Quintessence Series

Nils Bickhoff
Svend Hollensen
Marc Opresnik

The Quintessence of Marketing

What You Really Need to Know to Manage Your Marketing Activities

Quintessence Series

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Quintessential Strategies
Hamburg, Germany

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What You Really Need to Know to Manage Your Marketing Activities

Springer

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Introduction: Essential Marketing Know-How

1

Books on management can inevitably be called into question. There are so many outstanding and relevant works on the different subjects, does the executive readership—many of whom were students at one time or another—really need further volumes on the bookshelf? Well, the aim of the Quintessence Series was and is to deal with management subjects in a way that covers as few pages and is as accessible as possible, while communicating the fundamental, most important theoretical aspects and facilitating the transfer of this knowledge to real-life decision situations.

This book is on marketing and the state of knowledge on this subject has changed again and again in recent years—and many books with a lot of pages are being published regularly on marketing. But books that concentrate on the essential marketing know-how can hardly be found—that is our mission with this book.

There can be but few readers whose job description constitutes a knowledge of marketing alone—and theirs must be a rather academic career at that. The majority will become (or already are) practitioners of marketing, who will need to structure and evaluate specific situations—it is for these practitioners in particular that this book is intended.

However pragmatic or brief it may be, every book needs a structure: in this case there are four main sections. First we develop a common understanding of "marketing" and "marketing management" to ensure that all readers start from the same base point. In the further three sections we describe **the quintessential Marketing Arena** by following the logic of the three major steps of the

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marketing process. Along this process we present to you the fourteen most important marketing instruments that occur during this process.

Having read this book:

- You will have a basic understanding of marketing and the process of marketing management.
- You will know the most important marketing instruments and how they interact.
- You can develop your own marketing plan based on our Marketing Arena.

2 Marketing and Marketing Management: A First Basic Understanding

2.1 Definitions, Tasks and Scope of Marketing

Peter Drucker, an Austrian-born American management consultant, educator, and author, whose writings contributed to the philosophical and practical foundations of the modern business corporation once stated: 'A business has two, and only two, basic functions: marketing and innovation. Marketing and innovation produce results; all the rest are costs.' In the future, marketing will play an increasingly important role for companies in order to achieve a sustainable competitive advantage and sustainable business growth.

But what actually is marketing? Many people think of marketing as only sales and advertising! Every day we are bombarded with TV commercials, flyers, catalogues, sales calls, and commercial e-mail. However, selling and advertising are only one element of marketing. Today, marketing must be understood not in the old sense of making a sale but in a contemporary and holistic sense of satisfying customer needs. Marketing guru Philip Kotler defines marketing as societal and managerial process by which individuals and organizations obtain what they need and want through creating and exchanging value with others (Kotler and Keller 2012).

To put in into a nutshell, Marketing is the achievement of corporate goals through meeting and exceeding customer needs and expectations better than the competition.

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To apply this concept, three conditions must be met (Jobber 2013):

- First, company activities should be focused on providing customer satisfaction.
- Second, the achievement of customer satisfaction relies on an integrated effort. In the framework of a holistic and integrative approach to marketing today's marketers have to work closely with a variety of marketing partners when it comes to creating customer lifetime value and building strong customer relationships (Hollensen and Opresnik 2010). The responsibility for the implementation of the concept lies not just within the marketing department. As the late David Packard of Hewlett-Packard observed: 'Marketing is too important to leave it to the marketing organization.' Consequently, the belief that customer needs are instrumental to the operation of an enterprise should be internalized right through production, finance, research and development, engineering and all other departments. It is paramount to emphasize that marketing must affect every aspect of the customer experience. Every employee has an impact on the customer and must regard the customer as the source of the company's success and sustainable development. This concept of marketing implies it to be not just a function in the organization but a business philosophy which affects the entire company.
- Finally, management must be convinced that corporate goals can be achieved through satisfied customers (Fig. 2.1).

Marketing has to be considered as a process by which companies create value for customers and build sustainable relationships in order to capture value from customers in return. Thus, marketing is the central driver of corporate profit and growth. The marketer' s role is to choose target markets, to build superior customer value and a sustainable competitive advantage by integrating all the activities in the company that affect the value offered to the customer.

A marketer is someone who seeks a response (attention, a purchase, a vote, a donation) from another party, called the prospect. If two parties are seeking to sell something to each other, they are both called marketers. Marketers are skilled at stimulating demand for their products, but that is merely a very limited view of what they

Fig. 2.1 Key components of the marketing concept. *Source*: Based on Jobber (2013), p. 5

actually do. Just as production and logistics professionals are responsible for supply management, marketers are responsible for demand management. They seek to influence the level, timing and composition of demand to meet the organization's objectives. Depending on a company's specific situation, there are different states of demand, which confront the marketer with particular challenges. Eight demand states are possible (Kotler and Keller 2012):

- *Negative demand*: Consumers dislike the product and may even pay to avoid it.
- *No demand*: Target customers are unaware of, or uninterested in, the product, e.g. farmers may not be interested in a new farming method. The marketing task would be to find ways to connect consumers' needs and interests with the benefits of the products and services.
- *Latent demand*: Consumers share a strong need that cannot be satisfied by any existing product, e.g. there is a strong latent demand for electric cars. The subsequent marketing task is to measure the size of the potential market and develop products and services to satisfy the respective demand.
- *Declining demand*: This is the biggest challenge facing most companies today. Due to rapid advances in technology and strong competitive pressure many companies are in danger of losing their

competitive advantage and customer base. Against this background, the marketing task is to analyse the reasons for this decline and determine whether demand can be restored by opening up new target markets, by changing product benefits or by designing entirely new business models.
- *Irregular demand*: Customers purchases vary on a seasonal, monthly, weekly, daily, or even hourly basis.
- *Full demand*: Consumers are adequately buying all products put into the market.
- *Overfull demand*: More customers would like to buy the product than can be satisfied.
- *Unwholesome demand*: Consumers may be attracted to products that have undesirable social consequences.

Against the background of a holistic marketing philosophy, you can identify a specific set of tasks that make up successful marketing management (Kotler and Keller 2012):

- *Developing marketing strategies and plans*: A key task is to identify potential opportunities and core competencies. You have to develop concrete marketing plans that specify the marketing strategy and tactics going forward.
- *Capturing marketing insights*: You need a reliable marketing information system to monitor their marketing environment so they can continually assess market potential and forecast demand. To transform strategy into programs, marketers must make basic decisions about their expenditures, activities, and budget allocations.
- *Connecting with customers*: As a marketer you have the task to consider how to best create value for its chosen target markets and develop strong, profitable, long-term relationships with customers. In order to accomplish these tasks, companies need to understand consumer markets as well as organizational buying behaviour: Who buys which products, and why? What features and prices is the customer looking for, and where do they shop? In this respect, companies need a sales force well trained in presenting product benefits. They must divide the market into major market segments, evaluate each one, and target those it can serve best.

- *Building strong brands*: You must understand the strengths and weaknesses of their brands as perceived by customers. They have to decide how to position them and must also pay attention to competitors, anticipating their strategies and knowing how to react adequately.
- *Shaping the market offerings*: The product is at the hearts of the marketing program and includes the product quality, design, features, and packaging. A critical marketing decision relates to the price. Marketers must decide on wholesale and retail prices, discounts, allowances, and credit terms.
- *Delivering value*: You must also determine how to deliver to the target market the value embodied in its products and services. Channel activities include those the company undertakes to make the product accessible and available to target customers. Marketers have to understand the various types of retailers, wholesalers, and physical-distribution firms and how they make their decisions.
- *Communicating value*: You must also communicate to the target market the value of their products and services. They need and integrated marketing communication program consisting of advertising, sales promotion, events, public relations, and personal communications. Companies also need to hire, train, and motivate salespeople.
- *Creating successful long-term growth*: Based on its product positioning, you must initiate new-product development, testing, and launching. Furthermore, they must build a marketing organization capable of implementing the marketing plan. Finally, a company needs feedback and control to understand the efficiency and effectiveness of its marketing activities.

While marketing originally concentrated on physical goods (especially consumer goods), today many more types of 'goods' are marketed. Marketers market ten main types of entities (Kotler and Keller 2012):

- *Goods*: Physical goods constitute the bulk of most countries' production and marketing efforts. Companies market diverse goods such as food products, cars, refrigerators, machines, televisions and other articles.

- *Services*: As economies advance, there is more focus on the production of services. Services include the work of hotels, car rental companies, barbers, maintenance and repair people, accountants, software programmers, management consultants and other market offerings. Many merchandises mix goods and services, such as a fast-food meal.
- *Events*: Marketers also promote events, such as trade shows, artistic performances, company anniversaries and global sporting events such as the Olympics and the World Cup.
- *Experiences*: By combining several services and goods, a company can create, stage, and market experiences. Examples includes parks like Disney World or Sea World.
- *Persons*: Artists like Madonna, musicians like the Rolling Stones, sport stars like David Beckham and other professionals get support from celebrity marketers.
- *Places*: Place marketers include economic development specialists, real estate agents, commercial banks, local business associations, and advertising and public relations agencies. In this respect, cities, states, regions, and whole nations compete to attract tourists, residents, factories, and company headquarters and consequently are marketed.
- *Properties*: Properties are intangible rights of ownership to either real property or financial property. They are bought and sold, and these exchanges require marketing. Examples include real estate agents marketing houses, or investment companies marketing securities to both institutional and individual investors.
- *Organizations*: Organizations work to build a strong, favourable, and unique image in the minds of their target groups. Companies, museums, universities and non-profits all use marketing to enhance their public images and compete for audiences and funds.
- *Information*: The production, packaging, and distribution of information are major industries. Information is ultimately what books, schools and universities produce, market, and distribute at a price to their customers.
- *Ideas*: Every market offering includes some basic idea. Products and services are platforms for delivering ideas or benefits.

2.2 Company Orientation Towards the Marketplace

A company has to decide which philosophy should guide their marketing efforts. There is no guarantee that all companies will adopt a holistic marketing orientation. In fact, there are five alternative concepts (Kotler and Armstrong 2012):

- *The production concept*: It is one of the oldest concepts in business and holds that customers prefer products that are widely available and inexpensive. Managers of production-oriented businesses focus on achieving high production efficiency, low costs, and mass distribution. It believes that the central focus of the job is to attain economies of scale by producing a limited range of products in a form that minimizes production costs.

  This concept is still an applicable philosophy in some situations. For example, computer manufacturer Lenovo dominates the highly competitive, price-sensitive Chinese PC market through low labour costs, high production efficiency, and mass distribution. Possessing the lowest cost is seen as the major source of competitive advantage. The danger is that, in rapidly changing markets, an internal focus on production can lead to so-called *marketing myopia* in which implies that companies make the mistake of paying more attention to the specific products they offer than to the benefits and experiences produced by these products. Companies adopting this orientation run a major risk of focusing too narrowly on their own operations and losing sight of the real objective—satisfying customer needs and building customer relationships.
- *The product concept*: This philosophy holds that customers will favour products that offer the most in quality, performance, and innovative features. Under this concept, marketing strategy focuses on making continuous product improvements. Product quality and continuous improvement are important parts of most marketing strategies. However, focusing predominantly on the company's products can also lead to marketing myopia. A new or improved product will not necessarily be successful unless it is being priced, distributed, advertised, and sold adequately.
- *The selling concept*: Production-orientated businesses often make the transition to a sales orientation. Many companies actually follow the selling concept, which states that customers will not

buy enough of the firm's products unless it undertakes a large-scale selling and promotion effort. This philosophy is typically practised with unsought goods and companies regard aggressive selling, advertising and sales promotion as means to penetrate the market. But selling is not marketing—in fact it can be just the opposite. As Theodore Levitt put in his famous 'Marketing myopia' article: 'Selling tries to get the customer to want what the company has, marketing on the other hand, tries to get the company to produce what the customer wants.' Aggressive selling focuses on creating sales transactions rather than on building long-term, profitable customer relationships. This concept assumes customers coaxed into buying a product not only will not return or bad-mouth it or complain to consumer organizations but might even buy again which, in fact, are usually a poor assumptions.

- *The marketing concept*: This philosophy holds that achieving organizational goals depends on knowing the needs and wants of target markets and delivering the desired satisfactions better than the competition do. Figure 2.2 contrasts the selling concept and the marketing concept.

  The selling concept takes and inside-out perspective. It starts with the existing products of the company, and calls for aggressive selling and promotion to obtain profitable sales. It focuses

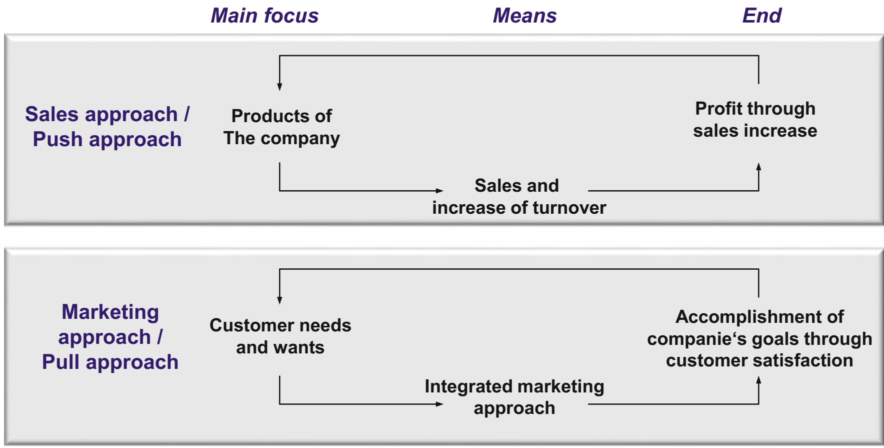

Fig. 2.2 Selling and marketing concepts contrasted

predominantly on getting short-term sales with little concern about who buys or why.

In contrast, the marketing concept takes an outside-in perspective. It focuses on customer needs and wants, and integrates all the marketing activities that affect customers. In turn, it yields profits by creating lasting customer satisfaction.

- *Relationship marketing concept*: In recent years, marketing has been undergoing extensive self-examination and internal debate. The overriding emphasis in the 'traditional' marketing approach is on acquiring as many customers as possible. Evidence is mounting, however, that traditional marketing is becoming too expensive and is less effective given changes in the micro and macro environment of firms. Many leading marketing academics and practitioners have concluded that many of the long-standing practices and operating modes in marketing need to be re-modelled, and we need to move towards an integrated relationship approach that is based on repeated market transactions and mutual sustainable gain for buyers and sellers. Relationship marketing reflects a strategy and process that integrate customers, suppliers, and other partners into the company's design, development, manufacturing, and sales processes. In the framework of this integrated and holistic concept, marketing exists to efficiently meet the satisfaction of customer needs, as well as those of the marketing organization. Marketing exchange seeks to achieve satisfaction for the consumer and the marketing organization (or company). In this latter group we include employees, shareholders, and managers. Other stakeholders like competitors, financial and governmental institutions are also important. While recognizing that customer acquisition is, and will still remain, part of marketer's responsibilities this viewpoint emphasizes that a relationship view of marketing implies that maintenance and development are of equal or perhaps even greater importance to the company in the long run than customer acquisition. By differentiating between customer types the concept further suggests, that not all customers or potential customers should be treated in the same way. Relationship marketing, in contrast, sees the need to communicate in different ways dependent on customer's status and value. This view of marketing also implies that suppliers were not alone in creating or benefiting from the

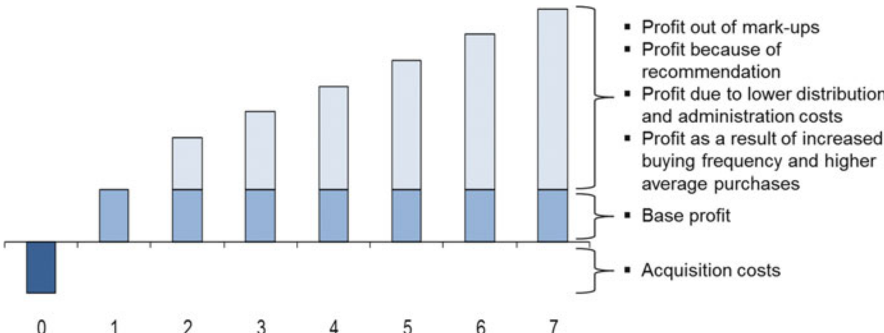

Fig. 2.3 Profit growth over time. *Source*: Based on Hollensen and Opresnik (2010), p. 13

value created by the corporation. Rather this philosophy can be seen as an on-going process of identifying and creating new value with individual consumers and then sharing the value benefits with them over the lifetime of the association. This is due the '*lifetime value*' *concept* which concludes that a higher customer value will raise customer satisfaction; thereby customer loyalty will be instilling, which, in turn, creates higher profit due to increased volume resulting from positive word-of-mouth and repeat purchases. Consequently, an enterprise should restrict taking a short-term view but rather should consider the income derived from that company's lifetime association with the consumer (see Fig. 2.3). In the framework of an integrative customer retention strategy a company should consequently project the value of individual customers over time rather than focus on customer numbers only. Thus the overall objective of the relationship marketing concept is to facilitate and maintain long-term customer relationships, which leads to changed focal points and modifications of the marketing management process. The familiar superior objectives of all strategies are enduring unique relationships with customers, which cannot be imitated by competitors and therefore provide sustainable competitive advantages (Hollensen and Opresnik 2010).

2.3 The Role of Marketing in the Company

As outlined already, it is paramount that marketing must not be a function in the organization but moreover a business philosophy. Marketing must affect every aspect of the customer experience. Consequently, every employee has an impact on the customer and must regard the customer as the source of the company's success.

Against this background, the **concept of internal marketing** is of key importance: It originates primarily from service organizations where it was first practiced as a strategy for making all employees aware of the need for customer satisfaction. In general, internal marketing refers to the managerial actions necessary to make all members of the organization understand and accept their individual roles in implementing marketing strategy. This means that all employees, from the chief executive officer to frontline marketing personnel, must realize how each individual job assists in implementing the marketing strategy. Under this approach, every employee has two sets of customers: external and internal. Ultimately, successful marketing implementation results from an accumulation of individual actions where all employees are responsible for implementing the marketing strategy. Ensuring that all staff, whatever their status, deliver a service of the highest quality to both internal and external customers is a key issue for all organizations. Essentially, this is what an integrative marketing management really implies, namely to direct each and every activity towards the customer, making formerly product-focused companies fully customer-centric. In this framework, the holistic and integrated relationship marketing approach can help imbue companies to rethink marketing and develop a more inclusive approach directing all departments, functions and staff towards the customer. Although this requires organizational transformation and a change in mindset, we suggest it to be an inevitable way to focus on customers need and wants and ensure a sustainable growth of companies (Hollensen and Opresnik 2010).

2.4 The Marketing Arena: How Instruments and Process Interact

Against the backdrop of a constantly rising flood of information and the increasingly dynamic international markets, it is becoming ever more difficult for companies to handle their marketing activities. This is also due to the fact that there are numerous instruments and variations of processes available. We believe it is necessary to create a **quintessential Marketing Arena** in which the most relevant instruments, the main process and the way these elements interact are described. With this map it will be possible for any marketing manager to fulfill his tasks more efficiently than before.

Figure 2.4 presents the most important marketing instruments and how they interact with the marketing process and its five main tasks. Practitioners should at least be aware of these approaches as well as the concepts behind them, what they entail, and the amount of information they potentially offer. Furthermore Fig. 2.4 concludes the five tasks of the process into **three major steps**—these steps will be the structural guidance of the main chapters.

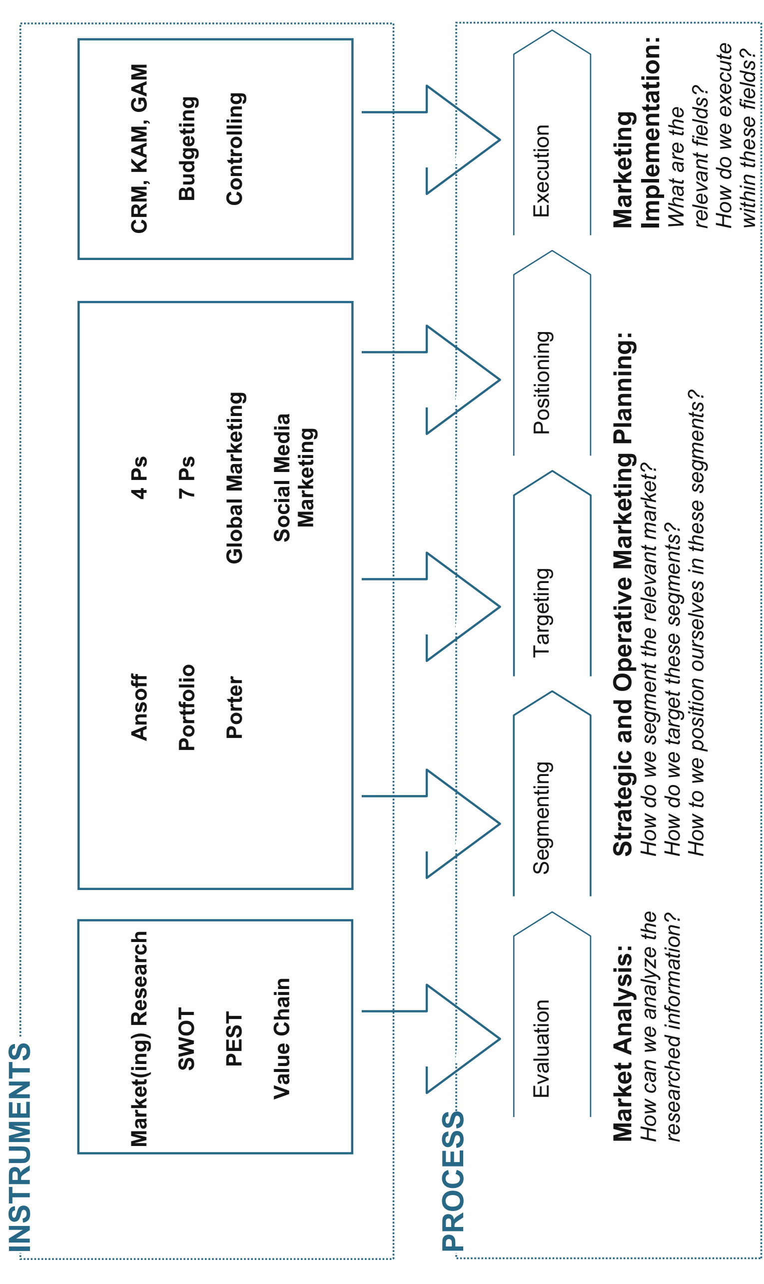

Fig. 2.4 The Marketing Arena

3 Step 1: Market Analysis: Structuring and Evaluating the Market Information

3.1 Market(ing) Research

3.1.1 Definition of Marketing Research

As discussed in Chap. 2, the marketing concept is a business philosophy that puts the customer and customer satisfaction at the centre of things. Marketing research is an organisational activity that plays an important role in implementing this marketing philosophy. It helps in improving management decision making by providing relevant, accurate, and timely information. Every decision poses unique needs for information, and relevant strategies can be developed based on the information gathered through marketing research in action.

To find out (a) if there is a market, (b) how big the market is and (c) what the competition is doing, a systematic and scientifically valid approach is required. This approach is called market research. Sometimes the term 'Marketing research' is used as well. When this distinction is made, 'market research' is defined more narrowly as the research of markets (excluding e.g. competitors and customers). 'Marketing research' goes beyond 'market research' and includes competitor and customer research as well as other sources of information like internal records and software-based marketing decision support systems. Thus, marketing research can be defined as the systematic collection, analysis and interpretation of data about markets, customers and competitors. It has to provide a reliable basis for marketing decision-making. However, marketing research is no guarantee for business success e.g. studies put the failure rate of

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new consumer products at 95 % in the United States and at 90 % in Europe (Kotler and Keller 2012).

Especially in high-tech marketing, e.g. in telecommunications, computers, consumer electronics and biotech, failure risks are particularly high. The reasons are:

- High market uncertainty
- High competitive volatility
- High investment cost
- Short product life cycles

Nevertheless, there are also marketing success stories, which involve little or no market research at all e.g. the 'Sony Walkman' was based on the 'gut feeling' and vision of Sony's chairman, who allegedly pushed his idea through against the fierce resistance of his managers. In that case, Sony was 'market-driving', not 'market-driven'. It created a new market by launching a product that no consumer could even imagine!

Marketing research not only looks at the market in general, but that it also seeks to obtain sophisticated and detailed information about customers, market segments and the competition. In addition, if a company wants to assess the market position, it has to look inside the organisation in order to identify those parameters that determine its competitive strengths, e.g. the cost structure or innovation power.

Looking at approaches to conducting marketing research, the two main forms of market research are **ad-hoc research** and **continuous research**. Ad-hoc research, focuses on a specific problem and can take the form of custom designed surveys or omnibus studies. Continuous research involves interviewing the same sample of people repeatedly. Continuous research methods include: consumer panels, retail audits and television viewership panels. Marketing databases and website analysis are also means of collecting data on customers on an on-going basis. Regardless of which form of research is chosen the company must decide whether it should carry out the research using internal company resources or employ a market research agency. This decision is likely to depend on the company resources: time, money, skills and experience available.

3.1.2 The Marketing Research Process

Effective marketing research usually follows the six steps shown in Fig. 3.1 (Kotler and Keller 2012).

Step 1: Define the Problem, the Decision Alternatives and the Research Objectives

What is the objective of the market research, e.g. analysis of customer satisfaction and customer retention? This step is crucial, because identifying and defining the problem is a major challenge. Therefore, the problem's definition and setting of objectives should not be done by the marketing manager alone, but by a cross-functional team. The decision-makers to whom the final research results will be presented should be involved at that early stage and formally approve the project!

In this context, you have to decide which **type of research approach** is suitable to reach the objectives defined:

- *Descriptive*: Describing facts or a development. Example: Finding out whether or not customer loyalty has changed over the last 3 years.

Fig. 3.1 The marketing research process. *Source*: Based on Kotler and Keller (2012), p. 188

- *Explorative*: Trying to explore relationships among different variables. Example: Finding out if changes in customer loyalty differ among segments.
- *Explicative*: Trying to confirm or refute a hypothesis. Example: Confirm or refute the assumption that customer loyalty has, in particular, decreased with those customers who have received special promotional offers by a competitor recently.

Step 2: Develop the Research Plan

The second stage of marketing research is where you develop the most efficient and effective plan for gathering the needed information and what this will cost. In this framework, a firm has to make decisions about the following aspects:

- *Data sources*

  The researcher can gather two **types of data collection**: **secondary data** and **primary data**. Secondary data involves collection of data that already exists. These data may be collected and assembled for some research problem situation other than the current situation. Secondary data and analysis is useful at all stages of the marketing research process. Secondary data mostly involves desk or library research and can serve managers' needs for information on their markets, competitors, customers and overall environment. In some cases if done thoroughly, secondary data collection can solve the research problem at hand without requiring more expensive stage of primary data collection. While secondary data is collected from various established sources, primary data are originated by the researcher for the specific purpose of addressing the problem at hand. Primary data may be qualitative or quantitative in nature.
- *Research Approaches*

  Marketer collect primary data in five main ways: through observation, focus groups, surveys, behavioural data, and experiments.

