Walkman, and specifically a Sony, comes close to being a need.

However, in some societies there are products that individuals do need but that they do not provide for themselves or purchase directly; instead, these are provided by the state as a public good. Such products typically include the police, ambulance, and fire services. Of course, the public, as a whole, do 'pay' for such services through the tax system. But it is important to remember that it is not always the nature of the product itself that determines whether or not it is provided by the state, but each society's view, as expressed through its political system, as to what the state's responsibilities should be.

National security is a public good, so in most countries the state determines what size the army should be and the members of the armed forces are employees of the state directly answerable to the government. However, if, instead of national security, the case of health services is considered, then a different picture emerges. For example, in Eastern Europe before the collapse of the communist state system the state was the sole provider of health services. Yet in other societies mixed systems exist in which many people rely totally on state-run hospitals, state provision of dental care, and so on, but in which it is also legal for all those citizens who so wish and who can afford it to pay to be treated outside the state system. The same situation exists with regard to education. An in-between situation can also exist where the public pay for a service through the tax system but the authorities contract for its provision with a profit-making organization rather than provide it from within their own resources. This is illustrated by the example of Falck in Denmark (see Insert).

A private fire service?

Falck Redningskorps A/S, Copenhagen, was founded in 1906, being owned by the original family until 1985. It is something of an anomaly in Denmark—a country of strong social-democratic traditions—because it is the major provider of fire and ambulance services. Indeed it is responsible for the fire services in 60 per cent of the local municipalities, and ambulance services to 90 per cent of the Danish population. Falck also provides other services such as road breakdown and rescue, emergency and alarm control, and security.

Some eighteen Danish insurance companies now hold the majority of its shares. The company in 1992 made a profit of Dkr. 34 million on a turnover of Dkr. 1,900 million. Over 80 per cent of the Danes have indicated that they are satisfied with the services that it offers.

Source: Irons (1994).

10 Marketing defined

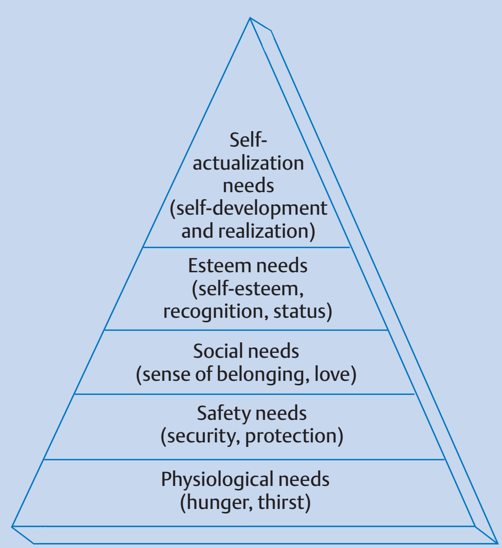
WHAT then is marketing? It is useful to define both 'marketing' and 'marketing management' for, although they are interconnected, they are different.

10.1 Marketing

Marketing is *the exchange process that occurs between individuals; between an organization and individuals; or between organizations as they seek to satisfy their needs and wants*. It does not, however, deal with exchanges of all types of needs and wants. Indeed, most people who practise or teach about marketing would not seek to apply it to exchanges related to what Maslow (1954) called 'social needs' (see Fig. 1.5). In other words, though it would be legitimate to study how a marriage guidance service is marketed, it would be a step too far to argue that marketing has anything to say about the process of marriage guidance.

Both parties to an exchange have something to offer and while, from the point of view of marketing, it is the supplier's offering that is the dominant concern, the customer's 'offering' is also critically important. For example, individual customers do not just offer to pay for an item—they can offer to pay in different ways, each of which has a different degree of attraction for the seller. Thus a bottle of wine can be purchased with cash, with a credit or charge card, by using electronic fund transfer at point of sale (EFTPOS), by having

Figure 1.5 **Maslow's hierarchy of needs**



Source: Maslow (1954).

it charged to an account, and so on. These alternatives are not all equally attractive to either the customer or the shop. So some customers are more attractive to the shopkeeper than others and indeed some customers (perhaps those asking for credit) may not be wanted at all—unless they can be persuaded to adapt their behaviour. Similarly in business markets a customer may also offer a range of benefits to a potential supplier. For example, as well as offering to pay in a variety of ways, a customer might offer the supplier the status of being associated with a well-respected customer, technical insights, and so on.