  In **observation studies**, the researcher observes the behaviour of consumers in real-life setting. This type of research originated in anthropology and has percolated into many other fields of research. There is a still a debate among researchers as to whether observation is a qualitative or quantitative technique. Observation methods are widely used in organization research to examine how people

behave in groups, in teams and as organization members. This technique is also used in recruitment and selection of new employees as well as promoting existing employees in many organizations. The observation studies are extremely useful in collecting behavioural data as oppose to attitudinal data. This technique allows marketers to collect data on what people actually do, rather than what they say they will do.

Observation techniques have several advantages and disadvantages. One of the most important advantages of observation techniques is the accurate collection of behavioural data in real-life setting. In addition, observation techniques help in reducing the recall error (memory loss), response bias and refusal to participate. On the other hand, one of the major limitations of observation techniques is the data generalization. It is difficult to make accurate prediction of larger consumer groups, thus representativeness becomes an issue in observation. Furthermore, it is not easy to interpret behaviour as to why a respondent behaved in a certain way. Furthermore, observations being a real-time phenomenon it is very hard to observe all the behavioural actions of the targeted consumers.

Focus groups are one of the most popular qualitative research methods used around the world. Many times researchers and managers use the term focus groups to define qualitative research. Focus group is a formalized process of bringing a small group of people together for an interactive, informal and spontaneous discussion on a particular topic or concept. By getting the group members to talk at length about the topic, the moderator can gather vast amount of information on ideas, attitudes, feelings and experiences about a particular issue. Focus groups are usually constructed using similar participants to encourage positive discussion. The group of participants is guided by a leader of the focus group who is called moderator. The discussion at start is led by the moderator who introduces the topic of discussion and attempts to get everyone to participate in an honest discussion and debate. The moderator maintains a certain degree of control over the discussion by directing it whenever the discussion moves too far from the research objectives set forth. The major goal of any focus group is to provide as much information as possible to the decision maker

regarding the issue at hand. With a group of people involved, group dynamics becomes a very crucial issue in focus group discussions. The success of any focus group relies heavily on the overall group dynamics, willingness of members to engage in an interactive dialogue, and moderator's ability to keep the discussion on track.

There are several advantages of focus group technique. Focus group can help generate creative ideas, thoughts and opinions relating to a topic. They can highlight the underlying reasons for a specific set of actions by a consumer and overall behaviour. They also allow client participation and provide consumer response in a direct manner. They also provide an interaction opportunity for organization to reach specific market segments. While there are many advantages of focus groups, they also have disadvantages. The major weaknesses include the limited generalizability of results to the target market, involve subjectivity (bias) of representation and interpretation, data reliability and validity and are costlier than in-depth interviews as it brings diverse groups of respondents together.

Survey methods tend to be the mainstay of marketing research in general. They tend to involve a structured questionnaire given to respondents and designed to elicit specific information. In simple terms, it involves questioning the respondents regarding the issue at hand and asking their opinion about it. Respondents are asked variety of questions regarding their feelings, motivations, behaviour, attitudes, intentions, emotions, demographics and such other variables. The questions are asked via direct face to face contact, post, telephone or internet. The responses are recorded in a structured, precise manner. In most cases, for conducting survey research, research problems or opportunities are well defined and there is agreement in the precise data requirement between manager and the researcher.

The survey method is popular for various reasons. One of the major reasons is that data collection is a function of correctly designing and administering the survey instrument (i.e. a questionnaire). This means survey methods rely less on communication, moderation and interpretation skills of the researcher. Survey research allows the researcher to create information for precisely answering who, what, how, where and when questions relating to

the marketplace. Furthermore, survey methods have ability to accommodate large sample size and therefore increase generalizability of results. While exploratory designs provide a detailed picture, due to various biases involved with regard to interviewer (moderator) communication and interpretation, details mentioned by the respondent may get skewed. In case of survey methods researcher can easily distinguish small differences. Furthermore, researcher can easily adopt robust advance statistical methods on collected data for gaining results. Such advantages make survey methods quite popular. While survey methods provide several advantages, they are not without limitations. These limitations stem mostly from instrument development, respondent errors and response bias. Developing accurate survey instruments is a difficult task and at times is time consuming. Furthermore, due to instrument measurement being structured in nature, in-depth and detailed data structures as gathered in exploratory research cannot be collected. One of the major problems with survey methods is to determine whether the respondents are responding truthfully or not. There is little cross-checking and flexibility available in comparison to exploratory designs. There is also a possibility of misinterpretations of data results and employment of inappropriate statistical analysis procedure.

Behavioral research focuses on data from customer buying behaviour e. g. scanning data, catalogue purchases, and customer databases. Marketers can learn much by analysing these data. Actual purchases reflect consumers' preferences and often are more reliable than statements they offer to market researchers.

Experimentation as a technique is generally used when conducting causal research. There are two kinds of experimentation techniques available to researchers namely (a) **laboratory experiment** and (b) **field experiment**. A laboratory experiment is one in which a researcher creates a situation with the desired conditions and then manipulates some while controlling other variables. The researcher is consequently able to observe and measure the effect of the manipulation of the independent variables on the dependent variable or variables in a situation in which the impact of other relevant factors is minimized. A field experiment on the other hand is a research study in a realistic or natural

situation, although it too, involves the manipulation of one or more independent variables under as carefully controlled conditions as the situation will permit. As it can be seen from above discussion, that both techniques provide a degree of control and manipulation, the major distinction between these two experiment techniques is the environment. A specially designed laboratory experiment (artificial situation) provides more control however; it might not be able to replicate the natural behaviour completely. Data collected through experimentation can provide much stronger evidence of cause and effect than can data collected through descriptive research. While experimentation is a robust technique to find causation and assist manager in decision making there are several limitation associated with it. These limitation mostly concern with the time involved in experimentation, costs and administration difficulties. Descriptive designs in comparison are less time consuming, less costly and easy to administer. These advantages have made descriptive designs more popular in comparison to causal designs.

- *Research Instruments*
  Marketing researchers have a choice of basically three main research instruments in collecting primary data: questionnaires, qualitative measures, and technological devices.

  A **questionnaire** is a formalized set of questions involving one or more measurement scales designed to collect specified primary data. A questionnaire is characterized by two main objectives. First, it must convert the information required by managers in a format of questions. Second, the questions asked must be created in a format in which respondent will understand it and be willing to answer them. The first objective poses a tough challenge to researchers in converting management dilemma into a researchable questionnaire which respondents will be willing to answer. The second objective requires researcher to build a questionnaire in a format that will encourage and motivate the respondents in becoming involved and complete the interviewing process.

  In recent years, **qualitative research** has come to refer to selected research methods used in exploratory research designs. One of the major aims of qualitative research is to gain preliminary insights into decision problems and opportunities. This technique

of data collection focuses on collection of data from a relatively small number of respondents by asking questions and observing behaviour. In qualitative research most questions are open-ended in nature. Advantages of qualitative methods include: economic and timely data collection; rich data; accuracy of recording market behaviour; and preliminary insights. On the other hand, disadvantages of qualitative methods include: lack of generalizability, reliability and validity.

There has been much interest in recent years in various **technological devices**. Technology has advanced to such a degree that marketers can use devices such as skin sensors, brain wave scanners, and full body scanners to get customer responses.

- *Sampling Plan*

  After deciding on the research approach and instruments, the marketing researcher must design a sampling plan. This calls for three decisions:

  Sampling unit: Whom should the company survey?

  Sample size: How many people should the company survey?

  Sampling procedure: How should the company choose the respondents

- *Contact Methods*

  Now the marketing researcher must decide how to contact the subjects: by mail, by telephone, in person, or online.

Step 3: Collect the Information

The data collection phase of marketing research is generally the most expensive and the most prone to error. Marketers may conduct surveys in homes, over the phone, via the Internet, or at a central interviewing location like a shopping mall.

Step 4: Analyse the Information

The next step is to extract findings by tabulating the data and developing summary measures. The researchers now compute averages and measures of dispersion for the major variables and apply statistical techniques and decision models. They may test different hypotheses and theories, applying sensitive analysis to test assumptions and the strength of the conclusions.

Step 5: Present the Findings

The presentation has become an integral part of most marketing research projects. Most managers are finding it hard to read the entire report and so prefer the researcher to present the report in an oral presentation. Furthermore, the presentation provides an opportunity for the research and management team to interact the issues of concern and in that way it becomes an important exercise. For any presentation, the most important aspect is preparation. Researcher should first develop an outline of the presentation keeping the audience in mind. Once the outline is developed, the researcher should focus on the content management and decide as to what is relevant and important and what is not. Use of various audio-visual aids as well as other materials such as chalkboards or flipcharts should be planned out in advance. While audio-visual presentation adds to the overall engagement, chalkboards and flipcharts provide flexibility in presentation.

Step 6: Make the Decision

Finally, you have to weigh the evidence and make an appropriate marketing decision. Some enterprises use marketing decision support systems (MDSS) to help their marketing managers make better decisions.

3.1.3 Customer Buying Behaviour

Customer buying behaviour refers to the buying behaviour of final consumers—individuals and households who buy goods and services for personal consumption. All of these final consumers combine to make up the consumer market (Kotler and Armstrong 2012). Organizational buying, on the other hand, focuses on the purchase of products and services for use in an organization's activities. Sometimes, it is difficult to classify a product as either a consumer or an organizational good. Cars, for example sell to customers for personal consumption and organizations for use in carrying out their activities e.g. to provide transport for a sales executive. For both types of buyer, an understanding of customers can be gained by answering the following questions (Jobber 2013):

- Who is important in the buying decision
- How do they buy?
- What are their choice criteria?
- Where do they buy?
- When do they buy?

Buyer behaviour as it relates to customers will now be examined based upon the first three questions as these are often the most intractable aspects of buyer behaviour.

Who Is Important in the Buying Decision?

Consumers around the world vary vastly in age, income, education level, and tastes. They can also buy an enormous variety of goods and services. How these diverse customers connect with each other and with other elements of their surroundings impacts their choices among products, services and companies (Kotler and Armstrong 2012).

The marketing implications of understanding who buys mainly lie within the areas of marketing communications and segmentation. An identification of the roles played within the buying centre is a prerequisite for targeting effective communications.

The person, who actually uses or consumes the product, may not be the most influential member of the buying centre, nor the decision-maker. Even when the user does play the predominant role, communication with other members of the buying centre can be useful when their knowledge may function as persuasive forces during the decision-making process. The second implication is that the changing roles and influences within the family buying centre are providing new opportunities to segment hitherto stable markets (Hollensen and Opresnik 2010).

How Do They Buy?

The central question for marketers is: How do customers respond to various marketing efforts of the company? The company actively has a strong role to play in designing and providing appropriate stimulation to the purchase decisions.

The customer buying process is a dynamic interaction between the consumer and the environment. The consumer actively participates in the process by searching for information on alternatives available, by

providing evaluations of products and services, and by expressions of risk.

In this process you also play an active role by manipulating the variables under your control. You modify the marketing mix to accommodate the demands expressed by consumers. The more successful you are in matching your marketing mix with expressed and latent demands in the market, the greater is the possibility that consumers will patronize your company's products now and in the future. Consumer behaviour is determined by a host of variables studied in different disciplines.

Consumer behaviour may be described with the help of the **stimulus-organisms-response model (S-O-R model)** as a relationship between a stimulus of some sort, such as a new product, the way information about the innovation is processed by the consumer, and the response the consumer makes having evaluated the alternatives (Hollensen and Opresnik 2010) (Fig. 3.2).

The stimulus is driven by the range of elements in the marketing mix, which the company can manipulate to achieve its corporate objectives. These stimuli derive from the product or service itself, or from the marketing programme developed by the company to support its products and services. A number of symbolic stimuli

Fig. 3.2 The S-O-R model. *Source*: Based on Hollensen and Opresnik (2010), p. 76

derive from the use of media such as television. Stimuli also include many of the conditioning variables like cultural and social influences on consumer behaviour and the role of reference groups.

Process (or organisms) refers to the sequence of stages used in the internal process of these influences by the customer. This sequence highlights the cause-and-effect relationships involved in making decisions. The process include the perceptual, physiological and inner feelings and dispositions of consumers towards the product or service being evaluated.

The third component refers to the consumer's response in terms of changes in behaviour, awareness and attention, brand comprehension, attitudes, intentions and actual purchase. This response may indicate a change in the consumer's psychological reaction to the product or service. As a result of some change in a stimulus, the consumer may be better disposed to the product, have formed a better attitude towards it, or believe it can solve a particular consumption-related problem. Alternatively, the response may be in the form of an actual change in purchasing activity. The consumer may switch from one brand to another or from one product category to another. Consumer responses may also take the form of a change in consumption practices, whereby the pattern of consumer behaviour is changed. Supermarkets frequently offer incentives to get people to shop during slack periods of the week, which involves a change in shopping practice (Hollensen and Opresnik 2010).

A key determinant of the extent to which consumers evaluate a brand is their level of involvement. Different buyers may engage in different types of decision-making processes depending on how highly involved they are with the product. **High-involvement products** for one buyer may be a **low-involvement products** for another.

The level of involvement with any product depends on its perceived importance to the consumer's self-image. High-involvement products tend to be tied to self-image, whereas low-involvement products are not. A middle-aged consumer who feels (and wants to look) youthful may invest a great deal of time in her decision to buy a sport-utility vehicle instead of a station wagon. When purchasing an ordinary light bulb, however, she buys almost without thinking, because the purchase has nothing to do with self-image.

This distinction between high- and low-involvement products and situations implies different evaluation processes. For high-involvement purchases the **Fishbein and Ajzen theory of reasoned action** can be used to explain purchase behaviour, while in low-involvement situations work by **Ehrenberg and Goodhart model** can clarify the buying process.

The model of Fishbein and Ajzen suggests that an attitude towards a brand is based upon a set of beliefs about the brand's attributes. These are the perceived consequences resulting from purchasing the brand. Those attributes which are rated highly will make up the customer's choice criteria and have a substantial influence in the formation of an attitude. An attitude is the degree to which a customer likes or dislikes the brand. The link between beliefs and attitudes is shown in Fig. 3.3.

However, external influences are also important as individuals will evaluate the extent to which important stakeholders believe that they should or should not buy the product. These beliefs may be in conflict with their personal beliefs. People, for example, may personally believe that buying a sports car may have positive consequences (e.g. being more attractive to other people) but refrain from buying the product if they believe that important stakeholders (e.g. parents)

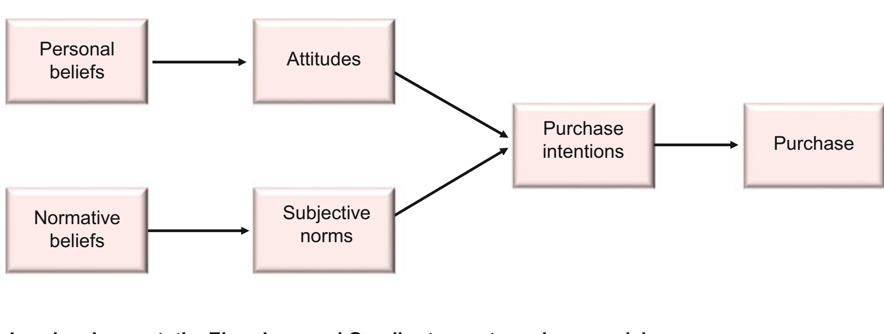

Fig. 3.3 Evaluation and purchase models. *Source*: Based on Hollensen and Opresnik (2010), p. 78

would disapprove of the purchase. This collection of so-called normative beliefs forms an overall evaluation of the degree to which these outside influences approve or disapprove of the purchase (subjective norms). Within this theory of reasoned action customers are highly involved in the purchase to the extent that they evaluate the consequences of the purchase and how others will perceive it. Only after these considerations have taken place does the purchase intention and the ultimate purchase result (Hollensen and Opresnik 2010).

The Ehrenberg and Goodhart model suggests that in low-involvement situations the amount of information processing implicit in the earlier model may not be worthwhile. A typical low-involvement situation is the repeat-purchase of fast-moving consumer goods. According to this model, awareness precedes trial, which, if satisfactory, leads to repeat purchasing behaviour. The behaviour becomes habitual with little conscious thought and consideration preceding the behaviour (Hollensen and Opresnik 2010).

Distinguishing between high- and low-involvement situations is paramount because the variations in how customers evaluate products and brands lead to different marketing implications. Within high-involvement situations marketing managers need to provide a great deal of information about the satisfactory consequences of buying. Messages of high information content are important to enhance brand knowledge; because the consumer is actively seeking information, high levels of repetition are not necessary.

In low-involvement situations it is vital to gain top-of-mind awareness through advertisement and providing positive reinforcement (e.g. through sales promotion) to achieve trial. As the customer is not actively seeking information advertising messages should be short with a small number of key aspects but with high repetition to enhance learning and stimulate purchase and repeat purchase (Hollensen and Opresnik 2010).

What Are Their Choice Criteria?

Choice criteria are the different attributes and benefits a customer uses when evaluating products and services. Different members of the buying centre may have different choice criteria. Moreover, choice criteria can change over time due to changes in income through the family life cycle. Types of choice criteria include technical, economic, social and personal (Jobber 2013):

- **Technical criteria** are related to the performance of the product or service, and include reliability, durability, taste, and convenience.
- **Economic criteria concern** the cost aspects of purchase and include value for money, price, and residual values.
- **Social criteria** refer to the impact that the purchase makes on the customer's perceived relationship with other people, and the influence of social norms on the person.
- **Personal criteria** concern how the product or service relates to the individual psychologically and includes self-image and risk reduction.

3.2 SWOT

In any attempt to determine a strategy you need to start by gathering and analyzing all of the necessary information. Given the much-cited flood of information with which we are faced, this is something of a never-ending task: the Internet, libraries, corporate PR departments, and a flood of internal documents quickly cause you to lose track and forget what you were really looking for in the first place. The frame of reference constituted by the SWOT analysis represents the basic analytical framework for market analysis. It was developed in the 1960s at Harvard Business School, and today Henry Mintzberg (1994) sees "*... SWOT as underlying all attempts to formalize the strategy making process*."

This frame of reference breaks down the available information into four areas: **S**trengths, **W**eaknesses, **O**pportunities, and **T**hreats. According to this, a strategy is the result of the opportunities and threats of the technological and economic environment and the strengths and weaknesses of the company. Whereas the strengths and weaknesses constitute the internal analysis of the company, the opportunities and threats represent the external analysis of the relevant market. The **concept of relevance** is important here: it's a question of defining the market that is relevant to you from a material, geographic, and temporal perspective to enable you to develop your strategy. The following example illustrates the point: your local baker does not compete with a local baker from another city—they have no geographically relevant common market. And his bread rolls are not

in direct competition with the local butcher's sausages, even though both are foodstuffs—they have no materially relevant common market.

In the first instance, you as a practitioner are therefore required to do no more than sort all of the information gathered into these four areas. The deeper analysis and interpretation is done later with other tools that draw on this preliminary work.

You should bear in mind that the **SWOT** analysis remains highly abstract in practice, since its findings are purely descriptive and it **does not make any recommendations** or set any priorities. Nor does it need to; its job is merely to present a structured, and therefore reusable, depiction of the situation for which a decision is required.

The example in Fig. 3.4 illustrates the point: a recently founded company produces a quality luxury product and is faced with growing demand. It is unable to satisfy this demand due to missing global distribution channels. The threat is that Asian manufacturers produce cheaper product versions, which would put pressure on volumes and prices. This sample situation, effectively reduced to four pieces of information, demonstrates the potential of the SWOT analysis: the structure is there, but there is nothing to help make a decision. Whether the company should expand globally, running the risk of new competitors causing price pressure, or keep its capacity tight,

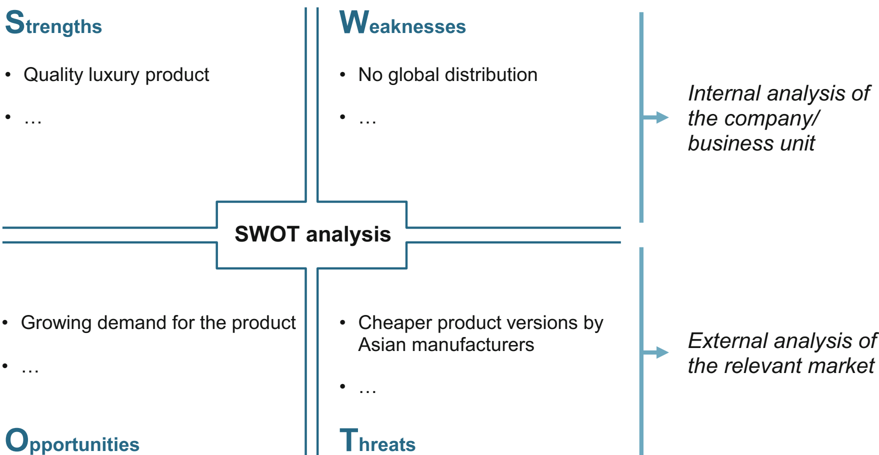

Fig. 3.4 Sample SWOT analysis

with the danger of customers switching to other manufacturers, is a decision that can only be made with the help of additional tools. However, structuring countless pieces of information at the same level of abstraction is only the first, albeit very important, step in understanding and describing the complex situation in rough.

When you apply this method in practice, it is essential to bear the following points in mind, otherwise the frames of reference for strategic planning cannot be applied or exploited to the full—this is definitely a case in which thoroughness takes precedence over speed:

- Keep the statements descriptive. It is very hard to avoid jumping straight to interpretation when you are condensing all of the information down to a few points, but such evaluation should be left to the tools at the perspective level.
- Certain points cannot always be assigned unambiguously. A statement saying that 30 % of US households have a broadband connection could be an opportunity (70 % market potential remaining) or a threat (limited acceptance). Since you should not be interpreting the points during the SWOT analysis, you need to list the statement as both an opportunity and a threat.
- Concentrate on information for the external analysis. Most companies remain on the level of internal analysis, taking an inside-out perspective, because there are naturally a lot of internal documents available on this aspect, and every employee has an opinion on the company's strengths and weaknesses. The act of gathering external information on the market through anything other than the online channel is regularly less than successful: the people tasked with the job are often afraid to call competitors, industry associations, or other entities under a clever pretense (such as researching for an academic paper) to ask for information that is not in the public domain. Yet this is the very information that determines the quality of an external analysis.
- Keep a sharp distinction between internal and external analysis. Many practitioners will let themselves be taken in by the obvious notion that weaknesses also represent opportunities, and will thus mix internal and external points. This must not be allowed to happen—"external" really does mean the pure market perspective.

3.3 PEST

A marketing-oriented company continually analyses the environment in which it operates. At the simplest, the whole marketing system can be divided into three levels (Hollensen and Opresnik 2010):

- **The focal company**: Understanding and analysing the internal situation was dealt with already within this chapter
- **Industry level/value net/micro level**: The focal company's most important actors/stakeholders at this level are suppliers, partners/complementors, competitors and of course the customers.
- **Macro level**: The most important changes taking place in the macro environment can be summarized in the so-called PEST analysis:
  - P: Political and legal factors
  - E: Economic factors
  - S: Social/cultural factors
  - T: Technological factors

The macro environment consists of a number of broad forces that influence not only the company but also the other stakeholders and actors in the **micro-environment**.

Traditionally, four forces—political/legal, economic, social/cultural and technological—have been the focus of attention, with the result that the term PEST analysis has been used to describe the **macro-environmental** analysis (Hollensen and Opresnik 2010):

- *Political and Legal Factors*
  The political environment consists of laws, government agencies, and pressure groups that influence and limit various companies and individuals in a given society. Political and legal forces can highly influence marketing decisions by setting the rules by which business can be conducted (Kotler and Armstrong 2012). For example, smoking bans in public places do have substantial effects on the demand for cigarettes.
- *Economic Factors*
  The economic environment consists of factors that affect consumer buying power and spending patterns. Nations vary vastly in their levels and distribution of income and rates of economic growth.

- *Social/Cultural Factors*
  The social and cultural environment is made up of institutions and other forces that affect a society's basic values, perceptions, preferences, behaviours as well as population growth, age distribution and other elements, which in turn can affect marketing decision making.
- *Technological Factors*
  The technological environment involves forces that create new technologies, generating new product and market opportunities. It is perhaps the most dramatic force now shaping company's future. The latter part of the twentieth century saw technological change and development impact on virtually every industry.

3.4 Value Chain

Michael Porter's work is the key reference on value chains and value configuration analysis for competitive advantage.

As a company you are concerned with creating value for your customers. Value chains are created by transforming a set of inputs into more refined outputs. The strategic challenges associated with managing a value chain are related to manufacturing products with the right quality at the lowest possible cost. The ways to reduce costs—or increase value—are primarily found through economies of scale, efficient capacity utilisation, learning effects, product and information flows, and quality measures. Critical drivers of value creation in chains also include the interrelationships between primary activities, on the one hand, and product development, marketing and service, i.e. support activities, on the other hand.

The firm's **value chain** as shown in Fig. 3.5 provides a systematic means of displaying and categorising activities. The activities performed by a firm in any industry can be grouped into the some generic categories.

Figure 3.5 also integrates your suppliers and your customers in the overall supply chain.

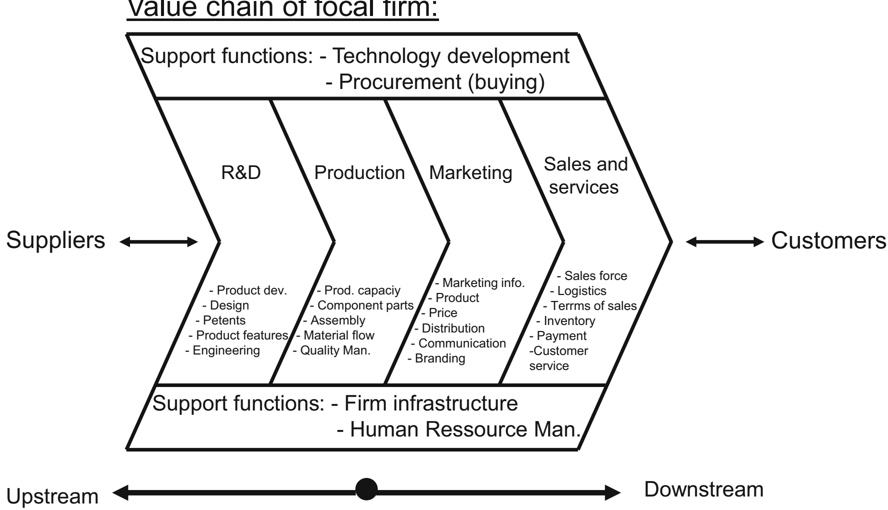

Fig. 3.5 The value chain. *Source*: Based on Hollensen (2014), p. 34

At each stage of the value chain there exists an opportunity to contribute positively to the firm's competitive strategy by performing some activity or process in a way that is better than the competitors, and so providing some uniqueness or advantage. If a firm attains such a competitive advantage that is sustainable, defensible, profitable and valued by the market, then it may earn high rates of return, even though the industry may be unfavourable and the average profitability of the industry modest.

In competitive terms, value is the amount that buyers are *willing to pay for what a firm provides them (perceived value)* less the sacrifices that the customers offer to obtain access to the value (e.g. money, time). A firm is profitable if the value it commands exceeds the costs involved in creating the product. According to the 'formula' in Fig. 3.6, it is implied that customer perceived value should be higher than 1.

With other words: Customer Perceived Value (CPV) can be understood as the relationship between what level of value the customer gets, compared to what he gives (sacrifices), in order to get the value.

Further explanation for using Fig. 3.6 in your business planning:

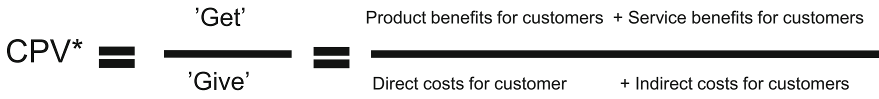

Fig. 3.6 Customer perceived value

Product benefits for customer:

- Meeting customer requirements
- Flexibility to meet changing customer needs
- Fitness for use
- Improved efficiency in operation
- Better profitability
- Branding (trust in the brand, it provides 'safe' use, the product signals quality)
- Technical superior product
- Sustainable product solution ('Green' profile/CSR)
- Elimination of waste

Service benefits for customer:

- Product service and support
- Customer support
- BDA-service (Before, During and After the actual buying of the product solution)
- Short lead time

Direct (monetary) costs for customer:

- Price of product (paid to the supplier)
- Life-time costs (including financing)
- Quality assurance
- Spare part costs

Indirect costs for customer (customer participation in achieving the benefits):

- Conversation/Negotiation with the supplier (transaction costs)
- Internal costs (administration etc. in order to get the product to work)

- Long lead time from suppliers resulting in necessary increased inventory of materials and final products
- Service costs
- Installation costs

Creating value for buyers that exceeds the cost of doing so is the goal of any generic strategy. Value, instead of cost, must be used in analysing competitive position, since firms often deliberately raise their costs in order to command a premium price via differentiation. The concept of buyers' perceived value will be discussed further in this chapter.

The value chain displays total value and consists of value activities and margin. Value activities are the physically and technologically distinct activities that a firm performs. These are the building blocks by which a firm creates a product that is valuable to its buyers. Margin is the difference between total value (price) and the collective cost of performing the value activities.

Competitive advantage is a function of either providing comparable buyer value more efficiently than competitors (lower cost), or performing activities at comparable cost but in unique ways that create more customer value than the competitors are able to offer and, hence, command a premium price (differentiation). The firm might be able to identify elements of the value chain that are not worth the costs. These can then be unbundled and produced outside the firm (outsourced) at a lower price.

Value activities can be divided into two broad types: *primary activities* and *support activities*. Primary activities are the activities involved in the physical creation of the product, its sale and transfer to the buyer, and after-sales assistance. In any firm, primary activities can be divided into the five generic categories. Support activities support the primary activities and each other by providing purchased inputs, technology, human resources and various firm-wide functions.

Primary Activities. The primary activities of the organisation are grouped into five main areas: inbound logistics, operations, outbound logistics, marketing and sales, and service.

1. Inbound logistics are the activities concerned with receiving, storing and distributing the inputs to the product/service. These include materials, handling, stock control, transport, etc.
2. Operations transform these various inputs into the final product or service: machining, packaging, assembly, testing, etc.
3. Outbound logistics collect, store and distribute the product to customers. For tangible products this would involve warehousing, material handling, transport, etc.; in the case of services it may be more concerned with arrangements for bringing customers to the service if it is in a fixed location (e.g. sports events).
4. Marketing and sales provide the means whereby consumers/**users** are made aware of the product or service and are able to purchase it. This would include sales administration, **advertising**, selling, etc. In public services, communication networks, which help users access a particular service, are often important.
5. Services cover all the activities that enhance or maintain the value of a product or service, such as installation, repair, training and spare parts.

Each of these groups of primary activities is linked to support activities.

Support Activities. These can be divided into four areas.

1. *Procurement*: this refers to the process of acquiring the various resource inputs to the primary activities (not to the resources themselves). As such, it occurs in many parts of the organisation.
2. *Technology development*: all value activities have a 'technology', even if it is simply know-how. The key technologies may be concerned directly with the product (e.g. R&D, product design) or with processes (e.g. process development) or with a particular resource (e.g. raw material improvements).
3. *Human resource management*: this is a particularly important area that transcends all primary activities. It is concerned with the activities involved in recruiting, training, developing and rewarding people within the organisation.

4. *Infrastructure*: the systems of planning, finance, quality control, etc., are crucially important to an organisation's strategic capability in all primary activities. Infrastructure also consists of the structures and routines of the organisation that sustain its culture.

As indicated in Fig. 3.5, you should try and make between the production-oriented 'upstream' activities and the more marketing-oriented 'downstream' activities. This would especially be the case if you are a mass-production company like Beiersdorf (producing Nivea). In that case you would also partly be producing to stock. If you are a smaller 'Build-to-order' company, you would probably be producing directly for a specific customer, but in that case you sometimes should start with selling to a specific customer, before you actually develop and produce the product (or service). Anyway, a big challenge for most companies is to get a better connection between 'upstream' and 'downstream' activities, because each half of the value chain requires a different set of competences. 'Upstream' activities involve mostly engineers, whereas 'downstream' activities involve more marketers and economists. A key challenge for your company is to get engineers and marketers to work together about creating value for your customers.

3.4.1 From Value Chain to Value Net

As markets are getting more complex the value chain of the single firm cannot be seen independently from the value chains of other actors in the market

Strategic analysis should focus on the value-creating system itself within the different players—suppliers, business partners, customers and internal employees should work together to co-produce value.

Although value activities are the building blocks of competitive advantage, the value chain is not a collection of independent activities, but a system of interdependent activities. The value chains of different players are related to each other by linkages within the total industry. Linkages are relationships between the way in which one value activity is performed and the cost or performance of another.

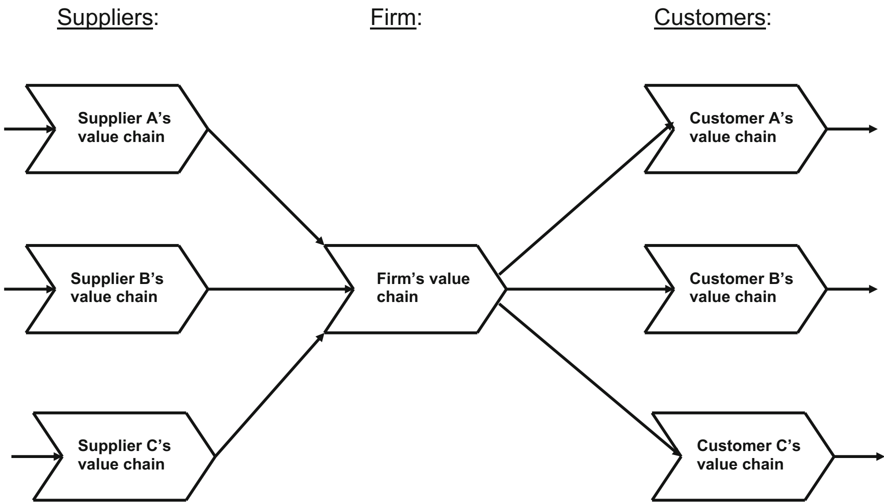

Fig. 3.7 The value net. *Source*: Based on Hollensen (2012), p. 18

In understanding the competitive advantage of an organisation, the strategic importance of the following types of linkage should be analysed in order to assess how they contribute to cost reduction or value added. There are two kinds of linkage:

- *Internal linkages* between activities within the same value chain, but perhaps on different planning levels within the firm.
- *External linkages* between different value chains 'owned' by the different players in the total value system.

The term value net is used to describe the 'chain' of different players' value chains and their relationships (see Fig. 3.7). In this connection information management is also important as a tool for coordinating information between the different players in the value chain.

3.4.2 The Competitive Triangle

Your success in the marketplace is dependent not only upon identifying and responding to customer needs, but also upon our ability to ensure that our response is judged by customers to be superior to that of competitors (i.e. high perceived value). The causes of difference in performance within a market can be analysed at

various levels. The immediate causes of differences in the performance of different firms can be reduced to two basic factors:

1. The *perceived value* of the product/services offered, compared to the perceived sacrifice.
2. The firm-related *costs* incurred in creating this perceived value.

In order to determine which company will win the competitive race in an industry these two factors should then be compared between the company itself and a strong competitor (Fig. 3.8).

The more value customers perceive in a market offering relative to competing offerings, and the lower the costs in producing the value relative to competing producers, the higher the relative performance of the focal company A, compared to competitor B. Hence firms producing offerings with a higher perceived value and/or lower

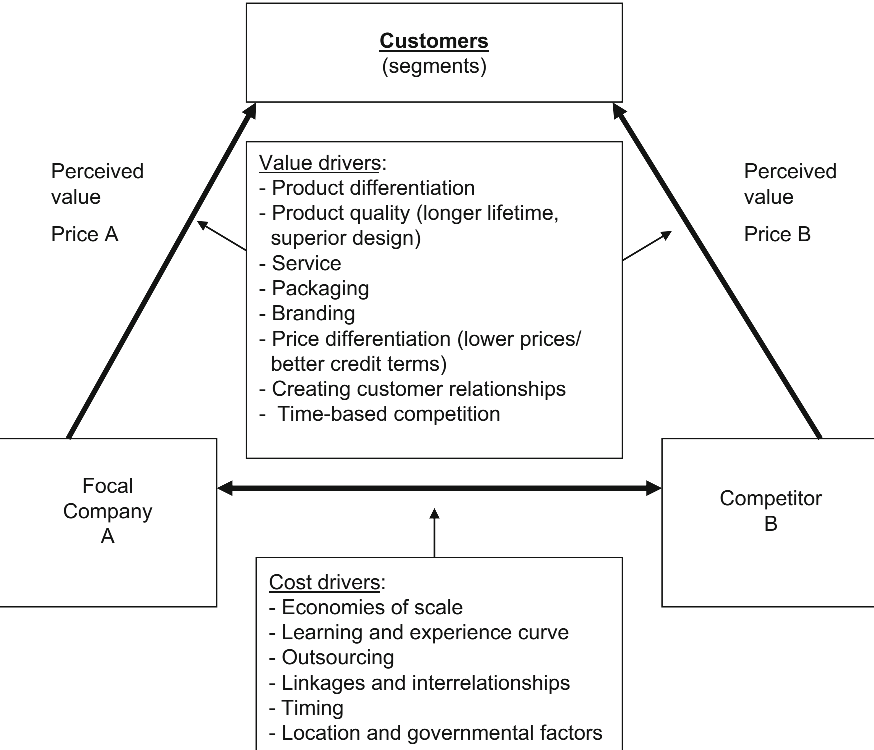

Fig. 3.8 Competitive triangle. *Source*: Based on Hollensen (2010), p. 66

relative costs than competing firms are said to have a competitive advantage in that market.

This can be illustrated by the '**competitive triangle**'. There is no one-dimensional measure of competitive advantage, and **perceived value** (compared to the price) and relative costs have to be assessed simultaneously. Given this two-dimensional nature of competitive advantage it will not always be clear which of the two companies will have a competitive advantage over the other.

While the relationship between perceived value, relative costs and performance is rather intricate, we can retain the basic statement that these two variables are the cornerstone of competitive advantage.

3.4.3 The Virtual Value Chain

The virtual value chain has extended the conventional value chain model, which treats information as a supporting element in the value-adding process.

Each of the physical value chain activities might make use of one or all four information processing stages of the virtual value chain, in order to create extra value for the customer. That is the reason for the horizontal double arrows (in Fig. 3.9) between the different physical and virtual value chain activities.

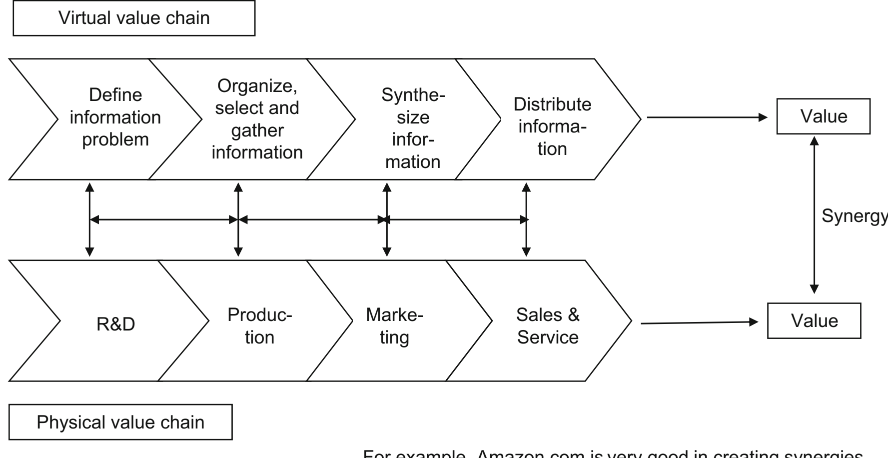

Fig. 3.9 The virtual value chain. *Source*: Based on Hollensen (2014), p. 40

In this way, information can be captured at all stages of the physical value chain. Obviously such information can be used to improve performance at each stage of the physical value chain and to coordinate across it. However, it can also be analysed and repackaged to build content-based products or to create a new line of business.

A company can use its information to reach out to other companies' customers or operations, thereby rearranging the value system of an industry. The result might be that traditional industry sector boundaries disappear. For example, the CEO of Amazon.com, Jeffrey P. Bezos, clearly sees his business as not bookselling, but the information-broker business.

4 Step 2: Strategic and Operative Marketing Planning—Segmenting, Targeting, Positioning

According to Fig. 2.4 we will provide you in this section on Marketing Planning with seven instruments, the first three being more strategic and the last four more operative.

4.1 Portfolio Analysis: Segmenting Your Markets

The portfolio analysis offers a perspective for the active evaluation and management of the existing portfolio. Thus it considers all of the group's strategic business/market segments and subsidiaries from the corporate perspective, evaluates all aspects of them, and takes this as a basis to plan the allocation of resources and, with it, the corporate strategy. It has its origins in Markowitz's financial portfolio analysis (1952), the aim of which is to achieve an optimal return. The objective of portfolio analysis is, therefore, to realize as high a return as possible while incurring as little risk as possible and to operate or establish such strategic business segments as are necessary to achieve this. The process turns the parent company into an investor with a medium to long-term orientation, holding individual shares or subsidiaries in its portfolio in line with its return/risk preferences in much the same way as a shareholder would do.

The analysis is mapped onto a portfolio matrix, which, in most cases, contrasts the strengths and weakness with the opportunities and threats. As such, all of the descriptive findings of the SWOT analysis flow directly into the portfolio matrix. Generally speaking, the matrix combines attributes that describe the strength of a market (and also the strength of the competition) with attributes that express the

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market's attractiveness to arrive at four (or more) generic strategies. With a strategic portfolio matrix you should always ensure that one of the axes depicts internal criteria while the other portrays external criteria. Only then are the attributes completely independent, and the whole of the portfolio matrix can be utilized or filled. Time and again, we come across portfolios that use mutually dependent axis criteria (namely both external or both internal attributes). The interdependency results in automatic regression—the portfolio matrix cannot fully be utilized and its strategic significance is dramatically impaired.

Bruce Henderson (1974, 1979, 1984) developed the best-known portfolio matrix, the BCG (Boston Consulting Group) matrix, in the late 1960s. **It is based on three theoretical fundamentals**, which afford it significant relevance at the strategic level (as long as those who use it are aware of these fundamentals).

Henderson studied the semiconductor industry in the U.S. in the course of his work. In the context of quantitative-empirical research, he discovered the following law, which we now know as the experience curve: each time the relative market share doubles, the relative costs decline by at least 20 %. The relative market share is calculated as a ratio consisting of a company's own market share and the market share of the biggest competitor—an increase in this ratio signifies a dramatic rise in the cumulative production volume and, thus, the emergence of learning effects in the conduct of business operations, which bring corresponding cost benefits. Since Henderson discovered the experience curve, it has been demonstrated in countless works pertaining to an extremely diverse range of industries, and as a result it now counts as a widely accepted economic law. Experience curve effects relate unit costs to cumulative volume; economies of scale relate unit costs to units of volume per unit of time. This is an important difference, because it means that experience curve effects are even available to small firms that have been active in the market a long time—for instance the local shoemaker. Economies of scale, on the other hand, can be experienced by large companies only—those that make better use of their production capacities, for instance. This, of course, means that these larger companies also feel experience curve effects. It represents the first theoretical fundamental of the BCG matrix. The attribute that the relative market share reflects in

this matrix is a company's market power, which equates to the internal analysis of strengths and weaknesses. The better a company's position here, the greater its cost and margin benefits, the greater its market power.

The second theoretical fundamental of the BCG matrix is the four-phase lifecycle concept: young markets grow very fast and thus demand substantial investment in research and development, in building up capacities, in branding, in human resources, and so on. Mature and saturated markets grow slower and tend to require lower investments to sustain the business. In the BCG matrix the growth of the market reflects the attractiveness of the relevant market as an attribute, which equates to the external analysis of opportunities and threats. According to this, young markets are theoretically more attractive, but they necessitate a great deal of investment, making them prone to risk as well.

The third and crucial theoretical fundamental of the BCG matrix is the use of free cashflow (FCF) as one of the target criteria in the portfolio. It is not profit but freely available liquid funds that need to be optimized: FCF is defined as cashflow less maintenance capex, and it represents the liquidity available in excess of that needed to operate the business in line with the market. This liquidity can be distributed in the form of dividends, for example, or used for diversification, acquisition, etc. In the BCG matrix, free cashflow is calculated by looking at the relative market share, which determines how much cash is freed up, and the growth of the market, which determines how much cash is consumed (in other words, maintenance capex).

A diversified company can use the BCG portfolio to analyze its portfolio of activities in great detail and to plan the allocation of investments to the most productive areas of business. The following standard matrix serves to illustrate the ensuing description (Fig. 4.1).

A **"Cash cow"** has a high relative market share in a mature market. This means it frees up more cash than it consumes. Accordingly, the company should hold this business segment in its current position by making maintenance investments so that the cash can be "harvested."

"Stars" also have a high relative market share but operate in a market that is still growing fast. Consequently, the amount of cash freed up is offset by the amount consumed. Companies should

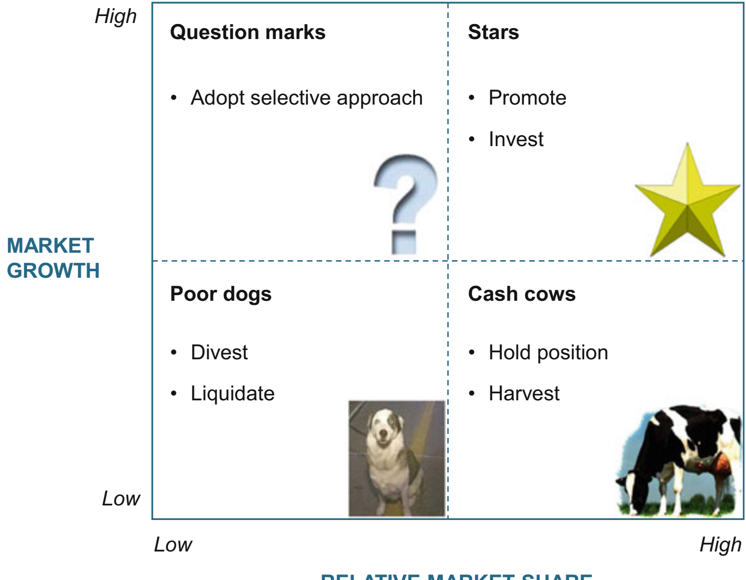

Fig. 4.1 The Boston Consulting Group portfolio matrix

definitely promote stars with the funds at their disposal because such investments can help stars become cash cows in time.

A high level of market growth means that business segments in the **"Question mark"** quadrant use up more cash than they can generate with their relatively low market share. A selective approach is called for with these businesses: depending on the future prospects, the division should either be promoted or divested. Question marks are, in any case, the areas in which the company must make a decision and take action the fastest, since they consume cash.

"Poor dogs" have a low relative market share in a mature market. Therefore, they neither consume nor free up much cash, and they also tie up management resources at the parent company or group level. The preferable course of action for these business units is thus to divest them, or sell them to other companies. If this is not possible, they should be liquidated, in other words closed down.

A company should have a balanced portfolio of markets. In order to achieve this, it needs to employ scoring models or direct measurement to assess where on the axes a business segment is positioned, between low and high. The coordinates determined on both axes

enable the firm to mark the division's position as a dot in the portfolio. Once all business units have been marked on the matrix, the portfolio of the company as a whole can be evaluated and developed. A balanced portfolio encompasses a few cash cows and strong stars as well as some question marks with potential, while also exhibiting a positive free cashflow overall. The cash cows release cash that can be used to promote the stars and question marks. The rest of the free cashflow can be put to good use promoting certain areas of the business more strongly or building up other high-potential business segments (mostly question marks).

Their respective lifecycles mean that all three types are needed for a portfolio to be balanced: cash cows tend to degenerate and stars become cash cows as their lifecycle progresses. And only question marks with potential can develop into stars over time. If a company has only cash cows, it will generate a lot of cash but will have no future-proof business activities—the firm should put the funds at its disposal to use creating a balanced portfolio by developing or acquiring question marks and stars. Dogs have no place in a balanced portfolio: even if they are cash-neutral, they tie up management capacity and can lead, among other things, to image problems for the parent company.

At a single glance, the portfolio matrix makes it possible to draw conclusions about a company's situation and to see in which segments action needs to be taken. If the company does not have a balanced portfolio for want of stars, it can formulate a corporate strategy by integrating considerations from Ansoff's product/market matrix: What horizontal strategy will balance the portfolio by creating question marks with potential or stars—or, to rephrase the question, "What set of businesses/markets should we compete in?"

4.2 Ansoff's Product/Market Matrix: Targeting Markets

Igor Ansoff (1957, 1965) first published his deliberations on the product/market matrix in 1957. In a bid to address the corporate strategy of the future, his approach delivers the perspective of growth options on the horizontal (group) level and introduces the possibility of diversification. The first starting point of Ansoff's deliberations

was the fact that companies need to grow fast in order to improve their position among the competition. The second starting point was the assumption that there could be uncertainties in the existing markets, which would mean that it might make sense, in the context of growth, to spread the risk (for instance if the markets are subject to seasonal cycles).

Building on these two notions and utilizing empirical data, Ansoff developed his generic product/market matrix. Based on the fundamental question, "Which products should be supplied in which markets?" this frame of reference depicts the four general growth options for a company's horizontal strategy. In order to substantiate this "set of businesses," a distinction is made between existing products and new products as well as existing markets and new markets (Fig. 4.2).

The box at top left describes the status quo at the company. In line with this frame of reference, it incorporates the four principal, horizontal growth options of market penetration, market development, product development, and diversification. All of the descriptive results of the SWOT analysis are needed here as the options are evaluated and a prospective corporate strategy developed. If, for

	Existing products	New products
Existing markets	***Market penetration*** Intensifying market development, relaunching products, imitation, cutting costs and prices, unbundling (Market leadership)	***Product development*** New products, new product lines, new services and/or problem and system solutions (Extending the value chain)
New markets	***Market development*** Expanding the market, new customer strata, new distribution channels, new uses for the products (Realizing economies of scale)	***Diversification*** New products for new markets – Vertical – Horizontal – Lateral (Additional mainstay, risk balancing)

Fig. 4.2 The product/market matrix

instance, there are virtually no opportunities in other markets and the company's in-house product expertise is limited, a strategy of **market penetration** through marketing would seem appropriate. This entails no expansion of business activities; instead the company should develop the status quo more intensively in order to attain or defend a position of market leadership through relaunches, price cuts, etc.

If, on the other hand, opportunities for the existing products in other markets are good, the group should **develop the market**. This generally involves penetrating new customer groups in the same geographic market, although it can also mean expanding the current market geographically. In either case, the group supplies its existing products in these new markets, for instance by establishing or buying a foreign subsidiary. The objective is to realize scale economies by achieving better utilization of existing production capacities through market extension and the acquisition of new customer strata, and by bringing fixed costs down as a result.

Where the opportunities in other markets are not good but the in-house product expertise can be expanded, the company should pursue a strategy of **product development**: offering existing customers or geographic markets either a brand-new set of products (generally achieved by buying up a subsidiary) or new product lines or system solutions building on the current product and service spectrum. With this strategy, growth centers on extending the value chain, in other words on upstream or downstream integration.

If the SWOT analysis shows that the company faces substantial threats to its existing businesses (for instance seasonal or cyclic fluctuations), **diversification** may be a suitable growth strategy. Here, the aim is to offset the threats present in the current markets by establishing an additional mainstay of the business to balance the risk at the group level. Lateral diversification entails a complete departure from any prior expertise, with the company supplying brand-new products in brand-new markets. The above-mentioned conglomerates are examples of companies that follow this principle: a fridge and a power plant have nothing in common on the product or the market side—except the parent company.

Self-evidently, any synergies within a group's existing business diminish the further the strategy moves away from the status quo. With lateral diversification, there is no synergy between the

businesses, so the success of this strategy is much more risky—but on the other hand, it is the best way of spreading the risk. What this means for conglomerates is that they must manage their individual subsidiaries very strictly, since there is no mutual support between them. General Electric, for instance, lives this principle by stipulating that any subsidiary is only kept in the portfolio if it is sustainably the number one or the number two in the market. Where this is not (or no longer) the case, the subsidiary is divested. This strategy of market leadership on the part of all of its subsidiaries is what made the General Electric conglomerate one of the five most valuable companies in the world and is indeed what keeps it in a top position.

4.3 Porter's Five Forces: Positioning Within Your Markets

Positioning demands that individual companies take a good look at markets, choose the ones that offer the best returns and position themselves within accordingly. Based on these thoughts, Michael Porter presents this process of selection in a structured manner in his "five forces" approach in the interest of showing companies exactly what positioning options and strategies are open to them in the context of the opportunities and threats present in a given market.