So, while it is obvious that from a particular customer's point of view not all potential suppliers are equally attractive, it is also essential to recognize that not all customers are equally attractive to a particular supplier. Indeed, a central marketing concept is that a supplier should determine which customers it prefers to deal with (which in the case of organizational marks can mean the identification of individual customers).

10.2 Marketing management

Marketing management is *the function that, by assessing customer needs and initiating research and development to meet them, has a major role in determining the form that an organization's goods and services should take to secure optimal acceptance by customers*. It is also the major influence in determining the price and the quantities of the good or service that is offered to the market. In addition, it decides the forms of advertising and publicity that will support the presentation of the product to the customers and the mechanism by which the product is made available to the customer.

A useful summary statement about marketing management is that its role is to ensure that the organization identifies, anticipates, and satisfies customers' wants profitably.

11 The future

ARGUABLY the distinctive contribution that marketing has made to the conduct of business has been constantly to reiterate and remind organizations of the importance of the customer. It is too easy for any organization—especially large ones—to forget that the only justification for its existence is that it has customers who place sufficient value on what it produces to pay a price that provides enough revenue for the organization to keep running. It is easy because in a big organization too many employees have no direct contact with the customers. Marketing should always be listening to the customers. It should always be seeking to ensure that everybody in the firm recognizes the centrality of satisfying customers if the firm is to be successful.

Through the short period of time that marketing has been identified as a separate function there have been several occasions when it has been necessary to remind both academic and business marketers of the centrality of the customer. Thus in a 1981 paper Webster bemoaned the way in which an overemphasis on strategic issues had led firms to forget the customer. In 1998 the same anxiety was still evident and other authors were still finding it necessary to reiterate that 'All companies which show robust growth focus consistently on solving customer problems—they are customer led rather than financially led' (Doyle 1998: 259). Without doubt, human nature being what it is, this need will recur. For example, it is too easy to allow the exciting and challenging developments in information technology (IT) and its associated developments to distract people from the acceptance that IT is merely a tool. Certainly IT is a tool of immense value, but it is only a tool whose development is not necessarily totally beneficial and to which negative reactions do occur if it is used inappropriately when dealing with customers. A simple example is the irritation of many customers when confronted with a customer call centre (sometimes light-heartedly called a customer service centre) that uses an automated answering system.

New technologies, both in IT and elsewhere, will without doubt transform the processes by which firms both keep close to the customer and meet the customer's needs. Marketing's role will continue to be to ensure that this legitimate concentration on efficient processes does not distract from the purpose of the process that is no more and no less than understanding the customer's need. Drucker's (1968: 52) comment will remain its credo: 'There is only one valid definition of business purpose: to create a satisfied customer.'

Further reading

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Discussion questions

1 What are the fundamental features of modern lifestyles that make exchanges such an important subject of study?

2 Critically evaluate Townsend's view that: ' "Marketing Departments"—like planning departments, personnel departments, management development departments, advertising departments, and public relations departments—are usually camouflage designed to cover up for lazy worn-out executives. Marketing, in the fullest sense of the word, is the name of the game. So it had better be handled by the boss and his line, not by staff hecklers' (Townsend 1971: 96).

3 Is it the case that management has become obsessed with efficiently producing products at just the time when customers are prepared to pay more for products that meet their needs more effectively?

4 What lessons can be learnt from the fact that many products, such as Post-its and the Sony Walkman, that are now recognized as successes were initially in great danger of being rejected by the companies that developed them because of a lack of consumer interest?

5 Are changes in fashions predictable and/or manageable?

6 If your company's business was (legally) printing bank notes, identify the factors that have influenced the demand for your product over the last twenty years.

7 What are the problems in using the idea of 'exchange' as a basis for a definition of 'marketing'?

8 What would you say to a group of managers in a high-technology firm who asked you to explain the benefits that would accrue to their firm if they tried to implement a marketing orientation?