Porter (1980, 1991) takes competitive intensity as a criterion and applies it to five fundamental competitive forces that shape the market and its environment. The more intense the combined competitive strength in these areas of an industry, the lower the potential for profit (and vice-versa). The five forces are:

- **Rivalry among existing competitors**
- **Bargaining power of suppliers**
- **Bargaining power of buyers**
- **Threat of new entrants**
- **Threat of substitute products**

With the aid of these forces, a company can perfectly structure and analyze its value chain and its external environment or potential market. Figure 4.3 (Hutzschenreuter 2001) illustrates Porter's typical

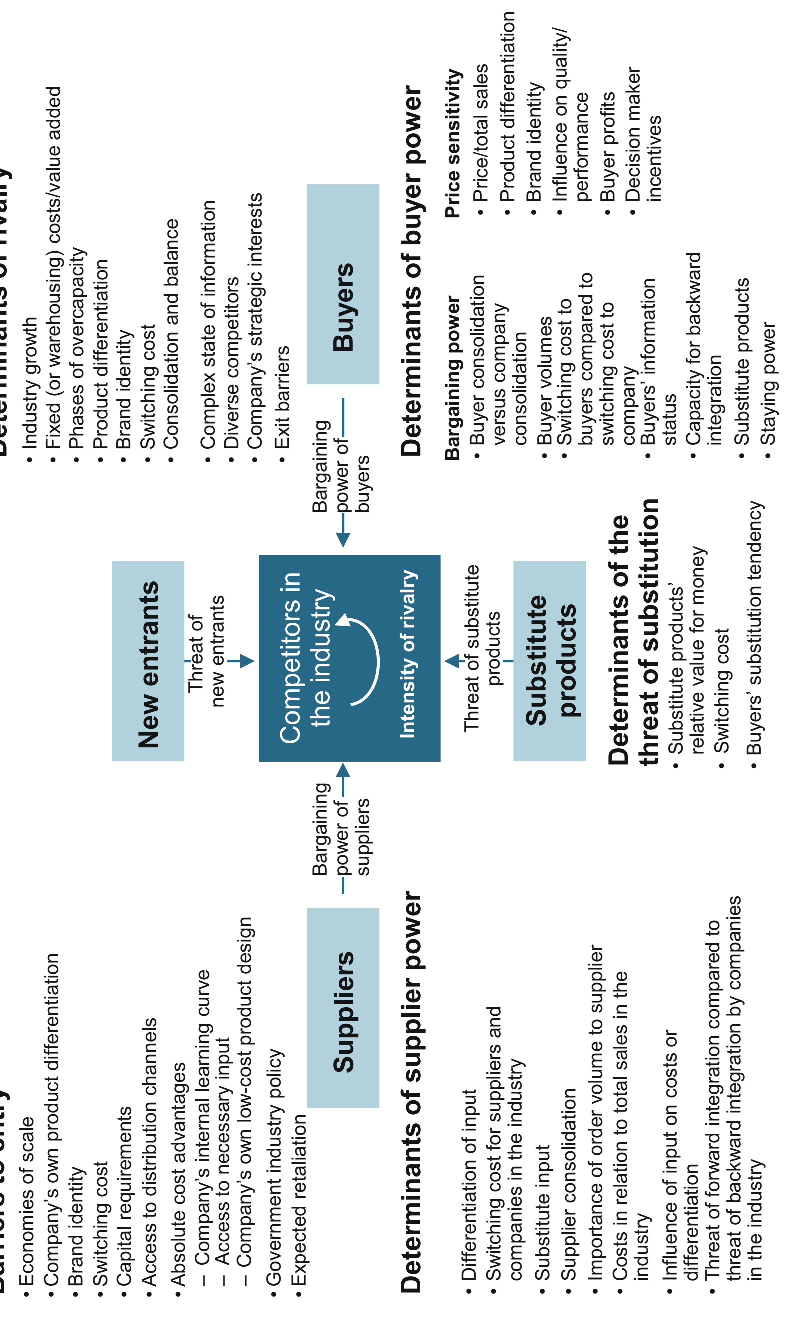

Fig. 4.3 Porter's five forces model for analyzing an industry's structure

presentation of the model and also depicts the key determinants or criteria that can be used to analyze and evaluate competitive intensity.

The descriptive results concerning the external opportunities and threats as identified in the SWOT analysis are applied to the five forces using Porter's system in order to evaluate the intensity of the competition. This involves individually examining and conducting a qualitative assessment of the separate determinants or criteria by placing them in relation to one another with statements in the form of "The [more/less] . . ., the . . .." Below are a few examples for the different quadrants:

- The stronger the industry growth, the lower the competition and the competitive intensity.
- The lower the capital requirements, the greater the market entry opportunities and the competitive intensity.
- The greater the supplier concentration, the greater the supplier dependency and the competitive intensity.
- The lower the customer volume, the lower the customer dependency and the competitive intensity.
- The higher the switching costs, the lower the threat of substitution and the lower the competitive intensity.

As many of the determinants as possible should be examined and evaluated using this method. The information from the SWOT analysis is not always available in a comprehensive form, so it may not be possible to use certain criteria. Having carried out the evaluation, the company will know which areas and forces drive the competition in particular and how high the competitive forces and therefore the profit potential in the industry is overall.

If the company decides, on the basis of this potential, to remain in or to enter an industry, it can use the individual determinants to identify which competitive advantages are necessary in the industry concerned. Porter also refers to this as competitive strategy and offers two alternatives: in the defensive alternative, the company's establishment of the necessary competitive advantages enables it to find a position in the existing market in which it can shield itself optimally against the competitive forces. In the offensive alternative, however, the firm attempts to influence the balance of forces in the existing market or to exploit a change in the competitive fundamentals to create new competitive advantages for the industry and to establish itself there.

In the interest of enabling firms to successfully grapple with the five competitive forces and implement a competitive strategy, Porter cites three generic strategy types for both alternatives. According to these, companies should strive for a position in the market either through cost leadership, through differentiation, or by focusing on niches in the market. A strategy between cost leadership and differentiation is stuck in the middle and cannot be successful in the long run.

4.4 Traditional 4Ps Marketing Mix

In this section of the book, we will consider strategic decisions concerned with planning and implementing elements of the marketing mix for consumer products as well as services.

The **traditional marketing mix**, consisting of **4 Ps**; product, price, promotion and place, was developed for products rather than services thus it does not take the unique characteristics of services into account. In the following, we will start describing the classic and traditional marketing mix before we will afterwards turn to the extended 7 P's-framework for marketing services.

4.4.1 Product Decisions

Essentially, a **product** can be defined as anything that can be offered to a customer for attention, acquisition, use, or consumption and that might satisfy a want or need. Product is a core element in the marketing mix as it provides the functional requirements sought by customers. Careful management of the product offering is essential if your company is to produce the desired responses from customers but the product is only part of the story. In an age of intense competition where it is of critical importance to differentiate one's offerings from competitors.

In creating an acceptable product offer for international markets, it is necessary to examine first what contributes to the "total" product offer. In the product dimensions we include not just the core physical properties, but also additional elements such as packaging, branding and after-sales service that make up the total package for the purchaser. We can look at three levels of a product (Hollensen and Opresnik 2010):

- **Core product benefits**: Functional features, performance, perceived value, image and technology.
- **Product attributes**: Brand name, design, packaging, price, size, colour variants, country of origin.
- **Support services**: Delivery, installation, guarantees, after-sales service (repair and maintenance), spare part services.

Product differentiation seeks to increase the value of the product or service on offer to the customer. Products and services can be seen on at least four main levels which we shall quickly summarize to add comprehensiveness in the framework of product policy. These levels are the core product, the expected product, the augmented product and the potential product. Figure 4.4 shows these levels. Differentiation is possible in all these respects.

At the centre of the model is the core, or generic, product. This is the central product or service offered. The **core benefit** addresses the following question: What is the buyer really buying? When designing products, marketers must first define the core, problem-solving benefits or services that consumer want.

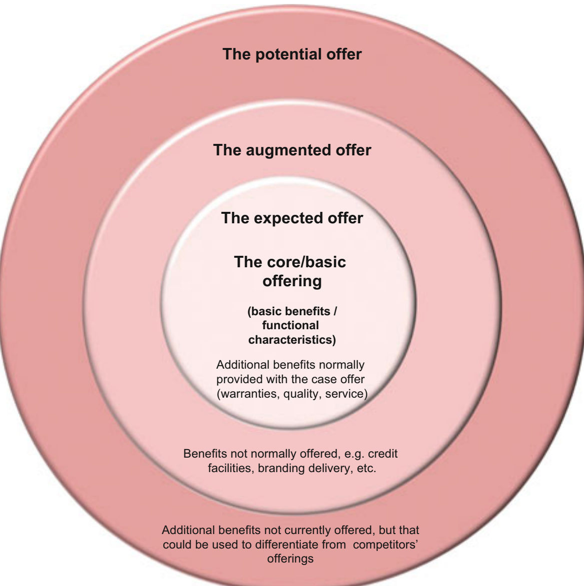

Fig. 4.4 Different product levels. *Source*: Based on Hollensen and Opresnik (2010), p. 174

Beyond the generic product, however, is what customers expect in addition, the **expected product**. When buying petrol, for example, customers expect the possibility of paying by credit card, the availability of screen wash facilities, and so on. Since most petrol forecourts meet these expectations they do not serve to differentiate one supplier from another.

At the next level Levitt identifies the **augmented product**. This constitutes all the additional features and services that exceed customer expectations to convey added value and hence serve to differentiate the offer from that of competitors. Product planners must build an augmented product around the core benefit and expected product by offering additional customer services and benefits. The petrol station where one attendant fills the car with petrol while another cleans the windscreen, headlamps and mirrors, is going beyond what is expected. Over time, however, these means of distinguishing can become copied, routine, and ultimately merely part of what is expected.

Finally, the **potential product** can be described as all those further additional features and benefits that could be offered. At the petrol station these may include a free car wash with every fifth fill up. While the model shows the potential product bounded, in reality it is only bounded by the imagination and ingenuity of the supplier (Hollensen and Opresnik 2010).

The **key product decisions** include product design, core benefit and product periphery as Fig. 4.5 illustrates.

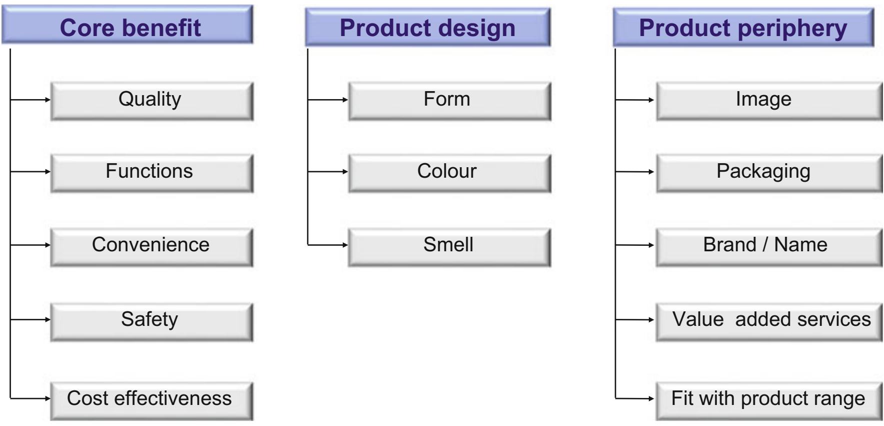

Fig. 4.5 Areas of product composition

Product Mix Decisions

An organization with several product lines has a product mix. A **product mix** (or **product assortment**) consist of all the product lines and items that a particular company markets. A company's product mix has four important dimensions: width, length, depth, and consistency (Hollensen and Opresnik 2010):

- **Product mix width** refers to the number of different product lines the company carries.
- **Product mix length** refers to the total number of items the firm carries within its product lines.
- **Product line depth** refers to the number of versions offered for each product in the line.
- Finally, the **consistency** of the product mix refers to how closely related the various product lines are in end use, production requirements, distribution channels, or some other way.

The Product Life Cycle

The concept of the **product life cycle (PLC)** provides useful inputs into making product decisions and formulating product strategies. The product life cycle visualizes the course of a product's sales and profits over its lifetime. It involves four distinct stages: introduction, growth, maturity and decline (see Fig. 4.6). Each stage is identified by

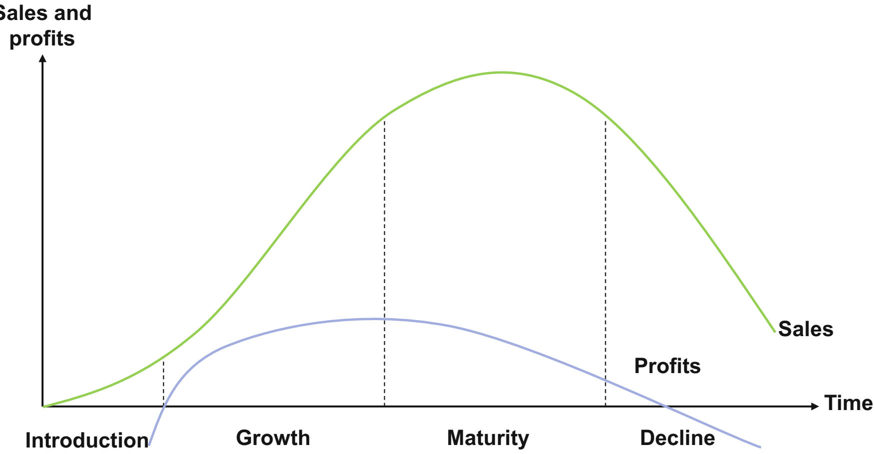

Fig. 4.6 The PLC. *Source*: Based on Hollensen and Opresnik (2010), p.191

its sales performance and characterized by different level of profitability, various degrees of competition and distinctive marketing programmes (Hollensen and Opresnik 2010).

We shall now look at the four stages of the product life cycle in more detail (Hollensen and Opresnik 2010):

- **Introduction** is a period of slow sales as the product is introduced in the market. Profits are non-existent in this stage because of the large expenses of product introduction.
- **Growth** is a period of rapid market acceptance and increasing profits. Profits may begin to decline towards the latter stage of growth as new rivals enter the market, attracted by fast sales growth and high profit potential. The end of this stage is often associated with competitive shakeout, whereby weaker suppliers terminate production.
- **Maturity** is a period of slowdown in sales growth because the product has achieved acceptance by most potential buyers. Saturation occurs, hastening competitive shakeout. The remaining companies are engaged in a fierce battle for market share by employing product improvements, advertising and sales promotional offers, and price cutting; the result is strain on profit margins. The need for successful brand building is increasingly recognized as brand leaders are in the strongest position to resist the pressure on profit margins (Doyle 1989).
- **Decline** is the period when sales and profits fall as new technology or changes in consumer tastes work to reduce demand for the products and services. Suppliers may decide to end production completely or reduce product depth. Advertising may be used to defend against rivals and prevent the sales from falling further.

Branding

Branding has assumed ever more importance. It is important to be clear on the difference in meaning of a product and a brand. A product is anything that is capable of satisfying customer needs, which may contain both tangible and intangible elements that vary in dominance. There are three different levels of a product, namely, the core, the actual and the augmented product and differentiation can take place at any of these levels. A **brand** gives products individual identities by

developing a distinctive name, packaging and design. Branding permits the augmenting of core products providing companies with a number of unique benefits including: enhanced value, increased brand loyalty, protection from competition, higher profits as strong brands often command a premium price, and a strong foundation for brand extensions.

The development of a brand involves key decisions regarding the brand name and the development and positioning of the brand.

When deciding on brand names there are three strategies to choose from:

- A **family brand name** which is used for all products
- An **individual brand name**
- A **combination** of family and individual brand names.

Brand names with high brand equity may be used on other brands to increase their attractiveness. A successful brand is created based on factors such as quality, well-blended communications, being first, having a long-term perspective, internal marketing and positioning. The strength of a brands position in the marketplace is built on six key elements: brand domain, brand heritage, brand value, brand assets, brand personality and brand reflection.

The key decisions in brand management relate to: brand type, brand extension and stretching, global and pan-European branding and co-branding. There are two alternative brand types: **manufacturer brands** and **own-label brands**. Manufacturer brands are created by producers, whereas own-brand labels are created by distributors (although they may be manufactured by producers).

Brand extension is the use of an established brand name on a new brand within the same broad category while **brand stretching** is the use of an established brand name on brands in unrelated markets.

4.4.2 Pricing Decisions

Pricing is one of the most important marketing mix decisions, price being the only marketing mix variable that generates revenues. Pricing is not a single concept, but a multidimensional one with different meanings and implications for the manufacturer, the middleman and the end-customer. Pricing strategy is of great importance because it

affects both revenue and buyer behaviour. The whole pricing environment is therefore considered, first from the point of view of the company and its strategies and then from the aspect of the consumer.

One of the critical factors affecting pricing is the pressure of competitors. You have to offer a more competitive price if there are other sellers in the market. Thus, the **nature of competition** (e.g. oligopoly or monopoly) can significantly influence the firm's pricing strategy. Under conditions approximating **pure competition**, price is set in the marketplace price and tends to be just enough above costs to keep marginal producers in business. Thus, from the point of view of the price setter, the most important factor is costs. The closer the substitutability of products, the more nearly identical the prices must be, and the greater the influence of costs in determining prices (assuming a large enough number of buyers and sellers). Under conditions of **monopolistic or imperfect competition**, the seller has some discretion to vary the product quality, promotional efforts and channel politics in order to adapt the price of the total product to serve pre-selected market segments. Nevertheless, the freedom to set prices is still limited by what competitors charge, and any price differentials from competitors must be justified in the minds of customers on the basis of differential utility: that is, perceived value.

Whereas costs set the lower limit of prices, the market and demand set the upper limit. Both customers and industrial buyers balance the price of a product or service against the benefits of owning it. This before setting prices, you must comprehend the relationship between the price and demand for its product. Each price the company might charge will lead to a different level of demand. The relationship between the price charged and the resulting demand level is shown in the **demand curve** in Fig. 4.7 (Hollensen and Opresnik 2010).

The demand curve shows the number of units the market will buy in a given time period at different prices that might be charged. In the normal case, demand and price are inversely related; that it, the higher the price, the lower the demand and vice versa. Thus, you would sell more if you lowered your price from P1 to P2. In the case of prestige goods, the demand curve sometimes sloes upward. Customers think that higher prices imply more quality.

Marketers also need to know **price elasticity**—how responsive demand will be to a change in price. Consider the demand curve in

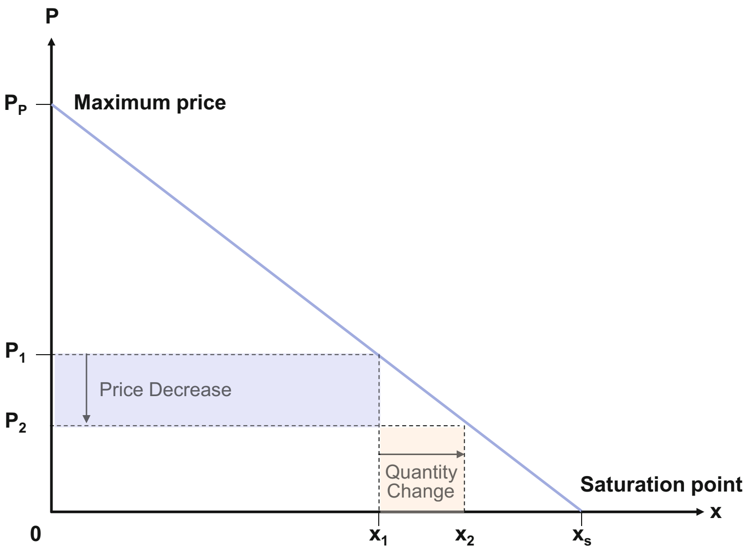

Fig. 4.7 The demand curve. *Source*: Based on Hollensen and Opresnik (2010), p. 215

Fig. 4.7. The price decrease from P1 to P2 leads to a relatively small increase in demand from X1 to X2. If demand hardly changes with a small change in price, the demand is categorized as being **inelastic**. If demand changes greatly, the demand is **elastic**. What determines the price elasticity of demand? Buyers are like to be less price sensitive when the product they are buying is unique or when it is high in quality, prestige, or exclusiveness. Consumers are also less price sensitive when substitute products are difficult to find or when they cannot easily compare the quality of substitute. Finally, buyers are less sensitive to price changes when the total expenditure for a product is low relative to their income or when the cost is shared by another party (Hollensen and Opresnik 2010).

General Pricing Approaches

Companies set prices by selecting a general pricing approach. We will examine the following approaches in detail: the **cost-based approach** (**cost-plus pricing** and **break even analysis**), **competition-based pricing** (**going-rate pricing** and **sealed bid pricing**), and the **value-based pricing**:

- Companies often use **cost-oriented methods** when setting prices. The simplest pricing method is **cost-plus pricing**—adding a standard mark-up to the cost of the product. Construction companies, for example, submit project bids by estimating the total cost and adding a standard mark-up for profit. The problem with this pricing approach is that it ignores demand and competitor prices and all other internal and external factors. Furthermore, it focuses on internal costs rather than the customer's willingness to pay. Another cost-oriented pricing approach is **break even pricing**. This approach involves setting the price to break even on the costs of making and marketing a product; or setting the price to make a target profit. Break-even analysis is generally viewed as an accounting concept, but it is extremely useful in evaluation the profit potential and risk associated with a pricing strategy, or any marketing strategy. For a given price strategy and marketing effort, it is useful to determine the number of units that need to be sold in order to break even (produce a net profit equal to zero). The break-even point is normally represented as that level of output where the total revenue from sales of a product or service matches exactly the total costs of its production and marketing (break-even quantity). Such an analysis of cost-revenue relationships can be very useful to the pricing decision-maker.
- Within the framework of **competition-based pricing**, a company bases its price largely on competitors' prices. Less attention is paid to its own costs or to demand. The enterprise might charge the same as, more than, or less than its competitors. Yet the company cannot set its price below a certain level. It cannot price below cost without harming its competitive position.
- **Value-based pricing** uses buyers' perceptions of value, not the seller's total costs, as the key to pricing. Value-based pricing implies that the marketer cannot design a product and marketing program and then set the price. Price in this context is considered along with the other marketing mix variables and other factors before the marketing program is determined. Cost-based pricing is product driven. The company designs what it considers to be a good product, totals the cost of making the product, and sets a price that covers costs plus a target profit. Once the price was set, the marketer's job was to convince customers that the product was

worth it. If the marketer was not successful, then the price was lowered. If demand turned out to be higher than anticipated, then the price was raised. An important point is that the customer was the last person to be considered in this chain of events. Value-based pricing reverses this process and begins by understanding customers and the competitive marketplace. The first step is to look at the value customers perceive in owning the product and to examine their options for acquiring similar products and brands. The targeted value and price then drive decisions about product design and what costs can be incurred. Although cost-based pricing is easier, it ignores the customer and the competition as already noted above. Marketers recognize that it is impossible to predict demand or competitors' actions simply by looking at their own costs. Consequently, cost-based pricing is becoming less popular.

Pricing New Products

Pricing strategies usually change as the product passes through its life cycle. The introductory stage is especially challenging. Companies bringing out a new product face the challenge of setting prices for the first time. They can choose between two generic strategies: market-skimming pricing and market-penetration pricing (Hollensen and Opresnik 2010):

- **Market-Skimming Pricing**
  Numerous companies that invent new products set high initial prices to "skim" revenues layer by layer from the market. Market-skimming pricing involves setting a high price for a new product to skim maximum revenues from the segments willing to pay the high price. A skimming approach, appropriate for a distinctly new product, provides the firm with an opportunity to profitably reach market segments that are not sensitive to the high initial price. As a product ages, as competitors enter the market, and as organizational buyers become accustomed to evaluating and purchasing the product, demand becomes more price elastic.
- **Market-Penetration Pricing**
  Rather than setting a high initial price to skim off small but profitable market segments, companies might use market-penetration pricing.

> They set a low initial price in order to penetrate the market quickly and deeply—to attract a large number of buyers rapidly and win a large market share. The high sales volume results in falling costs, allowing the company to cut its price even further.

In a competitive world, pricing is dynamic and managers must know when to initiate price changes and whether or not to react to competitor price moves. When considering initiating a price change you must evaluate whether the circumstances are right and exactly what tactic to use, and be able to estimate the likely reaction from competitors. If a competitor initiates a price change the company must decide whether it is in its best interest to follow or ignore. When you decide to follow, you must make a decision on what tactic to pursue; a quick or slow response. Price may be the core value proposition offered by some businesses. In these cases organizations employ a combination of cost management, yield management and dynamic pricing to generate high profitability levels.

4.4.3 Place Decisions

A product must be made accessible to the target market at an affordable price. Distribution decisions deal with the problems of moving products from points of origin to points of consumption. Often referred to as the **place element** in the marketing mix, distribution decisions are directed at ensuring that the right product is in the right place at the right time and in the right quantities. The creation of place, time, and possession utility for a select group of customers located in a specific geographic location provides the focus of the logistics manager's efforts. The distribution network is referred to as a **marketing channel**—a set of interdependent marketing institutions involved in the process of making a product or service available for use or consumption by the customer. Producers need to consider not only the needs of their ultimate customer but also the requirement of **channel intermediaries**, those organizations that facilitate the distribution of products to customers (Hollensen and Opresnik 2010).

Using an intermediary as opposed to selling direct to the customer can provide producers with a number of benefits. Channel intermediaries fill several valuable functions: reconciling the needs of producers and consumers by breaking bulk; improving distribution

efficiency by reducing the number of transactions and creating bulk for transportation; improving accessibility between producer and consumer by reducing the location and time gap; and providing specialist services such as selling, servicing and installation to customers.

Types of Distribution Channel

Companies can design their distribution channels to make their products available to consumers in different ways. Each layer of marketing intermediaries that performs work in bringing the product closer to the final buyer is a **channel level**. The number of intermediary levels indicates the length of a channel. Figure 4.8 shows several consumer distribution channels of various lengths. The first channel at the top of the figure is called a **direct marketing channel** as it has no intermediary levels. In this case, the company sells directly to the customer. For example, Avon Cosmetics and Amway sell their products directly to their consumers. Cutting out distributor profit margin make this option attractive. The elimination of a layer of intermediaries from a distribution channel is called **disintermediation**. For example, iTunes is displacing record shops in the distribution of music. The remaining channels in Fig. 4.8 are **indirect marketing channels**, containing one or more intermediaries.

There are important differences in the structure of consumer, industrial and service channels. Consumer channels tend to be longer and involve more channel partners, while many industrial and service

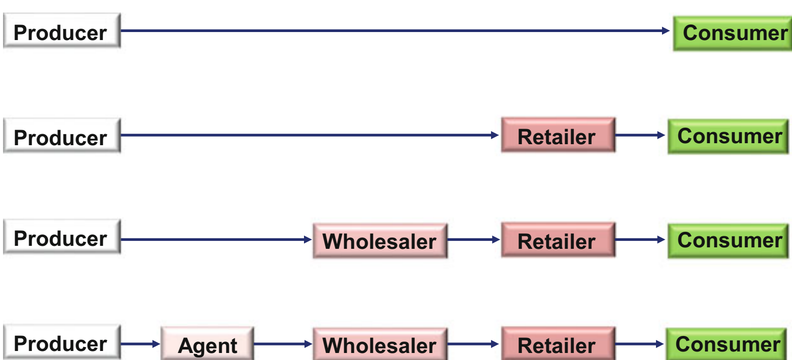

Fig. 4.8 Distribution channels. *Source*: Based on Hollensen and Opresnik (2010), p. 236

channels are direct to the customer. Deciding upon the most appropriate channel strategy involves decisions regarding: channel selection, distribution intensity and channel integration. Channel selection is influenced by market, producer, product and competitive factors.

There are three options to consider when deciding upon the distribution intensity (Hollensen and Opresnik 2010):

- **Intensive distribution** by using all available outlets. For example, many mass-market products, such as cigarettes, foods, toiletries, beer and newspapers, and other similar items are sold in millions of outlets to provide maximum brand exposure and consumer convenience.
- **Selective distribution** by using a limited number of outlets. Thus, a producer uses a limited number of outlets in a geographical area to sell its products. The advantages to the manufacturer are the opportunity to select only the best outlets to focus its effort to build close relationships and to train distributor staff on fewer outlets than with intensive distribution, and, if selling and distribution is direct, to reduce costs. Upmarket brands are often sold in carefully selected outlets. Retail outlets and industrial distributors like this arrangement since it reduces competition. Products such as audio and video equipment, cameras, personal computers and cosmetics are distributed in this manner. Selective distribution gives producers good market coverage with more control and less cost than does intensive distribution.
- **Exclusive distribution** in which one wholesaler, retailer and industrial distributor is used in a geographic area. Exclusive distribution is often found in the distribution of luxury automobiles. The right to exclusive distribution may be requested by distributors as a condition for stocking a manufacturer's product line.

Channel integration can range from the use of conventional distribution channels, where the producer and channel intermediaries are independent from one another, through to a franchise arrangement between the producer and intermediaries, and to channel ownership by the producer. Once the channel management decisions are complete the producer must carefully manage the channel. Channel management issues involve the selection, motivation, training, and

evaluation of channel members and the management of conflict between members, with the ultimate goal being complete customer satisfaction. Effective support for channel members is often necessary to achieve marketing objectives.

Recent developments in distribution have been the growth of multiple retail formats, which has enabled large retailers to exert enormous power in the distribution channel because of the sheer quantities they purchase from manufacturers. Major store and non-store formats include: supermarkets, department stores, speciality shops, discount houses, category killers, convenience stores, catalogue stores, mail order, automatic vending and online retailing. Key retailing decisions consist of retail positioning, store location, product assortment, and price and store atmosphere. Many retailers are strong brands in their own right and need to be managed as such. Technology has enabled some internet retailers to achieve major competitive advantages in their markets.

Physical distribution is another area that should be given attention by the producer because of its potential for cost savings and improving customer service levels. It refers to the set of activities concerned with the physical flow of materials, components and finished goods from producer to channel intermediaries and consumers. Key decisions in the physical distribution system to ensure the goods reach the consumer at the right time and place and without damage, consist of customer service, order processing, inventory control, warehousing, transportation and materials handling. Cost and customer service are two conflicting pressures that impact upon the structure and management of the physical distribution system.

4.4.4 Promotion Decisions

Communication is the remaining decision about the marketing programme. The role of communication is to communicate with customers and to provide information which buyers need to make purchasing decisions. Although the communication mix carries information of interest to the customer, in the end it is designed to persuade the customer to purchase a product. Communication involves sharing points of view and is at the heart of forming relationships. You simply cannot connect with customers unless you directly or indirectly

communicate with them (Hollensen and Opresnik 2010). **Promotion** is the process whereby marketers inform, educate, persuade, remind, and reinforce consumers through communication. It is designed to influence buyers and other stakeholders. Although most marketing communications are aimed at consumers, a significant number also address shareholders, employees, channel members, suppliers, and society. In addition, effective communication is a two-way road: Receiving messages is often as important as sending them.

The Promotional Mix

To communicate with and influence customers, several tools are available. Advertising is usually the most visible component of the **promotional mix** and to many people advertising epitomizes marketing: it is what they believe marketing to be. Evidently, this is a restricted view as marketing concerns much broader issues than simply how to advertise. Nevertheless, advertising is an important element in the promotional mix. The entire range of techniques available to the marketer is the promotional mix and comprises seven key elements (Hollensen and Opresnik 2010):

- **Advertising**: any paid form of non-personal communication of products in the prime media, i.e. television, the press, outdoor, cinema, and radio. Although a highly visible component of marketing it is only one element of the promotional mix. Advertising strategy involves an analysis of the target audience, setting objectives, budgeting decisions, message and media decisions and evaluating advertising effectiveness. When organising an advertising campaign there are four available options for marketing management to choose from: developing the campaign in cooperation with people from the media; conducting advertising in-house by creating an advertising department; using specialist agencies; or employing the services of a creative hot-shop to supplement their own skills or those of their full service agency. There are three important ethical issues in advertising: misleading advertising, advertising's influence on society's values and advertising to children.

  For many years there has been substantial debate about how advertising works. Researchers agree that there can be no single all-embracing theory that explains how all advertising works because it has varied tasks. The basic competing views on how

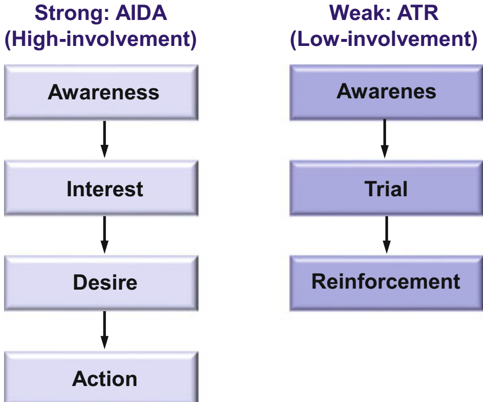

Fig. 4.9 Strong and weak theories of how advertising works. *Source*: Based on Hollensen and Opresnik (2010), p. 278

advertising works have been phrased the **strong theory of advertising** and the **weak theory of advertising**. The strong theory is shown on the left-hand side of Fig. 4.9. A person passes through the stages or awareness, interest, desire and action (**AIDA model**). According to this theory, advertising is powerful enough to increase people's knowledge and change their attitudes, and as a consequence is capable of persuading people who had not previously bought a product to buy it. It is therefore a conversion theory of advertising: non-buyers are converted to become buyers. Advertising is assumed to have a powerful influence on consumers.

This model has been criticized substantially as for many types of products there is little evidence that customers experience a strong desire before buying the brand. For example, in rather inexpensive product fields a brand may be bought on a trial basis without any strong conviction that it is superior to competing brands. Furthermore, the theory is criticized because it is limited to the conversion of a non-buyer to a buyer and ignores what happens after action (Hollensen and Opresnik 2010).

- **Sales promotion**: incentives to customers or the trade that are designed to stimulate purchase. Sales promotion is growing in popularity. Adopting a sales promotion strategy involves setting objectives, deciding on the techniques to be used and then subsequently evaluating its effectiveness. Objectives include boosting short-term sales, encouraging trial, encouraging repeat purchase or encouraging customers to purchase larger pack sizes. The main

consumer sales promotion techniques are money off, bonus packs, premiums, free samples, coupons, prize promotions and loyalty cards. Trade promotion techniques include: price discounts, competitions, allowances and free goods.
- **Public relations**: the communication of a product or business by placing information about it in the media. Public relations and publicity involves creating and maintaining good relations with the company's various internal and external publics. Public relations activities include publicity, corporate advertising, seminars, publications, lobbying and charitable donations. It is used to foster prestige and reputation, promote products, to deal with issues or opportunities and overcome misconceptions. Publicity is a major part of public relations. It involves placing information about the product or company in the media without paying for the time or space directly. Publicity is characterised by high message credibility, no direct media costs and loss of control over publication. A key ethical matter regarding public relations is the use of third party endorsements to publicise a product, where the person gives a written, verbal or visual recommendation of the product.
- **Sponsorship**: the development of a business relationship between a provider of funds, resources or services to an individual, event or organisation in return for some rights and association that may be used for commercial advantage. Sponsorship has five key objectives which include: gaining publicity, creating entertainment opportunities, fostering favourable brand and company associations, improving community relations and creating promotional opportunities. Sponsorship has experienced major growth over the last 15 years driven by five key factors: escalating costs of media advertising, restrictive government policies on tobacco and alcohol, fragmentation of traditional mass media, proven track record of sponsorship and greater media coverage of sponsorship events. As event sponsorship has grown so too has the phenomenon of ambush marketing. Here, a company tries to associate itself with an event without paying a fee to the event owner.
- **Internet promotion**: the promotion of products to customers and businesses through internet technologies. With the creation of the World Wide Web and Web browsers in 1990s, the Internet was transformed from a mere communication platform into a certifiably revolutionary technology. The internet is considered to be a global

channel of communication, but the advertising messages are often perceived in the local context by the potential customer. The web represents a change away from a push strategy in international promotion, where a producer focuses on compelling an intermediate to represent the products or services or a distributor to stock its goods, towards a pull strategy in which the producer communicates directly with the customer. The most common form of advertising on the web (as opposed to advertising the existence of the web site) is banners across the top of commercial sites.

- **Direct marketing**: the distribution of products, information and promotional benefits to target customers through interactive communication in a way that allows response to be measured. Direct marketing consists of direct connections with thoroughly selected individual consumers to both obtain an immediate response and cultivate enduring customer relationships. Direct marketers communicate directly with customers, often on a one-to-one, interactive basis. Making use of detailed databases, they tailor their marketing offers and communications to the specific needs of narrowly defined segments or even individual buyers. Beyond brand image building, direct marketers typically seek a direct, immediate, and measurable consumer response (Kotler and Armstrong 2012). Direct marketing is a more encompassing concept than direct sales, which simply refers to sales from the producer directly to the ultimate consumer, bypassing the channel middlemen. This approach is not so much a promotional tool as a new distribution channel, but it grew out of direct mail, which is a traditional advertising medium. The traditional direct mail promotions of various products often offered "direct response" options, including requests for more information, redeemable cents-off coupons, and participation in contests and lottery drawings. It was only a small step to a completed sale, and especially since credit cards became common, direct mail has become an important promotion and sales channel (Hollensen and Opresnik 2010).
- **Personal selling**: oral communication with potential purchasers with the intention of making a sale. The final major element of the promotional mix is personal selling. This involves face-to-face contact with a consumer and, unlike advertising, promotion and other forms of non-personal communication, personal selling allows a direct interaction between buyer and seller. This process implies

that the seller can identify the specific needs and wants of the buyer and tailor the sales approach and presentation accordingly. However, such flexibility is expensive as the cost of a car, travel expenses and sales office overheads can mean that the total annual investment for a salesperson is often twice the level of a salary.

It is important for all firms adopt a systematic and planned approach towards marketing communications. Figure 4.10 shows

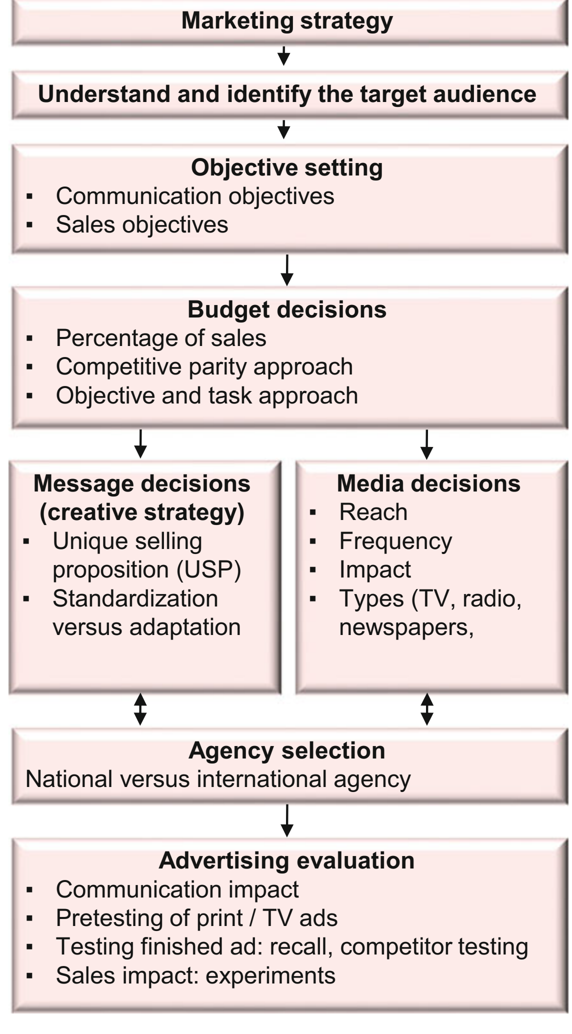

Fig. 4.10 Developing an advertising strategy. *Source*: Based on Hollensen and Opresnik (2010), p. 279

the different steps and decision, which are involved. It is worthwhile to state that each of the stages identified is appropriate irrespective of whether the company is conducting an advertising campaign, a direct marketing or sales promotion campaign, all that changes is the detail involved (Hollensen and Opresnik 2010).

In the following, we will examine the appropriate steps in more detail:

- **Marketing Strategy**
  The foundation for developing an advertising strategy is a clear definition of the marketing strategy as advertising is only one element of the marketing mix and decisions should not be taken in isolation. The following questions are of central importance in this respect: what is the product's competitive position? What is the target market and what differential advantage does the product possess? Target market definition allows the target audience to be identified in rough terms and identification of the product's differential advantage points to the features and benefits of the product that should be highlighted in its advertising.
- **Identify and Understand the Target Audience**
  The target audience is the group of people at which the advertisement strategy is aimed. The audience may be potential buyers or current users, those who make the buying decision or those who strongly influence it. The audience may be individuals, groups, or the general public.

  Once the target audience has been identified, it needs to be understood. Buyer motives and choice criteria need to be thoroughly analysed. This process is vital as it has fundamental implications for message and media decisions and all later stages.
- **Objectives Setting**
  Although, ultimately, advertising is a means of stimulating sales and increasing profits, a clear understanding of its communication objectives is important. Major advertising objectives (and means) might include some of the following: create awareness, stimulate trial, position products in customers' mind, correct misconceptions, remind and reinforce.
- **Budget Decisions**
  The amount that is spent on advertising governs the achievement of communication objectives. Controversial aspects of advertising

include determining a proper method for deciding the size of the promotional budget, and its allocation across markets and over time.

In general, there are four methods of setting advertising budgets (Hollensen and Opresnik 2010):

- **Percentage-of-sales method**
  This approach bases advertising on a specific percentage of current or expected sales revenue. Alternatively, the company may budget a percentage of the unit sales price. This method is easy to apply and makes management think about the relationships between promotion spending, selling price, and profit per unit. However, this approach fosters a decline in advertising expenditure when sales decline, a move that may encourage a further downward spiral of sales. In addition, it ignores market opportunities, which may suggest the need to spend more (or less) on advertising. Finally, the method fails to provide a means of determining the correct percentage to use.
- **Affordable method**
  This approach bases advertising expenditure on what level management regards as an amount that can be afforded. SMEs often use this method, reasoning that the company cannot spend more on advertising that it actually has. Problematically, this approach of setting budgets completely ignores the effects of promotion on sales. Its use as the sole criterion for budget neglects the communication objectives that are highly relevant for a firm’s products and the market opportunities that may exist to grow sales and profits.
- **Competitive-parity method**
  Some firms use the competitive-parity method, setting their promotion budgets based upon matching expenditure to, or using a similar percentage of sales figure as their major competitors. However, matching expenditure assumes that the competition has arrived at the “correct” level of budget, and ignores market opportunities and communication objectives.
- **Objective-and-task method**
  The weaknesses of the above approaches have led some firms to follow this approach, which develops the promotion budget by defining specific objectives, determining the tasks that must be

performed to achieve those objectives, and estimating the costs of performing these tasks. The sum of these costs is the proposed promotion budget. The advantage of this approach is that it stimulates management to think about objectives, media exposure levels and the resulting costs. However, it is also the most difficult method to apply. Often, it is extremely complicated to figure out, which specific tasks will achieve a stated objective.

- **Message Decisions (creative strategy)**
  This step concerns decisions about what **unique selling proposition (USP)** needs to be communicated, and what the communication is intended to achieve in terms of consumer behaviour in the country concerned. These decisions have important implications for the choice of advertising medium, since certain media can better accommodate specific creative requirements (use of colour, written description, high definition, demonstration of the product, etc.) than others. An important decision area for international marketers is whether an advertising campaign developed in the domestic market can be transferred to foreign markets with only minor modifications, such as translation into the appropriate languages. Complete standardization of all aspects of a campaign over several foreign markets is rarely attainable. Standardization implies a common message, creative idea, media and strategy, but it also requires that the firm's product has a USP that is clearly understood by customers in a cross-cultural environment.
- **Media Decisions**
  The selection of the media to be used for advertising campaigns needs to be done simultaneously with the development of the message theme. A key question in media selection is whether to use a mass or target approach. The mass media (television, radio and newsprint) are effective when a significant percentage of the general public are potential customers. This percentage varies considerably by country for most products, depending on, for example, the distribution of incomes in different countries.

  The selection of the media to be used in a particular campaign typically starts with some idea of the target market's demographic and psychological characteristics, regional strengths of the product, seasonality of sales, and so on. The media selected should be the result of a careful fit of local advertising objectives, media

attributes and target market characteristics. Furthermore, media selection can be based on the following criteria:
- **Reach**. This is the total number of people in a target market exposed to at least one advertisement in a given time period ('opportunity to see', or OTS).
- **Frequency**. This is the average number of times within a given time period that each potential customer is exposed to the same advertisement.
- **Impact**. This depends on compatibility between the medium used and the message.

- **Agency Selection**
  Confronted with the many complex problems that international advertising involves, many businesses instinctively turn to an advertising agency for advice and practical assistance. Agencies employ or have instant access to expert copywriters, translators, photographers, film makers, package designers and media planners who are skilled and experienced in the international field. Only large multinational enterprises can afford to carry such people in-house.
- **Advertising Evaluation**
  Advertising evaluation and testing is the final stage in the advertising decision process. The key questions in advertising research are what, when and how to evaluate. What should be measured depends on whatever the advertising is trying to achieve. Measurement can take place before, during and after campaign execution. **Pre-testing** takes place before the campaign is executed and is part of the creative process. This is typically done with a focus group, which is shown various alternative commercials and the members are asked to discuss their likes, dislikes and understanding of each other. **Post-testing** can be used to assess a campaign's effectiveness once it has run in order to provide necessary information to plan future campaigns. The major measures used in post-test television advertising research are image/attitude change, actual sales and usage, though other financial measures such as cash flow, shareholder value and return on investment are increasingly being used (Jobber 2013).

4.5 7Ps Marketing Mix for Services

The service sector is a large and growing sector in most developed countries. While many marketing principles are applicable in a service context, services have a number of unique characteristics that distinguish them from the selling of physical products. The unique characteristics are (Hollensen and Opresnik 2010):

- **Intangibility** means that services cannot be seen, tasted, felt, heard, or smelled before they are bought. For example, as services like air transportation or education cannot be touched or tested, the buyers or services cannot claim ownership or anything tangible in the conventional sense. Payment is for use or performance. Tangible elements of the service, such as food or drink on airlines, are used as part of the service in order to confirm the benefit provided and to enhance its perceived value. Against this background, a service marketing strategy consistently tries to "make the intangible tangible" and send the right signals about the quality. This is called evidence management, in which the service organization presents its customers with organized, honest evidence of its capabilities.
- **Perishability** means that services cannot be stored for future usage—for example, unfilled airline seats are lost once the aircraft takes off. This characteristic causes considerable problems in planning and promotion in order to match supply and demand. To maintain service capacity constantly at levels necessary to satisfy peak demand will be very expensive. The marketer must therefore attempt to estimate demand levels in order optimise the use of capacity.
- **Heterogeneity** implies that services are rarely the same because they involve interactions between people. Furthermore, there is high customer involvement in the production of services. This can cause problems of maintaining quality, particularly in international markets where there are quite different attitudes towards customer service. For example, within a given Marriott hotel, one registration-desk employee may be cheerful and highly efficient, whereas another standing just a few feet away may be unpleasant and slow. Even the quality of a single Marriott employee's service varies according to his or her energy at the time of each customer

encounter. Consequently, the management of staff is of supreme importance in the framework of service marketing.

- **Inseparability** means that services cannot be separated from their providers. The time of production is very close to or even simultaneous with the time of consumption. The service is provided at the point of sale. This means that economies of scale and experience curve benefits are difficult to achieve, and supplying the service to scattered markets can be expensive, particularly in the initial setting-up phase. If a service employee provides the service, then the employee is a part of the service. Because the customer is also present, provider-customer-interaction is a special feature of services marketing and both the provider and the customer affect the service outcome.

Marketing managers must be aware of these differences and their challenges given their significant marketing implications. The **traditional marketing mix**, consisting of **4 P's**; product, price, promotion and place, was developed for products rather than services thus it does not take the unique characteristics of services into account. The **services marketing mix** is an extension of the 4-Ps framework: people, physical evidence and process are elements which have been added to produce the **7-Ps mix** (Fig. 4.11).

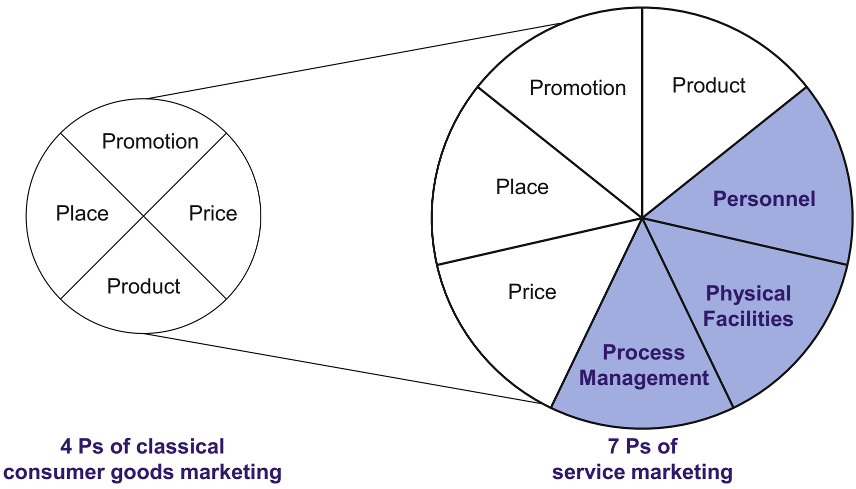

Fig. 4.11 4 P's and 7-Ps marketing mix

Managing a services enterprise requires successful implementation of the services marketing mix and by managing service quality. Managers must recognise and manage the barriers that divide customers' perceptions of service quality from their expectations. These are the misconceptions, inadequate resources, inadequate delivery, and exaggerated promises barriers. Service marketers need to understand the criteria that customers use when forming expectations. Not only do customers value outcomes but also the experience of taking part in the service process. Service recovery is also discussed in this section with a particular focus on employee empowerment.

Because of the specific characteristics described above, managing services enterprises involves specific challenges with the extended marketing mix. Therefore, we shall now briefly describe them:

- **Physical evidence**
  Customers look for clues to the likely quality of a service by inspecting the tangible evidence of the service. For example, the ambience of a retail store is highly dependent on décor, and colour plays an important role in establishing mood.
- **People**
  Because of the simultaneity of production and consumption in services, the firm's personnel occupy a key position in influencing customer perceptions of product quality. The term **service encounter** is used to describe an interaction between a service provider and a customer. These encounters may be short and quick such as when a customer picks up a newspaper at a newsstand or long and protracted involving multiple encounters such as receiving a university education. Jan Carlzon, head of the airline SAS, called these interactions '**moments of truth**'. He emphasized that SAS faced 65,000 moments of truth per day and that the outcome of these interactions determined the success of the company. An important marketing task, then, is internal marketing, that is, selecting, training and motivating staff members to provide customer satisfaction. Without this support, employees tend to be variable in their performance, leading to variable service quality.
- **Process**
  The service process refers to the procedures, mechanisms and flow of activities by which a service is acquired. This process usually

contains two elements, namely, that which is visible to the customer and where the service encounter takes place and that which is invisible to the customer but is still critical to service delivery. For example, waiting staff in a restaurant are a key part of the service encounter and they need to be well selected and well trained. How the treat customers is a key element of the service experience. But what happens in the kitchen, even though it is invisible to the customer is also critical to the experience. Both parts of the service process need to be carefully managed. Service process decisions usually involve some trade-off between levels of service quality (effectiveness) and service productivity (efficiency). For instance, if more people can be served (output) using the same number of staff (input), productivity per employee has risen. For example, a doctor who reduces consultation time per patient raises productivity at the risk of lowering service quality. Consequently, a balance must be struck between productivity and service quality.

4.6 Global Marketing

Global marketing is important for your company because your industries and your customers are becoming more globalized. The growth of global business activities offers increased opportunities. International activities can be crucial to a firm's survival and growth. By transferring knowledge around the globe, an international firm can build and strengthen its competitive position.

However, the primary role of marketing management, in any organization, is to design and execute effective marketing programmes. Companies can do this in their home market or they can do it in one or more international markets. Expanding internationally is enormously expensive, in terms of both money and, especially, senior management time and commitment. Due to the high cost, expanding internationally must generate added value for the company beyond extra sales. In other words, the company needs to gain a competitive advantage by expanding internationally. So, unless the company gains by doing this, it should probably stay at home.

The task of global marketing management is complex enough when the company operates in one foreign national market. It is much more complex when the company starts operations in several countries. Marketing programmes must, in these situations, adapt to the needs and preferences of customers that have different levels of purchasing power as well as different climates, languages and cultures. Moreover, patterns of competition and methods of doing business differ between nations and sometimes also within regions of the same nation. In spite of the many differences, however, it is important to hold on to similarities across borders. Some coordination of international activities will be required, but at the same time the company will gain some synergy across borders, in the way that experience and learning acquired in one country can be transferred to another.

Basically 'global marketing' consists of finding and satisfying your global customer needs better than the competition, and of coordinating marketing activities within the constraints of the global environment. The form of the firm's response to global market opportunities depends greatly on the management's assumptions or beliefs, both conscious and unconscious, about the nature of doing business around the world.

Many international markets are converging, as communication and logistic networks are integrated on a global scale. At the same time, other international markets are becoming more diverse as company managers are encountering economic and cultural heterogeneity. This means that firms need to balance tensions in adapting to different demands from customers in divergent markets, which require different skills and resources while attempting to transfer knowledge and learning between the established markets and these new markets.

This leads us to a definition of global marketing:

Global marketing is defined as your company's commitment to coordinate its marketing activities across national boundaries in order to find and satisfy global customer needs better than the competition. This implies that the firm is able to:

- Develop a global marketing strategy, based on similarities and differences between markets;
- Exploit the knowledge of the headquarters (home organization) through worldwide diffusion (learning) and adaptations;

- Transfer knowledge and 'best practices' from any of its markets and use them in other international markets.

There follows an explanation of some key terms:

- Coordinate its marketing activities: coordinating and integrating marketing strategies and implementing them across global markets, which involves centralization, delegation, standardization and local responsiveness.
- Find global customer needs: this involves carrying out international marketing research and analysing market segments, as well as seeking to understand similarities and differences in customer groups across countries.
- Satisfy global customers: adapting products, services and elements of the marketing mix to satisfy different customer needs across countries and regions.
- Being better than the competition: assessing, monitoring and responding to global competition by offering better value, low prices, high quality, superior distribution, great advertising strategies or superior brand image.

There are two main forces that determine the route of internationalization and globalization.

Forces for National Market Responsiveness. Often customer characteristics and desired benefits, key competitors and their strategies, or the nature of the market infrastructure, differ from one market to another, which requires the firm to modify substantially its competitive positioning to compete effectively. Consequently, a firm must modify its domestic positional advantage to each market (market responsiveness) to be successful. For example, Ariel had to modify existing detergent products as well as its positioning and develop new products to match differences in washing habits, water conditions, and use of washing machines in different parts of the world. It was initially developed in Europe as a low-temperature detergent powder with an environmentally friendly version. In India, it has been marketed as a pre-soak, and in the USA as Cheer, an all-purpose detergent. Differences in the cost and availability of local resources may also suggest the desirability of tailoring the

development of a competitive position and the value delivered to customers from one market to another.

In this case, the geographic dispersion of activities provides greater contact with customers and competitors. In particular, if the firm emphasizes customization of its offerings, proximity to customers may enable it to provide rapid response and tailoring of product and services to meet specific customer needs.

For example, Hyundai's computer division established an assembly plant in California to be close to consumers and competitors, though there are substantial production efficiencies in centralization. Proximity to customers may provide a significant advantage, especially if there are differences in customer demand from one location to another. Mostly downstream activities, such as marketing and distribution, are by their very nature geographically dispersed.

Forces for Global Coordination/Integration. Interdependencies between markets are growing as a result of the flow of goods, people, and information across national boundaries. As a result, in assessing its overall competitive advantage in global markets, a firm needs to consider the strengths and weaknesses of its competitive positions in each country's market and how these interact to influence deployment of resources worldwide.

In this case, concentration of the firm's value-creating activities offers several advantages insofar as scale economies can provide the firm with a cost advantage relative to competitors in serving a given market. Equally, concentration enables the use of superior or highly specialized skills and expertise or an accumulation of specialized knowledge relating to product design, creation of advertising copy, or other functions.

For example, Procter & Gamble concentrates R&D on detergents in three centres located in the USA, Japan, and Europe. Each centre works on different problems and shares the results to develop new products or product formulations for different markets. Similarly, Unilever has three new product development centres that work on new product ideas for the entire organization.

If we observe traditional learning in many international companies, the assignment of managerial responsibility along territorial lines inevitably means that managers learn from events that take place in

their assigned countries. In the extreme, managers only learn what happens in their own geographic territory, and would even disregard events occurring elsewhere (100 % national market responsiveness or adaptation). This would mean that the company is competing globally on the basis of individual country-specific learning curves.

As a reaction to pressures from international markets, both **LSEs** (large-scale enterprises) and **SMEs** (small and medium-sized enterprises) evolve towards a globally integrated but market-responsive strategy. However, the starting point of LSEs and SMEs is different (see Fig. 4.12). The huge global companies have traditionally based their strategy on taking advantage of 'economies of scale' by launching standardized products worldwide. These companies have realized that a higher degree of market responsiveness is necessary to maintain competitiveness on national markets. On the other side, SMEs have traditionally regarded national markets as independent of each other. But as international competences evolve, they have begun to realize that there are similarities between their different international markets. They recognize the benefits of coordinating the different national marketing strategies in order to utilize economies of scale in R&D, production and marketing.

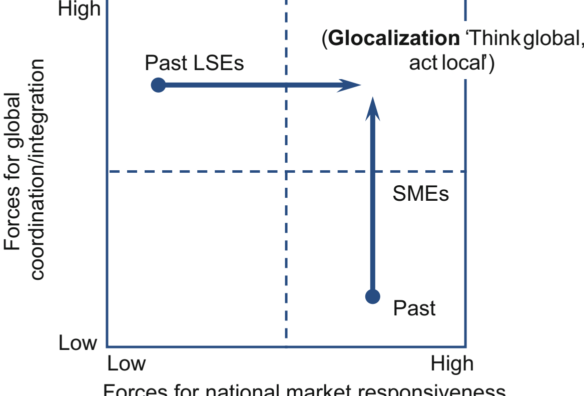

Fig. 4.12 Global integration/market responsiveness grid: the future orientation of LSEs and SMEs. *Source*: Based on Hollensen (2014), p. 24

4.6.1 Glocalization

Glocalization is a theoretical concept that is a combination of the words, globalization and localization. Glocalization refers to the interface between a global and a local marketing strategy, by combining dynamics of cultural homogenization and heterogenization. Whereas globalization, in and of itself, stresses the omnipresence of corporate or cultural processes worldwide, glocalization stresses particularism of a global idea, product, or service. Glocalization is not merely another take on niche-marketing, now global. Rather, glocalization also adds accuracy to the present globalization approach among scholars and practitioners.

Glocalization theory fuses relationships, balance, and harmony between cultural homogenization and heterogenization, standardization and adaptation, homogenization and tailoring, convergence and divergence, and universalism and particularism. Glocalization is important because it questions the very model of Western cultural imperialism. From this vantage point, globalization strengthens the consciousness of the world that pervades both the local and the global. This opposed the argument that globalization is a fully homogeneous process. On the contrary, while globalization gears toward some degree of cultural homogenization, glocalization simultaneously permits people to identify more strongly with their local culture.

Glocalization emphasizes that relocating a theme, product, or service elsewhere has a higher chance of success when it is accommodated to the local culture in which it is introduced.

This glocalization strategy (the 'blue area' in Fig. 4.13) tries to achieve the slogan, 'think globally but act locally', through dynamic interdependence between headquarters and subsidiaries. Multinational companies following such a strategy coordinate their efforts, trying to build up a standardized offer (module) utilizing the globalization advantages. When the standardized module has been created, the challenge for the company is to localize the standardized offer to the different countries, where the company is active.

In the following we will try to explain and discuss the driving forces that move the company toward the Globalization respectively Localization.

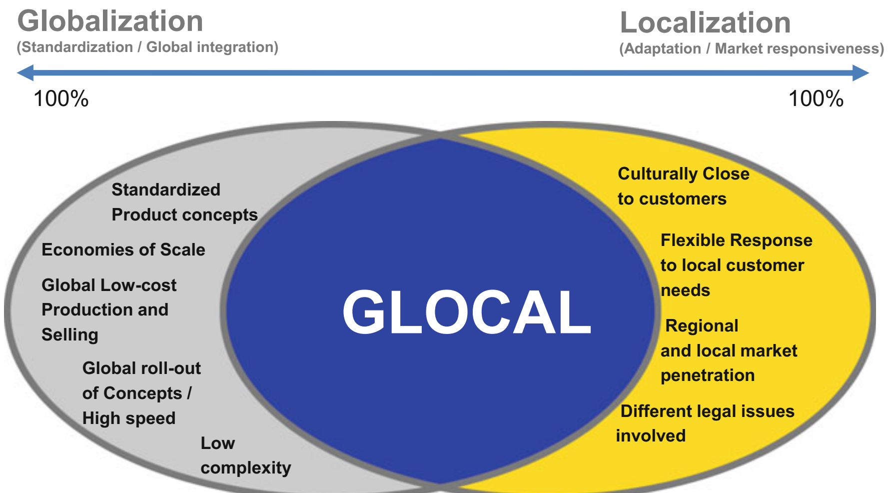

Fig. 4.13 The overlap of globalization + localization = Glocalization. *Source*: Based on Hollensen (2014), p. 22

Driving Forces for 'Globalization'

In the process towards globalization, greater importance will be attached to transnational similarities for target markets across national borders and less on cross-national differences. The major drivers for the move towards **globalization** are:

- *Global accounts/customers*. As customers become global and rationalize their procurement activities they demand suppliers provide them with global services to meet their unique global needs. Often this may consist of global delivery of products, assured supply and service systems, uniform characteristics and global pricing.
- *Removal of trade barriers (deregulation)*. Removal of historic barriers, both tariff (such as import taxes) and non-tariff (such as safety regulations), which have constituted barriers to trade across national boundaries.
- *Standardized worldwide technology*. The different technological platforms are converging to fewer but more important platforms. Earlier differences in world market demand were due different country regulations. The advanced technological products may

witness more homogeneity, e.g. in the demand and usage of consumer electronics across nations.
- *Relationship management/network organization*. Business alliances and network relationships help to reduce market uncertainties, particularly in the context of rapidly converging technologies. As we move towards global markets it is becoming increasingly necessary to rely on a network of relationships with external organizations, for example, customer and supplier relationships.
- *Worldwide markets*. The concept of 'diffusions of innovations' builds on the concept that introductions in different countries tend to be replaced by the concept of worldwide market introductions. This is becoming increasingly evident in e.g. smartphones and in the Internet economy.
- '*Global village*'. The concept 'global village' refers to the phenomenon in which the world's population shares commonly recognized cultural symbols. This form of cultural homogenization implies the potential for the worldwide convergence of markets and the emergence of a global marketplace, in which brands such as Apple, Nike and Coca Cola are universally aspired to.
- *Global cost drivers*. These are mainly categorized as 'economies of scale', where increasing production of a specific can cause lower cost per unit
- *Worldwide communication*. New Internet-based 'low-cost' communication methods (social media, e-mailing, e-commerce, etc.) ease communication and trade across different parts of the world. As a result customers within national markets are able to buy similar products and similar services across parts of the world.

Driving Forces for 'Localization'

These are as follows:

- *Regionalism/protectionism*. The regions (such as the NAFTA, ASEAN or European Union) have formed regional trading blocs, which may represent a significant blockage to globalization. In this case, trade barriers are removed from trade between individual countries but one may argue that regionalism results in a situation where protectionism reappears between regions rather than between individual countries.

- *Cultural differences*. Cultural diversity clearly continues, despite the 'global village'. Cultural differences often pose major difficulties in international negotiations and marketing management. Every culture has its opposing values. Markets are people living in different countries, not products. There may be global products, but there are not global people.
- *Deglobalization trend*. Current movements in Arab countries and other events show that there could be a return to old values, promoting barriers to the further success of globalization. Rhetorical words such as 'McDonaldization' and 'Coca-Colonization' describe in a simple way fears of US cultural imperialism.

Implications for Your Company

With a starting point in Fig. 4.13, you must find your own position on the scale from 100 % Globalization to 100 % Localization. This position depends on the nature of the product or service, but it also depends on e.g. the degree of culture sensitivity among the global customers. If it is low, the company can choose to launch a global marketing plan. This would also save money on the global launch and provide common values around the global brand. If the culture sensitivity is high, the company can choose to develop a special product and a special communication for this market. If the company realizes that it belongs somehow in the middle of Fig. 4.13's scale, it will probably choose a 'Glocalization' strategy, where it can utilize advantages from each end of the scale.

4.6.2 Global Marketing Planning

Marketing practitioners face five main decisions in connection with the global marketing process. Figure 4.14 shows the five phases of the decision process linked to the information needed in each phase.

The firms using a systematic sequence of steps in the internationalization process are better performers than the firms which do not. The more systematic the approach, the better the performance. Hence, in the remaining sections of this chapter the phases will be discussed further.

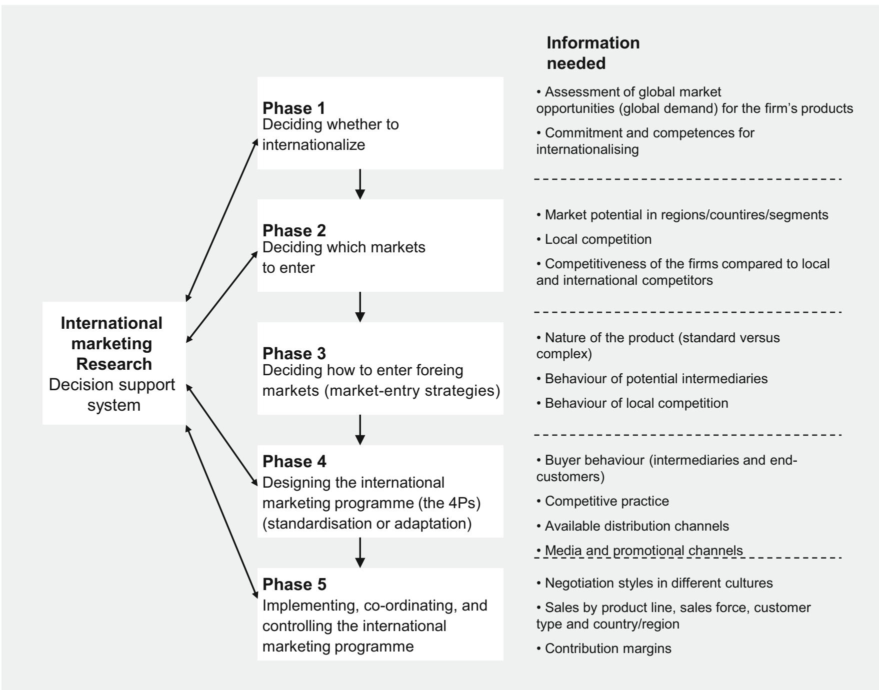

Fig. 4.14 Major steps in global marketing planning. *Source*: Based on Hollensen (2014), p. XX (Preface)

In this book **only Phase 1 and 3 will be further explored**. More in-depth analysis of the other phases can be found in Hollensen (2014).

Phase 1: Deciding Whether to Internationalize: Initiation of Internationalization

In the international marketing literature, the 'staying at home' alternative is not discussed thoroughly. Limited international experience and a weak position in the home market there is little reason for a firm to engage in international markets. Instead the firm should try to improve its performance in its home market.

However, if a firm has already acquired some competences in international business operations, it can overcome some of its competitive disadvantages by going into alliances with firms representing complementary competences.

Table 4.1 Major motives for starting export

Pro-active motives	Reactive motives
• Profit and growth goals	• Competitive pressures
• Managerial urge	• Domestic market: small and saturated
• Technology competence/unique product	• Overproduction/excess capacity
• Foreign market opportunities/market information	• Unsolicited foreign orders
• Economies of scale	• Extended sales of seasonal products

Source: Based on Hollensen (2014), p. 54

The fundamental reason for internationalization, in most firms, is to make money. But as in most business activities, one factor alone rarely accounts for any given action. Usually a mixture of factors results in firms taking steps in a given direction.

Table 4.1 provides an overview of the major motivations to internationalize. They are differentiated into proactive and reactive motives. *Pro-active* motives represent stimuli to attempt strategy change, based on the firm's interest in exploiting unique competences (e.g. a special technological knowledge) or market possibilities. *Reactive* motives indicate that the firm reacts to pressures or threats in its home market or in foreign markets and adjusts passively to them by changing its activities over time.

For internationalization to take place, someone or something within or outside the firm (so-called change agents) must initiate it and carry it through to implementation. Perceptive managements gain early awareness of developing opportunities in overseas markets. They make it their business to become knowledgeable about these markets, and maintain a sense of open-mindedness about where and when their companies should expand overseas.

Often, managers enter a firm having already had some global marketing experience in previous jobs and try to use this experience to further the business activities of their new firm. In developing their goals in the new job, managers frequently consider an entirely new set of options, one of which may be global marketing activities.

The Role of the Individual manager's Network

The individual manager's network or relations from the past can function as enablers and driving forces for internationalization. Thus it becomes meaningful to distinguish between two network levels, the firm and the individual. While firm networks have received considerable attention in recent years, the role of individual networks has largely not been explored in international business research.

The following six categories of the individual's network can be the basis for the driving forces of the firm's internationalization:

1. Contact from past or present workplace
2. Other professional contacts, friends from school, etc.
3. Contacts from clubs (Rotary, golf, etc.)
4. Family, extended family
5. Personal friends, friends' friends
6. Life history.

Once you have 'decided' (pro-active or passive) to internationalize, there are several routes that you can go. Your commitment to additional markets as a rule will be made in small steps, both in the commitment to the market and in the countries or regions entered. There are, however, three exceptions. First, firms that have large resources can take larger internationalization steps as they are still relatively small in comparison with their resources. Second, when market conditions are stable and homogeneous, relevant market knowledge can be gained in ways other than experience. Third, when the firm has considerable experience from markets with similar conditions, it may be possible to generalize this experience to any specific market.

Born Globals

In recent years research has identified an increasing number of firms that certainly do not follow the traditional stages pattern in their internationalization process. For example, if you have just set up an IT company, there is a good chance that your company might turn into a 'Born Global'. They aim at international markets or maybe even the global market right from their birth.

A **'born global'** can be defined as: 'a firm that from its inception pursue a vision of becoming global and globalize rapidly without any preceding long term domestic or internationalization period'.

While some argue that born-globals prefer to access culturally proximate markets initially, to reduce the perceived risk of foreign entry for the young, inexperienced firm, others argue that they seek out opportunities wherever their networks take them. They seek or discover opportunities in larger markets which offer 'economies of scale' and exploit them quickly before a window of opportunity closes.

Born globals represent an interesting case of firms operating under time and space compression conditions that have allowed them to assume a global geographic scope since their start up. This 'time–space compression' phenomenon means that geographical processes can be reduced and compressed into 'here and now' trade and information exchange over the globe.

Born-globals operate in dynamic markets where the windows of opportunity open and close rapidly. Their very survival and success is determined by how quickly, efficiently and holistically they anticipate, and then act upon, foreign opportunities. Unlike older and traditional firms, born-globals face unique challenges in discovering and exploiting foreign market opportunities, because of their short history, lack of resources and accelerated pace of internationalisation.

Internet-Based 'Born Globals' Are Emerging

Born-global managers rely on technical IT knowledge, which captures experiential knowledge about various technological issues embedded in the personal network ties and networks of managers within firms.

Often born globals govern their sales and marketing activities through a specialized network in which they seek partners that complement their own competences; this is necessary because of their limited resources.

In many ways the slow organic process and the accelerated 'born global' pathways are the opposites of one another, at the two extremes of a spectrum (see Fig. 4.15). They also often represent the choice of doing it alone (the organic pathway), while the 'born global' pathway is based on different types of cooperation and partnerships in order to facilitate rapid growth and internationalization.

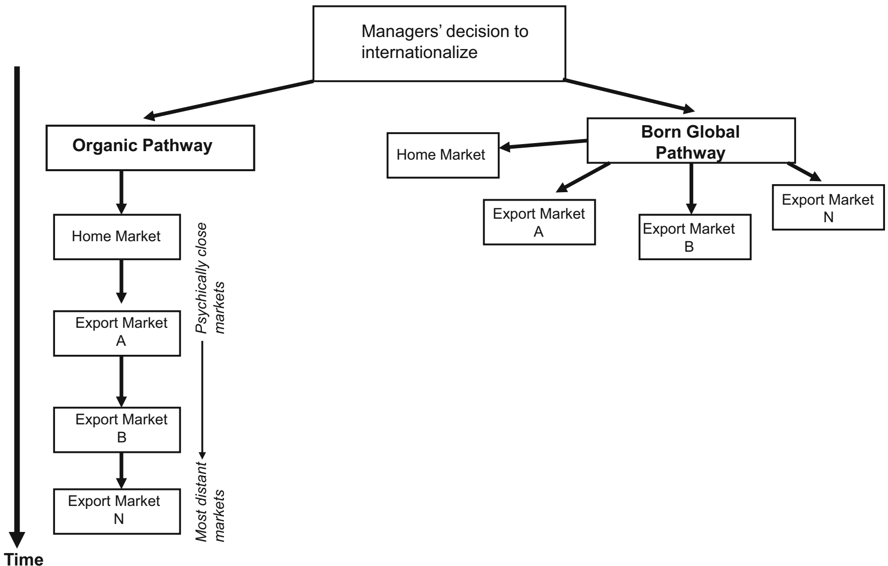

Fig. 4.15 Born globals vs. traditional internationalization. *Source*: Based on Hollensen (2014), p. 92

In spite of the different time frames and prerequisites for the pathways, there are also some common characteristics in all models. Internationalization is seen as a process where knowledge and learning go hand in hand, even in rapid internationalization. Past knowledge contributes to current knowledge of the company. Firms aiming for the 'born global' pathway do not have time to develop these skills in the organic way (inside the firm), they need to possess them beforehand or to be able to acquire them underway, i.e. through collaborating with other firms already possessing these supplementary competences.

Most often 'born globals' must choose a business area with homogeneous and minimal adaptation of the marketing mix. The argument is that these small firms cannot take a multi-domestic approach as can large firms, simply because they do not have sufficient scale in operations worldwide. They are vulnerable because they are dependent on a single product (niche market) that they have to commercialize in lead markets first, no matter where such markets are situated geographically. The reason is that such markets are the key to broad and rapid market access, which is important because these firms often

incur relatively high fixed R&D costs, which occur 'up front', i.e. before any sales are made. Since this is the key factor influencing the choice of the initial market the importance of psychic distance as a market selection criterion is reduced. In order to survive, firms must quickly catch the growth track to cover the initial expenses. Finally, competition for a typical 'born global' is very intense and its products may become obsolete rather quickly (e.g. in the case of software). If a company is to take full advantage of the market potential during its 'global window of opportunity', it may be forced to penetrate simultaneously all major markets.

Phase 3: Deciding How to Enter Foreign Markets (Market Entry Strategies)

Once you have chosen target markets abroad the question arises as to the best way to enter those markets. An international market entry mode is an institutional arrangement necessary for the entry of a company's products, technology and human capital into a foreign country or market.

The chosen market entry mode can be regarded as the first decision level in the vertical chain that will provide marketing and distribution to the next actors in the vertical chain.

For most SMEs, the market entry represents a critical first step, but for established companies the problem is not how to enter new emerging markets, but how to exploit opportunities more effectively within the context of their existing network of international operations.

There is, however, no ideal market entry strategy, and different market entry methods might be adopted by different firms entering the same market and/or by the same firm in different markets.

Seen from the perspective of the manufacturer (international marketer), market entry modes can be classified into three groups:

1. **Export modes**: low control, low risk, high flexibility
2. **Intermediate modes** (contractual modes): shared control and risk, split ownership
3. **Hierarchical modes** (investment modes): high control, high risk, low flexibility.

If you are a SME then you will probably start with Export modes (export intermediaries) in form of agents, importers, dealers or distributors.

Choice of an Export Intermediary

The selection of a suitable intermediary can be a problematic process. But the following sources may help you to find such an export intermediary:

- Asking potential customers to suggest a suitable agent;
- Obtaining recommendations from institutions such as trade associations, chambers of commerce and government trade departments;
- Using commercial agencies;
- Poaching a competitor's agent;
- Advertising in suitable trade papers.

In selecting a particular intermediary the exporter needs to examine each candidate firm's knowledge of the product and local markets, experience and expertise, required margins, credit ratings, customer care facilities and ability to promote the exporter's products in an effective and attractive manner.

Figure 4.16 shows the most important criteria (qualifications) for selecting foreign distributors and agents, grouped in five categories.

After listing all important criteria, some of these must then be chosen for a more specific evaluation, where the potential candidates are compared and contrasted against determining criteria.

The specific criteria to be used depend on the nature of a firm's business and its distribution objectives in given markets. The list of criteria should correspond closely to the marketer's own determinants of success—all the things that are important to beating the competition. Figure 4.17 shows a limited number of screening criteria that have been selected for a specific choice of an agent in a specific country.

Figure 4.17 shows the matchmaking of a manufacturer and its 'wish'-profile, and two potential intermediaries and their performance profiles in a particular market.

Overall Qualifications / selection criteria				
Financial & Company Strengths	**Product Factors**	**Marketing Skills**	**Commitment**	**Facilitating Factors**
•Financial soundness •Ability to finance initial sales and subsequent growth •Ability to raise additional funding •Ability to provide adequate promotion and advertising funds •Product and market expertise •ABility to maintain inventory •Quality of management team •Reputatuion among current and past customers •Ability to formulate and implement 2 to 3 year marketing plans	•Quality and sophistication of product lines • Product complementarity (synergy or conflict?) •Familiarity with the product •Techical know-how at staff level •Condition of physical facilities •Patent security	•Marketing management expertise and sophistication • Ability to provide adequate geographic coverage of the market •Experience with target customers •Customer service •On-time deliveries •Sales force •Market share •Participation in trade fairs •Member in trade associations	• Willingness to invest in sales training •Commitment to achieving minimum sales targets •Positive attitude towards the manufacturer's product programme •Undivided attention to product •Willing to commit advertising resources •Willing to drop competing product lines •Volatility of product mix •Percent of business accounted by a single supplier •Willing to keep sufficient inventory	•Connections with influential people (network) •Working experience / relationships with other manufacturers (exporters) •Track record with past suppliers •Knowledge of the particular business •Government relations •Proficiency in English

Fig. 4.16 Criteria for selecting foreign agents and distributors. *Source*: Based on Hollensen (2014), p. 579

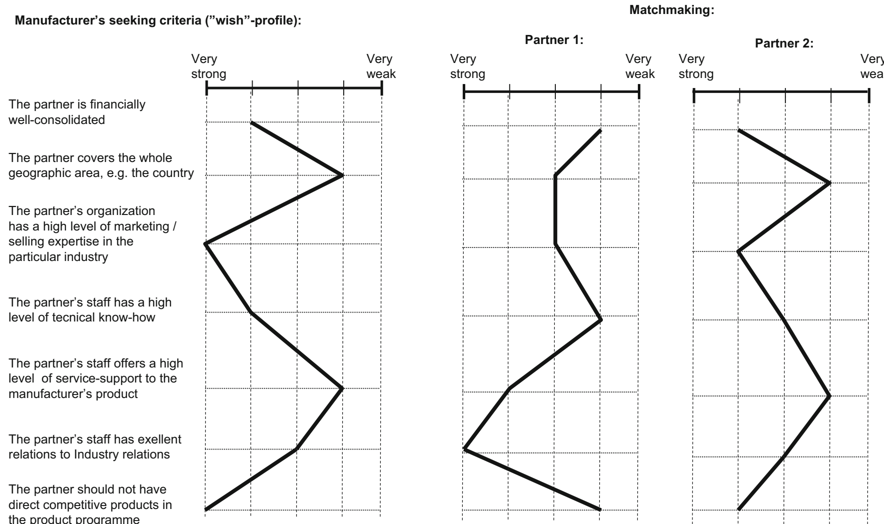

Fig. 4.17 Manufacturers' screening and selection of potential partners in international marketing. *Source*: Based on Hollensen (2014), p. 355

If Partners 1 and 2 were the only potential candidates for the manufacturer, Partner 2 would probably be chosen because of the better match of profiles between what the manufacturer wants on the market (‘wish’-profile) and the performance profile of Partner 2.

When an intermediary is selected by the exporting manufacturer it is important that a contract is negotiated and developed between the parties. The foreign representative agreement is the fundamental basis of the relationship between the exporter and the intermediary. Therefore the contract should clearly cover all relevant aspects and define the conditions upon which the relationship rests. Rights and obligations should be mutually defined and the spirit of the agreement must be one of mutual interest.

For most exporters the three most important aspects of their agreement with foreign representatives are sole or exclusive rights, competitive lines and termination of the agreement. The issue of agreeing territories is becoming increasingly important, as in many markets distributors are becoming fewer in number, larger in size and sometimes more specialized in their activity. The trend to regionalization is leading distributors increasingly to extend their territories through organic growth, mergers and acquisitions, making it more difficult for firms to appoint different distributors in individual neighboring markets.

In general there are some principles that apply to the law of agency in all nations:

- An agent cannot take delivery of the principal’s goods at an agreed price and resell them for a higher amount without the principal’s knowledge and permission.
- Agents must maintain strict confidentiality regarding their principal’s affairs and must pass on all relevant information.
- The principal is liable for damages to third parties for wrongs committed by an agent ‘in the course of his or her authority’ (e.g. if the agent fraudulently misrepresents the principal’s firm).

During the contract period the support and motivation of intermediaries is import-ant. Usually this means financial rewards for volume sold, but there can also be other means:

- Significant local advertising and brand awareness development by the supplying firm;
- Participation in local exhibitions and trade fairs, perhaps in cooperation with the local intermediary;
- Regular field visits and telephone calls to the agent or distributor;
- Regular meetings of agents and distributors arranged and paid for by the supplying company in the latter's country;
- Competitions with cash prizes, free holidays, etc., for intermediaries with the highest sales;
- Provision of technical training to intermediaries;
- suggestion schemes to gather feedback from agents and distributors;
- Circulation of briefings about the supplying firm's current activities, changes in personnel, new product developments, marketing plans, etc.

Evaluating International Distribution Partners

Even if you have been very careful in selecting intermediaries a need can arise to extricate oneself quickly from a relationship that appears to be going nowhere.

In the process of evaluating international distribution the two most important criteria for are:

1. The performance of the distributor partner;
2. The general attractiveness of the market where the partner operates.

Performance can be evaluated by using criteria like achieved turnover and market share, profits generated for the manufacturer, established network to potential customers, etc. The country (market) attractiveness can be evaluated by using criteria, for example, market size and market growth.

4.7 Social Media Marketing

When you sell and buy you will experience that it is part of a social process. It involves not only a one-to-one interaction between the company and the customer but also many exchanges of information

and influence among the people who surround the customer. Consumers are much more trusting in friends and colleagues than they are in TV advertising or corporate communication. *Word-of-Mouth (WoM)* has shown many more times more effective than traditional print advertising in impacting brand switching decisions.

Word-of-mouth and conversations can take place off-line and on-line. Like any conversation, in a café, the content varies. Some conversations are serious and some fun, some are short and some long, some happy and some angry and intense. In on-line conversations consumers' experiences with brands and services are often openly discussed, whether companies are involved or not. In this way, consumers are becoming more powerful. Clearly monitoring the on-line conversations and intervening, when appropriate, has advantages to brand managers in any B2B or B2C company. Such monitoring can lead to a better understanding of consumer behavior and feelings of the market mood. It can lead to changes in the different parts of the marketing mix.

Web 2.0. Web 2.0 websites allow you to do more than just retrieve information, as this was mainly the case with Web 1.0. Web 2.0 transforms broadcast media monologues (one-to-many = Web 1.0) into social media dialogues (many-to-many). The term Web 2.0 was first used in 2004 to describe a new way software developers and end-users started to utilize the internet to create content and applications that were no longer created and published by individuals, but instead continuously modified by all users in a participatory and collaborative fashion. The popularity of the term Web 2.0, along with the increasing use of blogs, wikis, and social networking technologies, has led many in academia and business to work with these 'new' phenomena. For marketers, Web 2.0 offers an opportunity to engage consumers. A growing number of marketers are using Web 2.0 tools to collaborate with consumers on product development, service enhancement and promotion. Companies can use Web 2.0 tools to improve collaboration with both its business partners and consumers. Among other things, company employees have created wikis, which are Web sites that allow users to add, delete and edit content, and to list answers to frequently asked questions about each product, and consumers have added significant contributions.

Another Web 2.0 marketing feature is to make sure consumers can use the online community to network among themselves on content that they choose themselves. Besides generating content, the Web 2.0 Internet user tends to proactively bring in a whole new perspective on established processes and approaches, so that the users create innovative ideas for the future development of companies.

Social Media. Social media are Internet-based technologies that facilitate online conversations and encompass a wide range of online, word-of-mouth forums including social networking websites, blogs, company sponsored discussion boards and chat rooms, consumer-to-consumer e-mail, consumer product or service ratings websites and forums, Internet discussion boards and forums, and sites containing digital audio, images, movies, or photographs, to name a few. Since 2009, the official company and brand web sites have typically been losing audience. This decline is believed to be due to the emergence of social media marketing by the brands themselves, an increasingly pervasive marketing practice.

According to ebizmba.com the world's largest social networking site is Facebook, which was initially founded by Mark Zuckerberg in order to stay in touch with his fellow students from Harvard University. In September 2013 the five most popular social websites (exclusive YouTube and Google) were (number of unique visitors worldwide per month):

1.	Facebook	750 million
2.	Twitter	250 million
3.	LinkedIn	110 million
4.	Pinterest	86 million
5.	MySpace	71 million

For social media usage and development, the diversity of languages is creating communication challenges on a global basis. Facebook has 750 million weekly users, with more than 70 % outside the United States. To effectively communicate with non-English users, Facebook has 70 translations available on its site made possible by a vast network of 300,000 volunteers and translators. Facebook and Twitter are mostly interactive social media on an intimate level. As such, these platforms offer direct selling companies means of

communicating with key stakeholders (customers and distributors) in the industry. On the other hand, YouTube, with its more traditional one-way audience communication, appears to be used more effectively for recruiting consumers to become distributors of information or products.

One of the 'shooting stars' during the last years is LinkedIn, which is a social networking website for people in professional occupations. Launched in 2003, it is mainly used for professional networking. While Facebook, YouTube, and Twitter continue to dominate social media in the US and Europe some other countries, the global scene tells a different story. In Germany, Russia, China and Japan, the most visited social networking site is not Facebook but home-grown rivals.

Integrated marketing communications (IMC) have traditionally been considered to be largely one-way in nature ("Bowling"—see Fig. 4.18). In the old paradigm, the organization and its agents developed the message and transmitted it to potential consumers,

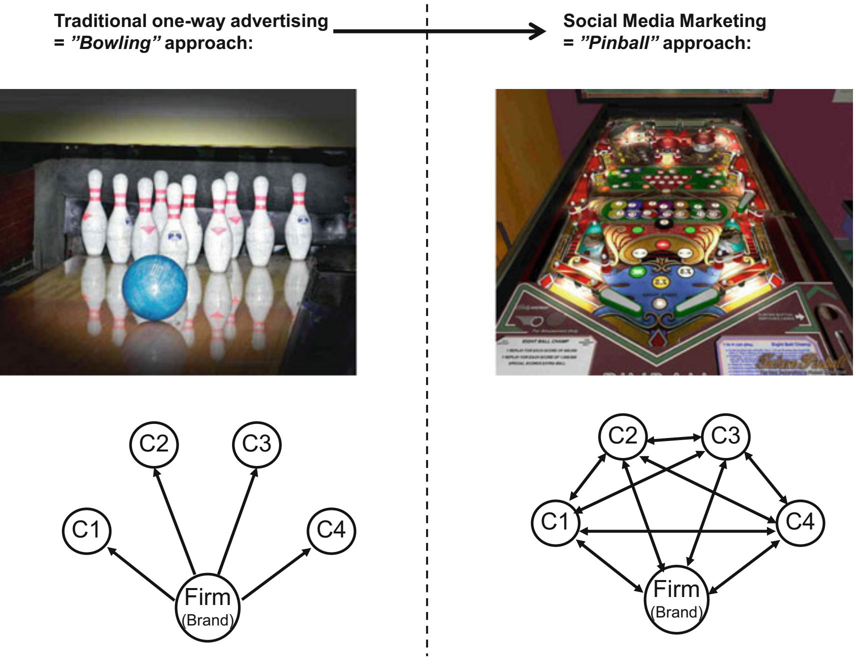

Fig. 4.18 From "Bowling" to "Pinball"

who may or may not have been willing participants in the communication process. The control over the dissemination of information was in the hands of the firm's marketing organization. The traditional elements of the promotion mix (advertising, personal selling, public relations and publicity, direct marketing and sales promotion) were the tools through which control was asserted.

The twenty-first century is witnessing an explosion of Internet-based messages transmitted through these media. They have become a major factor in influencing various aspects of consumer behaviour including awareness, information acquisition, opinions, attitudes, purchase behaviour and post-purchase communication and evaluation. Unfortunately, the popular business press and academic literature offers marketing managers very little guidance for incorporating social media into their IMC strategies.

Social networking as communication tools has two interrelated promotional roles:

1. Social networking should be consistent with the use of traditional IMC tools. That is, companies should use social media to talk to their customers through such platforms as blogs, as well as Facebook and Twitter groups. These media may either be company-sponsored or sponsored by other individuals or organizations.
2. Social networking is enabling customers to talk to one another. This is an extension of traditional word-of-mouth communication. While companies cannot directly control such consumer-to-consumer (C2C) messages, they do have the ability to influence the conversations that consumers have with one another. However, consumers' ability to communicate with one another limits the amount of control companies have over the content and dissemination of information. Consumers are in control; they have greater access to information and greater command over media consumption than ever before.

Marketing managers are seeking ways to incorporate social media into their IMC strategies. The traditional communications paradigm, which relied on the classic promotional mix to craft IMC strategies, must give way to a new paradigm that includes all forms of social media as potential tools in designing and implementing IMC

strategies. Contemporary marketers cannot ignore the phenomenon of social media, where available market information is based on the experiences of individual consumers and is channeled through the traditional promotion mix. However, various social media platforms, many of which are completely independent of the producing/sponsoring organization or its agents, enhance consumers' ability to communicate with one another.

4.7.1 From "Bowling" to "Pinball"

Although a little oversimplified, marketing in the pre-social media era was comparable to "**Bowling**" (see Fig. 4.18).

A game of bowling shows how you may have traditionally communicated with your consumers, with the firm and the brand (the bowler) rolling a ball (the brand communication message) towards the pins (our target customers). Clearly this is a very direct one-way communication approach. This is the old traditional push model. Marketers targeted certain customer groups and sent out their advertising messages like precisely bowled bowling balls. They used traditional media to hit as many bowling pins as possible. One key characteristic of this bowling marketing game was the large amount of control the company retained over marketing communication because consumers were given only limited freedom of action.

For many bigger companies a large TV-budget has been the ball that marketers rolled down the lane, trying to hit as many the pins as possible. Marketers were in control, happily counting how many "pins" they had hit, and how often. Success in this game was clear-cut, and the metrics clear.

In a social media marketing world, the bowling metaphor does not fit anymore. On this arena marketing can be better described as playing **"Pinball":** Companies serve up a "marketing ball" (brands and brand-building messages) into a dynamic and chaotic market environment. The "marketing ball" is then diverted and often accelerated by social media "bumpers", which change the ball's course in chaotic ways. After the marketing ball is in play, marketing managers may continue to guide it with agile use of the "flippers" but the ball does not always go where it is intended to.

Consequently, in the "pinball" world, you cannot know outcomes in advance. Instead, marketers have to be prepared to respond in real time to the spin put on the ball by consumers. When mastered well, the pinball game can deliver big point multipliers, and if you are very good, even more balls can be shot into the game. A reason for this may be that today consumers have a large audience to bring up new topics on the communication agenda. In the ideal situation, you are **reaching networked influencers, advocates, and other high-value consumers**, who may sustain and spread positive conversations about the brand across multiple channels.

Occasionally, the marketing ball will come back to us. At this point, we as firm (brand) have to use the flippers to interact and throw it back into the social media sphere. If we as a brand do not feed the social marketing media sphere by flipping communications back, the ball will finally drop through the flippers and on longer term, the two way relationship between consumers and the firm (brand) will die.

4.7.2 The 6C Model of Social Media Marketing

The social media (e.g. Facebook or Twitter) are essentially vehicles for carrying content. This content—in form of words, text, pictures and videos—is generated by millions of potential customers around the world, and from your perspective (= company's perspective) this can indeed be an inspiration to create further value for these customers.

Figure 4.19 defines six distinct, interrelated elements (Cs) that explain the creation and retention of consumer engagement, seen from a company perspective; however the user-generated contents still plays an important role in the model.

Company

The 6C model begins with the company and the content it creates. Basically, the Internet remains a 'pull' medium, in the way that firms seek to pull viewers to its content, and finally to the company itself. However, before any 'pull' can happen, the content has to be pushed (seeded) forward in the chain. Content can take the form of e.g. a Facebook product or brand page, and/or a YouTube video pushed out

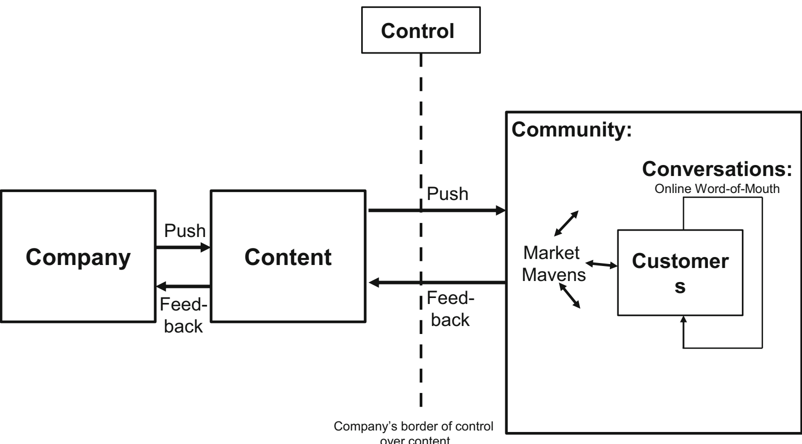

Fig. 4.19 The 6C model (Company, Contents, Control, Community, Consumers, Conversation). *Source*: Based on Hollensen (2014), p. 633

to viewers. Consequently, content pushed into the social media sphere by a company acts as a catalyst for our model of engagement or participation.

Control

The dashed line denoting control in the 6C model is intended to represent a wall beyond which the company let over control of its brand to the online community and the customers. In order to accelerate the viral uptake of its brand messaging, the company sometimes gives up the digital rights and blocks in order to encourage online community members to copy, modify, re-post, and forward the content. The content is intended to be copied and/or embedded into people's websites, blogs, and on Facebook walls. The key point to this stage in the process is that the company (the content creator) must be willing, and even embrace, the fact that they no longer have full control over the content: it is free to be taken, modified, commented on, and otherwise appropriated by the community of interest. This may challenge the conventional 'brand management' wisdom stating that managers must keep control of brand image and messaging.

Community

The company creates content and pushes it over the symbolic border of control to the other side, where a community of interested

consumers now takes it up. At this point, communication becomes bidirectional. The use of arrows in Figure for push and pull, attempts to reflect the 'give-and-take' that goes on between a community and the company, represented by the content creators. In its simplest form, it is reflected in the art of commenting: posting reactions, on Facebook or YouTube, to the content. In some cases the company can even lean about 'customer behaviour' in the market by following these online community discussions. In an ideal world, a series of reflexive conversations take place in the community, independent of any action by the company, which will often have a passive role as an observer.

When transferring the 'content' into the online community, the company and the content providers often try to target the 'Market Mavens', which are defined as individuals who have access to a large amount of marketplace information, and proactively engage in discussions with other online community members and customers to diffuse and spread this content.

Market mavens are typically the first to receive the message and transmit it to their immediate social networks. They function as connectors or bridges between different subcultures and their network of social hubs can facilitate immediate transmission of the content to thousands of online community members (Hollensen 2014).

Customers and Online Conversation

The ultimate expression of engagement occurs when a multitude of online conversations circle around the phenomenon and content, as illustrated above. The 6C model distinguishes between the online community and potential customers, as the latter are usually a subset of the former. The online community may also include people who have heard of the Web-based initiative but not directly participated in it.

In general, there seems to be a growing escalation in participation on the part of customers; a willingness to engage with a brand that extends beyond just purchase decisions at the point of sale.

Social media further extend the conversations between marketers and consumers through a feedback loop. The company may have chats with the online community in hopes of influencing purchase decisions. Moreover, social media initiatives provide marketers a glimpse into the world of customer-to-customer communication,

which represents a significant extension of the more traditional advertising and word-of-mouth communication.

Furthermore, social media provide insights into the behaviour of non-customers. Most social media marketers try to trigger buzz among prospective customers. This has led to social sharing whereby online community member broadcast their thoughts and activities to strangers all over the world. This social sharing has opened the lives of individual consumers that companies can then exploit to tailor their offerings to better match preferences (Hollensen 2014).

A good example of how to leverage social media marketing in communication campaigns can be found in the 2011 worldwide introduction of BMW 1 Series M Coupé (Mrkwicka et al. 2012). This case shows how social media can generate buzz already in the pre-communication phase. Through such a buzz strategy (using Facebook, video clips, involving car journalists, TV shows like 'Top Gear' etc.) BMW was able to spark interest in the target group and generate leads with a little budget.

For you as a marketer, what you can learn from this case is that generating leads should be the main driver in the pre-communication stage. Therefore, a consistent landing platform should be an essential part of each social media campaign. All social media marketing activities have to encourage registration of the potential customers, in order to follow up with more personalized communication, which could lead to a specific purchase of the product.

Step 3: Marketing Implementation—Executing the Marketing Plan

5

Your marketing plan might seem brilliant on paper, but if you are not implementing it in the real world it is worth nothing. Your marketing plans should be about creating and retaining relationships to your current and potential new customers.

5.1 CRM, KAM and GAM

Customer Relationship Management (CRM) systems gained popularity in the late 1990s and into the new millennium.

CRM can be defined as a business strategy designed to optimize profitability, revenue and customer satisfaction by organizing the enterprise around customer segments, fostering customer-centric behaviors and implementing customer centric processes. Profiling of the customer, ensuring satisfied employees and delivering superior value would help the cause of CRM. In CRM, the firm is expected to focus on its key customers. The key customers can be defined as those whose needs can be fulfilled by the competencies possessed by the firm. Therefore, at the primary level, firms need to decide the nature of customers that it would be capable of serving. The customers should be chosen not only on the basis of their demographic profiles, but also on the basis of psychographic profiles, nature of need fulfilment, frequency of usage, stage in life cycle etc.

CRM aims at differentiation among customers and the objective of the company is to enable personalization of products and services to suit the requirement of the customers. Today companies depend on vast quantity of information to build rapport with customers since the

N. Bickhoff et al., *The Quintessence of Marketing*, Quintessence Series, DOI 10.1007/978-3-642-45444-8_5,
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use of e-business reduces face-to-face interactions with customers. It has also been acknowledged that the relationships with customers can be enhanced through the use of information technology. Companies using the internet for marketing (such as, Amazon.com) find it relatively easy to personalize the offerings for customers based on the previous transactions that have been captured and analyzed.

Many companies are realizing the need for in-depth customer knowledge to enable more cooperative relationships and also to be able to identify the profitable customers. Research has shown that for most businesses, a relatively small number of customers contribute the bulk of the revenue. It has been pointed out that CRM can be used as the tool to help in identifying the profitable customer groups based on their purchase behavior and filtering out the non-profitable customer groups.

As the cost of customer acquisition increases, firms need to use better targeting. Researchers have pointed out that there is a strong need to better leverage customers' purchase behavior in one category in order to make inferences about their potential purchases in other product categories. Therefore, for CRM to be effectively used, it is necessary to analyze the purchases made by customers and, thereafter, create customer segments on the basis of their exhibited purchase behavior. The categories of customers can be decided on the basis of: purchase value, affinity towards product categories, channel preferences, purchase frequency, etc.

5.1.1 Types of Relationships

There has been a tendency that CRM is analyzed in a dyadic relationship, but in our complex marketing world there is a need to broaden this approach, because the final outcome of the marketing plan is dependent on other relationships than the 'focal firm'—buyer relationship (see Fig. 5.1).

It is possible to study relationships in different contexts. Figure 5.1 presents a context where it is possible to study relationships in three ways.

The dyadic relationship is the basic irreducible building block of inter-firm relationships. It can be used as the basis for studying a number of marketing phenomena ranging from buyer–seller

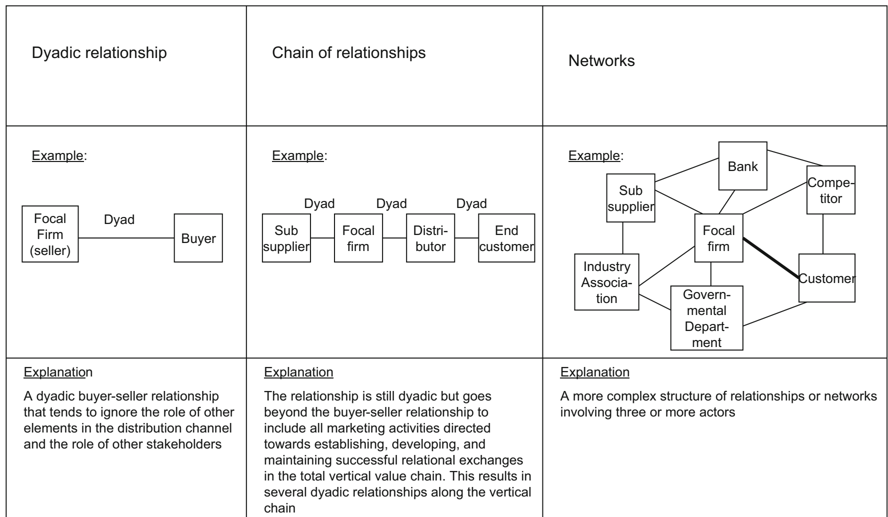

Fig. 5.1 Forms of relationships. *Source*: Based on Hollensen (2010), p. 16

relationships, salesperson–purchasing agent interactions to inter-firm relationships and strategic alliances.

Thus a chain of relationships' key distinction from CRM is that although the unit of analysis is still dyadic, the dyad can be other than one buyer–seller relationship. Furthermore, more than one dyad can be involved in any given exchange.

From the relationship background, network theory evolved when researchers started looking beyond simple dyadic relationships and began to concentrate their research effort on the more complex structures of networks. Network theory has been based on the players–activities–resources model which suggests that networks are dynamic entities exhibiting interdependence and connectedness between actor bonds, activity links and resource ties. Networks that involve three or more players place great emphasis on the role of marketing in building and managing relationships with a company's many **stakeholders**, which could include suppliers, competitors, governments and employees, as well as customers.

Characterizing CRM Relationships on a Continuum

Managing CRM supplier-buyer relationships involves a consideration of a multiplicity of different relationship types. Whether relationship types can be thought of as a continuum, or as radically different

Always-a-share customer Transaction focus	Lost-for-good customer Relationship focus
• Lower switching costs (suppliers are largely interchangeable) • Smaller investment actions • Single sale • Discontinuous customer contact • Focus on product features • Short term scale • Little emphasis on customer service • Limited commitment to meeting customer expectations • Quality is the concern of production staff • Low transaction costs • Lower importance	• High switching costs • Substantial investment actions, especially in procedures and lasting assets • Customer retention • Continuous contact • Focus on product benefits and the technology behind • Long term scale • High emphasis on customer service • High commitment to meeting customer expectations • Quality is the concern of all staff • High transaction costs • Higher importance: strategic, operational and personal
Examples of products Airline tickets, print services, office supplies, bulk chemicals, PCs office supplies	Examples of products Telecommunication systems, franchises, computer system (e.g. CRM systems)

Fig. 5.2 The marketing relationship continuum. *Source*: Based on Hollensen (2010), p. 199

approaches, is a matter for debate. However, the close and distant opposites are two types that can readily be understood and managed. Jackson (1985) examined the difference between close (lost-for-good) and transaction (always-a-share) customers and developed a framework for managing this difference (see Fig. 5.2).

Always-a-share and lost-for-good represent different ends of a continuum of exchange situations. Sellers will retain customers by giving good service and responding to customer needs. Differentiating the offering on dimensions that forge structural ties and create exit barriers will tend to move the relationship toward the lost-for-good variety. For example, an always-a-share supplier might move from a fill-in role to become a major supplier by meeting customer criteria for becoming a preferred supplier. The standards for preferred supplier vary from firm to firm, but often include quality programmes, employee safety and training efforts, and delivery specifications.

Always-a-Share Customers

These customers can allocate their purchases to several vendors. A period of no purchases can be followed by a period of high purchases.

The always-a-share customer purchases repeatedly from some product category, displays less loyalty or commitment to a particular

supplier, and can easily switch part or all of the purchases from one vendor to another. Because of low switching costs, these customers may share their patronage over time with multiple vendors and adopt short-term commitments with suppliers.

Lost-for-Good Customers

Relationships cemented by switching costs are called *lost-for-good relationships* because the prospects of a customer making a costly switch to a competitor followed by a costly return to the first are remote—probably weaker than a cold-call prospect. It is not likely that the customer would pay the switching costs again to return to the first firm.

Customers are tied to a system. They face significant switching costs which may include:

- Specific investments
- Cancellation penalties
- Set-up costs for a new supplier
- Finding and evaluating a new supplier.

The lost-for-good customer makes a series of purchases over time, and views the commitment to a particular supplier as relatively permanent. Once won, this type of account is likely to remain loyal to a particular supplier for a long time. If lost, however, it is often lost for good.

The behaviour of many customers in the business market is somewhere between a pure transaction focus and a pure relationship focus. The particular position that a customer occupies depends on a host of factors: the characteristics of the product category, the customer's pattern of product usage, and the actions taken by both the supplier and the customer.

Implications for Relationship Marketing Strategies

Business marketers often have a portfolio of customers who span the whole customer behaviour spectrum. Some emphasise low price and a transaction perspective while others place a premium on substantial service and desire a more collaborative relationship. Indeed, some customers fall somewhat in the middle of the account spectrum and represent accounts that might be effectively upgraded to a level that

adds value to the relationship for both parties. To develop responsive and profitable relationship marketing strategies, special attention must be given to four areas: selecting accounts, developing account-specific product offerings, implementing relationship strategies, and evaluating relationship strategy outcomes.

A relationship with customers targeted on strong and lasting commitments is especially appropriate for lost-for-good accounts. Business marketers can sensibly invest resources in order to secure commitment and to aid customers with long-term planning. Given the long-term nature and the considerable stakes involved, customers are concerned both with marketers' long-term capabilities and with their immediate performance. Because the customers perceive significant risk, they demand competence and commitment from the selling organisation.

5.1.2 Developing and Managing CRM Relationships

Certainly there are some interesting parallels between them, and by considering the personal aspects of relationship development it is possible to arrive at a better understanding of the business issues. Sometimes human relationships and business relationships are quite 'blurring'. Figure 5.3 illustrates that the business relationship can develop from acquaintances and "romance" to business partnerships and "marriage".

A relationship between two firms begins, grows and develops—or fails—in ways similar to relationships between people.

Firms have to be aware of these potential problems before they go into a relationship, because only in that way can they take action to prevent the dissolution phase. By jointly analysing the extent and importance of the attenuating factors, the partners will become more aware of the reasons for continuing the relationship, in spite of the trouble they are already in. Moreover, this awareness increases the parties' willingness to engage in restorative actions, thus trying to save the relationship from dissolution.

Managerial Implications

Managers may consider relationship termination as a strategic decision. Firms should evaluate which relationships to initiate, which to

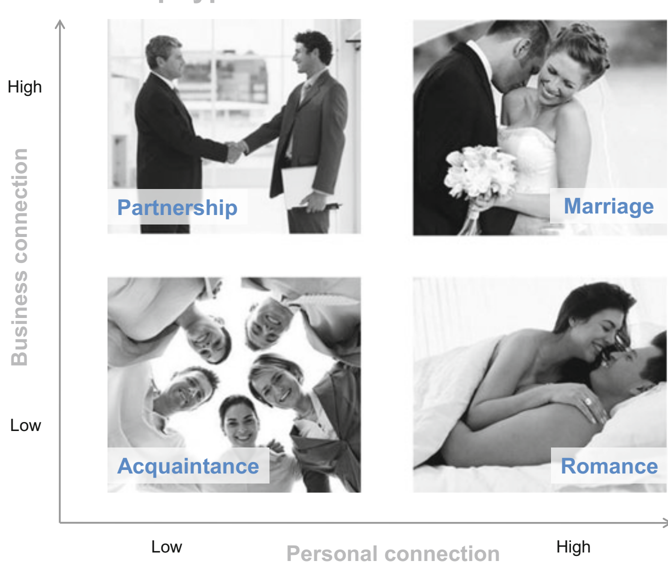

Fig. 5.3 From "acquaintances" to "marriage" in CRM. *Source*: Based on Hollensen (2010), p. 192

develop, which to continue to invest in and also which to discontinue. Once a firm has made the decision to discontinue or terminate a relationship, it should be aware that there is a range of termination strategies which may be employed. The firm could be looking for strategies that could be labelled 'beautiful exits'. A beautiful exit is achieved by a strategy that minimises damage occurring to the disengager, the other party and the connected network.

In fact there is a lot to learn from all types of personal relationships, not just marriage. After all, business relationships are not impersonal; they depend entirely on the people who represent the supplier and the customers.

As seen, it is desirable for both the seller and the customer to maintain a long-term relationship. A relationship is warranted in a situation where there is congruence between goals of the seller and the customer, meaning where the organisation and the customer realise that the potential gains from acting cooperatively will exceed the gains from acting opportunistically. From a strategic perspective, the seller wants to maintain a long-term relationship with a customer

because it is generally much cheaper to keep an existing customer than to attract a new customer; a long-term customer can provide feedback on existing products and insights into new or re-engineered products; and a long-term customer almost becomes part of the selling team because it can provide recommendations and encourage new business.

Many salespeople waste a great deal of time cold-calling or trying to breathe life into old customer leads. That is because they cannot see clearly into prospective firms to know when the companies are getting ready to buy. Figure 5.4 shows a screening process of finding new qualified opportunities and proposals that can make the process of finding a new customer much easier (left side).

Once the salesperson has identified a new customer, and this customer has actually bought something, the new challenge is to turn is this customer into a loyal customer by cross-selling and up-selling.

Cross-selling is defined as selling more products or service to an existing customer. In practice businesses define cross-selling in many different ways. Unlike the acquiring of new business, cross-selling involves an element of risk that existing relationships with the client could be disrupted. For this reason it is important to ensure that the

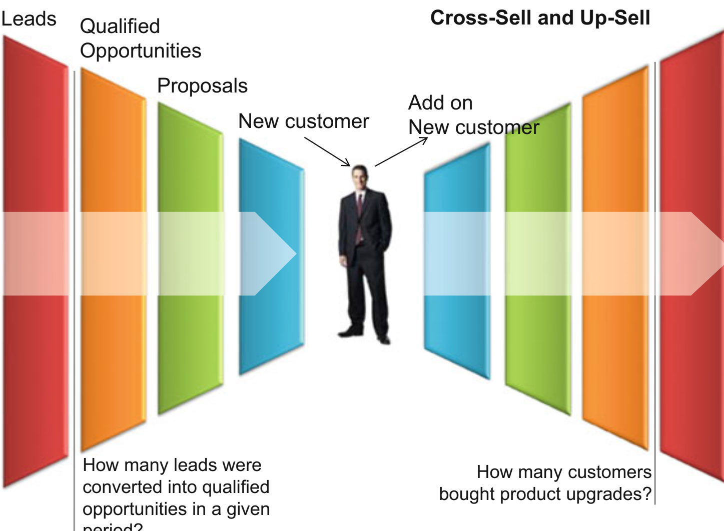

Fig. 5.4 Gain and retain customers. *Source*: Based on Hollensen (2010), p. 361

additional product or service being sold to the client(s) enhances the value the client(s) get from the organisation.

Up-selling is a sales technique whereby a salesperson attempts to have the customer purchase more expensive items, upgrades or other add-ons in an attempt to make a more profitable sale. Up-selling usually involves marketing more profitable services or products, but up-selling can also be simply exposing the customer to other options he or she may not have considered previously.

5.1.3 Key Account Management

The emergence of relationship marketing has led to a growing interest in acquiring and retaining customers through relationship management. Consequently, Key Account Management (KAM) is a natural development of customer focus in B2B markets. It offers critical benefits and opportunities for profit enhancement to both sides of the seller-buyer dyad.

KAM can be understood as a relationship-oriented marketing management approach focusing on dealing with major customers in the business-to-business market. Key accounts are customers in a business-to-business market identified by selling companies to be of strategic importance.

KAM is a management concept, including both organisational and selling strategies, to achieve long-lasting customer relationships. Key account manager is one of the most popular job titles today in the area of marketing management in companies operating in the business-to-business market. It has been used in several contexts, but the nature of this approach is very unclear and requires further conceptualisation.

A key account manager is the person in the selling organisation who represents the seller's capabilities to the buying company, the buyer's needs to the seller, and brings the two together. Successful KAM often requires an understanding of the logic of both product and service management. Moreover, excellent operational level capabilities are useless if strategic level management is inferior, and vice versa—the KAM approach combines strategic and operational level marketing management.

The starting point for the following is the firm that wishes to implement KAM. The development of KAM is examined from a dyadic perspective.

The firm that wants to implement successful KAM with suitable key accounts may go through the following four steps:

1. Identifying the selling firm's key accounts;
2. Analysing the key accounts;
3. Selecting suitable strategies for the key accounts;
4. Developing operational level capabilities to build, grow and maintain profitable and long-lasting relationships with key accounts.

A KAM relationship with customers targeted on strong and lasting commitments is especially appropriate for lost-for-good customers. Business marketers can sensibly invest resources in order to secure commitment and to aid customers with long-term planning. Given the long-term nature and the considerable stakes involved, customers are concerned both with marketers' long-term capabilities and with their immediate performance. Because the customers perceive significant risk, they demand competence and commitment from the selling organisation.

If we transfer this to Fig. 5.5, the upper figure ('bow-tie') illustrates the always-a-share and the lower figure ('diamond') illustrates the lost-for-good. In the traditional 'bow-tie' relationship, the purchasing agent and the salesperson assume the primary roles in the exchange process. At this stage, the seller is concerned with identifying the opportunities for account penetration once the account has been won. This is probably the most typical sales relationship, the classic bow-tie.

Adapted solutions are needed, and the key account manager will focus on understanding more about the customer and the market in which that customer is competing. The buyer will still be market testing other sellers. The seller must concentrate hard on product, service and intangibles—the buyer wants recognition that the product offering is the prime reason for the relationship—and expects it to work.

Relational exchanges, in contrast, have a structure similar to the 'diamond' where the boundaries between the firms become more

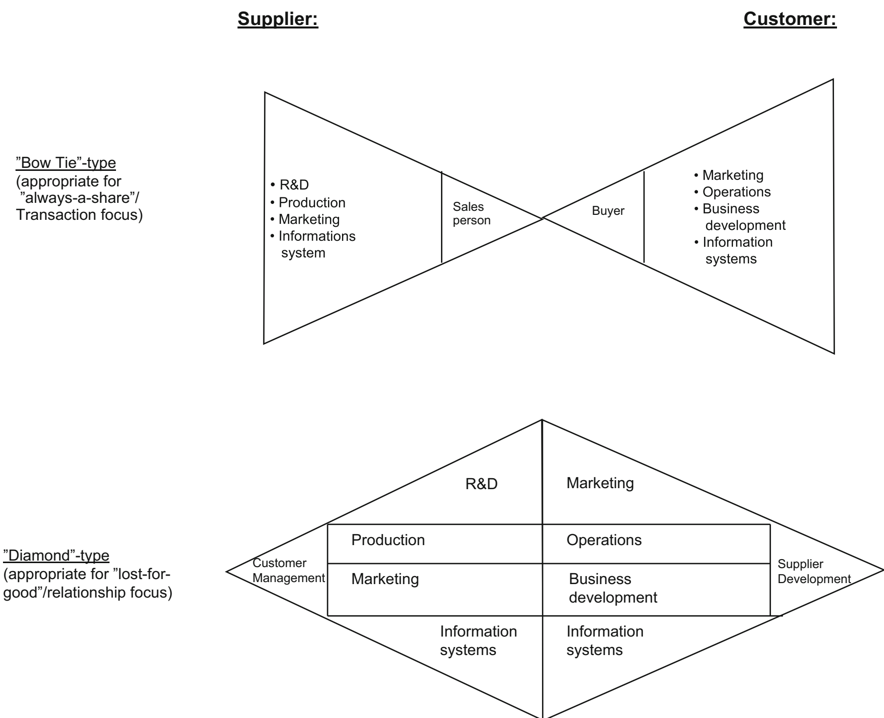

Fig. 5.5 KAM—Organization of buyer-seller relationship. *Source*: Based on Hollensen (2014), p. 722

opaque. Interactive, cross-functional teams now openly exchange ideas for improving efficiency and effectiveness. The goal is to create new value together.

Perhaps the most important prerequisite for the 'diamond' model is the need for a high level of 'connectivity' between the firm and its strategic suppliers. This implies not just the exchange of information on demand and inventory levels, but multiple, collaborative working relationships across the organisations at all levels. It is increasingly common today for companies to create supplier development teams that are cross-functional and, as such, are intended to communicate with the equivalent customer management team in the supplying organisation.

When this "diamond" type of KAM is reached, the seller is seen by the buyer as a strategic external resource. The two companies will be sharing sensitive information and solving problems jointly. Pricing

will be long term and stable, and it will have been established that each side will allow the other to make a profit. If a major disadvantage of the bow-tie KAM was the denial of access to customers' internal processes and to their market, the main advantage of the diamond relationship is realizing that those barriers of understanding opening up. Key accounts will test all the seller's innovations so that they have first access to, and first benefit from, the latest technology. The buyer will expect to be guaranteed continuity of supply and access to the best material. Expertise will be shared. The buying company will also expect to gain from continuous improvement. There may be joint promotions, where appropriate.

Despite numerous advantages, Key Account Management has shortcomings and limitations. Primarily for the supplier, it faces a difficulty in determining the key accounts. Criteria such as sales volume have been questioned a lot. Also the powerful customers may try to make pressure on the suppliers for lower prices, sometimes resulting in relationships with the largest customers becoming unprofitable for suppliers.

Summing up, Key Account Management is an effective relationship management mechanism provided that the firms build the appropriate database of key accounts with respect to their adequacy on the customer contribution margin. Finally, firms should frequently measure and monitor the results of Key Account Management implementation in order to take corrective action if necessary and to reclassify where appropriate.

5.1.4 Global Account Management

If you are a small supplier of e.g. autoparts for personal cars, GAM may very well be relevant for you, especially if your customers have operations (production, distribution etc.) all over the world. Then you (as a Global Account supplier) should try to follow your global customer (GA = Global Account).

Global Account Management (GAM) can be understood as a relationship-oriented marketing management approach focusing on dealing with the needs of an important global customer (that is, an account) in the business-to-business market.

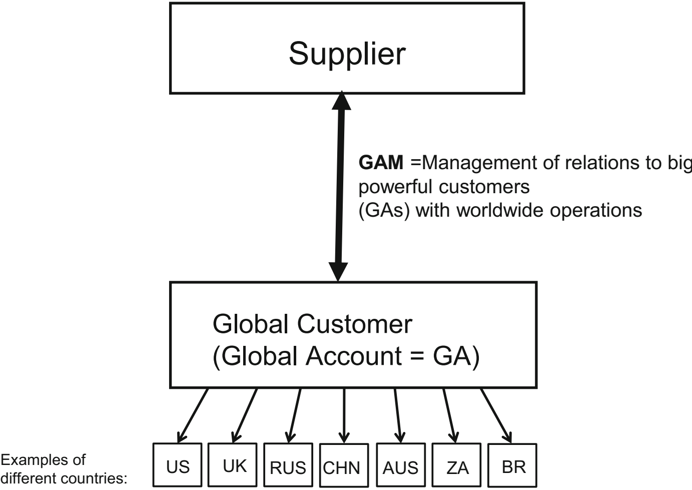

Fig. 5.6 Global Account Management (GAM). *Source*: Based on Hollensen (2014), p. 716

GAM can be defined as an organizational form (a person or a team) in a global supplier organization used to coordinate and manage worldwide activities, by servicing an important customer centrally from headquarters. Consequently, GAM is a relationship-oriented marketing management approach focusing on dealing with the needs of an important global customer (an account) with a global organization (foreign subsidiaries all over the world) (Fig. 5.6).

For the small supplier enterprises that are ambitious and growth-oriented, it is imperative that they learn to find ways of engaging with large Multinational Companies (MNCs) (global customers) who have the complementary resources and capabilities that can lead to, for instance, an innovative product offering being rolled out on a global scale, through the international distribution system of the global customer (global account). In other words, these small suppliers must seriously consider, learning how to 'dance with the gorillas'.

A global account is a customer that is of strategic importance to the achievement of the supplier's corporate objectives, pursues integrated and coordinated strategies on a worldwide basis and demands a globally integrated product/service offering.

A global account manager is the person in the selling company who represents that company's capabilities to the buying company, the buying company's needs to the selling company, and brings the two together.

The importance of GAM strategies will grow in future because of the consolidation [mergers and acquisitions (M&As) and global strategic alliances] which takes place in most industries. This development means that big multi-national customers are getting even bigger and more powerful with increasing buying power.

The role of GAM is to master a complex coordination process between multiple legal companies, product lines, services and/or system needs, in multiple geographic areas. The benefits of a strong GAM program can be huge. Their successful implementation can offer a major competitive advantage and significantly increase the profitability of a multinational supplier. However confusion about account management organisations often arises when local/regional suppliers, dealing with local/regional customers, talk about account management with international/global suppliers, dealing with international/global customers. A reduction of the confusion can only be based on identifying levels of complexity in terms of: geographical scope, number of legal entities served, range of products, services or systems offered, technology used and possibility of adding (substantial) value into the customer's value chain.

The lack of sustainable top management support may also have a significant negative effect on the GAM implantation process. It hinders internal and external collaboration, ignites turf wars and enforces sends out inconsistent signals to the customer. The best way to secure top management support is to quantify the value received from and deliver to the global account.

Successful GAM often requires an understanding of the logic of both product and service management. Moreover, excellent operational level capabilities are useless if strategic level management is inferior, and vice versa—the GAM approach combines strategic and operational level marketing management.

5.2 Budgeting

The classic quantification of a global marketing plan appears in the form of budgets. Because these are so rigorously quantified they are particularly important. They should represent a projection of actions and expected results, and they should be capable of accurate monitoring. Indeed performance against budget is the main (regular) management review process.

Budgeting is also an organization process that involves making forecasts based on the proposed marketing strategy and programmes. The forecasts are then used to construct a budgeted profit-and-loss statement (i.e. profitability). An important aspect of budgeting is deciding how to allocate the last available dollars across all of the proposed programmes within the marketing plan.

Recognizing the *customer* as the primary unit of focus, a market-based business will expand its focus to customers and countries/markets, not just products or units sold. This is an important strategic distinction because there is a finite number of potential customers, but a larger range of products and services can be sold to each customer. A business's volume is its customer share in a market with a finite number of customers at any point in time, not the number of units sold.

Marketing strategies that affect customer volume include marketing strategies that:

- Attract new customers to grow market share
- Grow the market demand by bringing more customers into a market
- Enter new markets to create new sources of customer volume.

All marketing strategies require *some* level of marketing effort to achieve a certain level of market share. Expenses associated with sales effort, market communications, customer service and market management are required to implement a marketing strategy designed to obtain a certain customer volume. The costs of this marketing effort are the *marketing expenses* and they must be deducted from the total contribution to produce a *net marketing contribution*.

Figure 5.7 illustrates the traditional marketing budget (per country or customer group) and its underlying determinants.

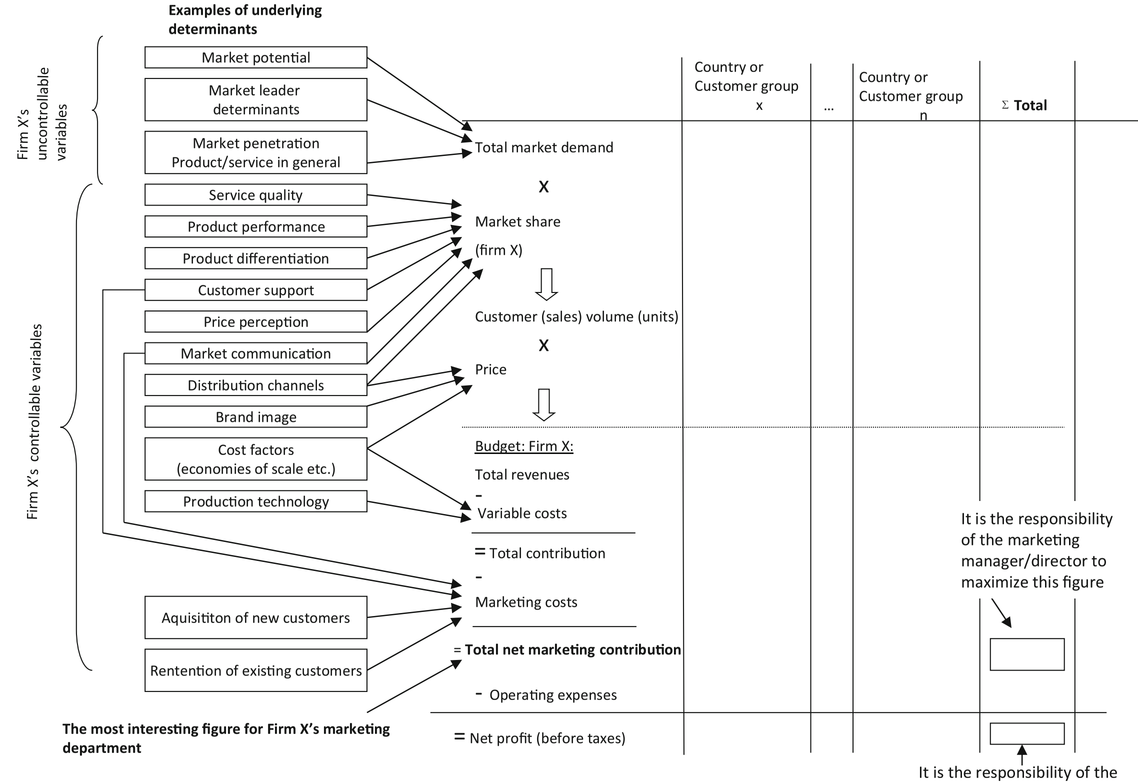

Fig. 5.7 Marketing budget 20XX and its underlying determinants. *Source*: Based on Hollensen (2014), p. 736

5.2.1 Marketing Metrics

From Fig. 5.7 the most important measures of marketing profitability may be defined as:

$$\text{Contribution margin in }\% = \frac{\text{Total contribution}}{\text{Total revenue}} \times 100$$

$$\text{Marketing contribution margin }\% = \frac{\text{Total marketing contribution}}{\text{Total revenue}} \times 100$$

$$\text{Profit margin }\% = \frac{\text{Net profit (before taxes)}}{\text{Total revenue}} \times 100$$

$$\text{Return on assets (ROA)} = \frac{\text{Net profit (before taxes)}}{\text{Assets}}$$

If we have information about the size of assets (accounts receivable + inventory + cash + plant + equipment) we could also define:

$$\text{Return on assets (ROA)} = \frac{\text{Net profit (before taxes)}}{\text{Assets}}$$

ROA is similar to the well-known measure: ROI = return on investment.

5.2.2 The Global Marketing Budget

Figure 5.8 presents an example of a global marketing budget for a manufacturer of consumer goods, for example Henkel's Persil division. Included in the budget are those marketing variables that can be controlled and changed by the sales and marketing functions (departments) in the home country and in the export market. The only variable that cannot be controlled by the international sales and marketing departments is variable costs.

The global marketing budget system is used for the following (main) purposes:

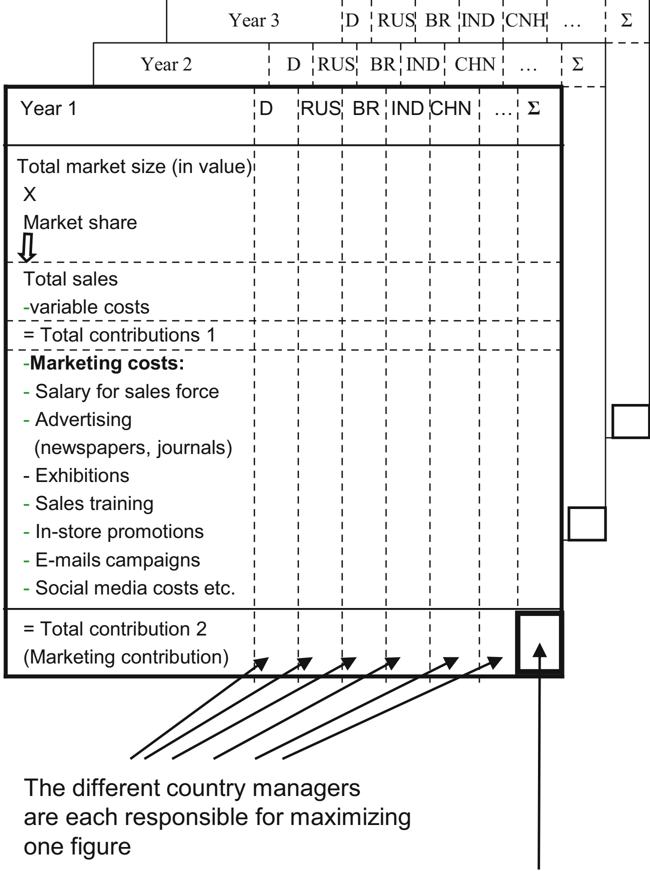

Fig. 5.8 Global marketing budget—3 years. *Source*: Based on Hollensen (2014), p. 11

- Allocation of marketing resources among countries/markets to maximize profits. In Fig. 5.8 it is the responsibility of the global marketing director to maximize the total Contribution 2 for the whole world.
- Evaluation of country/market performance. In Fig. 5.8 it is the responsibility of export managers or country managers to maximize Contribution 2 for each of their countries.

Note that besides the marketing variables the global marketing budget normally contains inventory costs for finished goods. As the production sizes of these goods are normally based on input from the sales and marketing department, the inventory of unsold goods will also be the responsibility of the international marketing manager or director. Furthermore, the global marketing budget may also contain customer-specific or country-specific product development costs, if certain new products are preconditions for selling in certain markets.

In contrast to budgets, long-range plans extend over periods from 3 to 10 years, and their content is more qualitative and judgemental in nature than that of budgets. For SMEs shorter periods (such as 1–2 years) are the norm because of the perceived uncertainty of diverse foreign environments.

5.3 Controlling

The final, but often neglected stage of market planning, is the control process. Not only is control important to evaluate how we have performed, but it completes the circle of planning by providing the feedback necessary for the start of the next planning cycle.

Figure 5.9 illustrates the connection between the marketing plan, the marketing budget and the control system.

After building the global marketing plan, its quantification appears in the form of budgets. The budget is the basis for the design of the marketing control system that may give the necessary feedback for a possible reformulation of the global marketing plan. The marketing budgets should represent a projection of actions and expected results, and they should be capable of accurate monitoring and controlling. Indeed, measuring performance against budget is the main (regular)

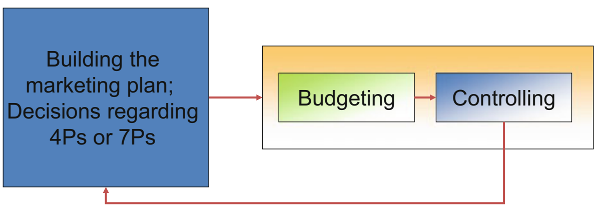

Fig. 5.9 The company's budget and control system. *Source*: Based on Hollensen (2014), p. 728

management review process, which may cause the feed back in Figure 5.9.

The purpose of a marketing budget is to put all the revenues and costs involved in marketing together into one comprehensive document. It is a managerial tool that balances what needs to be spent against what can be afforded and helps make choices about priorities. It is then used in monitoring the performance in practice. The marketing budget is usually the most powerful tool with which you think through the relationship between desired results and available means. Its starting point should be the marketing strategies and plans that have already been formulated in the marketing plan itself. In practice, the strategies and plans will run in parallel and will interact.

Unfortunately, however, 'control' is often viewed by the people of an organization as being negative. If individuals fear that the control process will be used not only to judge their performance, but as a basis for punishing them, then it will be feared and reviled.

The evaluation and control of global marketing probably represents one of the weakest areas of marketing practice in many companies. Even the organizations that are otherwise strong in their strategic marketing planning have poor control and evaluation procedures for their global marketing. There are a number of possible reasons for this: primarily, there is no such thing as a 'standard' system of control for marketing.

The function of the organizational structure is to provide a framework in which objectives can be met. However, a set of instruments and processes is needed to influence the behaviour and performance of organization members to meet the goals. The critical issue is the same as with organizational structures: what is the ideal amount of control? On the one hand, headquarters needs information to ensure that international activities contribute maximum benefit to the overall organization. On the other hand, controls should not be construed as a code of law.

The global question is to determine how to establish a control mechanism capable of early interception of emerging problems. Considered here are various criteria appropriate for the evaluation process, control styles, feedback and corrective action. These concepts are important for all businesses, but in the international arena they are vital.

5.3.1 Design of a Control System

In designing a control system management must consider the costs of establishing and maintaining it and trade them off against the benefits to be gained. Any control system will require investment in a management structure and in systems designs.

The design of the control system can be divided into two groups dependent on the objective of control:

1. Output control (typically based on financial measures)
2. Behavioural controls (typically based on non-financial measures).

Output control may consist of expenditure control, which involves regular monitoring of expenditure figures, comparison of these with budget targets, and taking decisions to cut or increase expenditure where any variance is believed to be harmful. Measures of output are accumulated at regular intervals and typically forwarded from the foreign subsidiary to headquarters, where they are evaluated and criticized based on comparison to the plan or budget.

Behavioural controls require the exercise of influence over behaviour. This influence can be achieved, for example, by providing sales manuals to subsidiary personnel or by fitting new employees into the corporate culture. Behavioural controls often require an extensive socialization process, and informal, personal interaction is central to the process. Substantial resources must be spent to train the individual to share the corporate culture: that is, 'the way things are done at the company'.

To build common vision and values managers at the Japanese company Matsushita spend a substantial amount of their first months in what the company calls 'cultural and spiritual training'. They study the company credo, the 'Seven Spirits of Matsushita', and the philosophy of the founder, Kanosuke Matsushita.

However, there remains a strong tradition of using output (financial) criteria. A fixation with output criteria leads companies to ignore the less tangible behavioural (non-financial) measures, although these are the real drivers of corporate success. However, there is a weakness in the behavioural performance measures. To date there has been little success in developing explicit links from behaviour to output criteria. Furthermore, companies and managers are still judged on financial

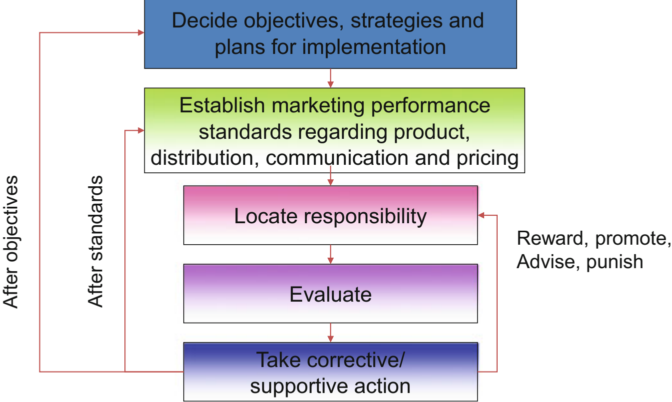

Fig. 5.10 The marketing control system. *Source*: Based on Hollensen (2014), p. 730

criteria (profit contribution). Until a clear link is established it is likely that behavioural criteria will continue to be treated with a degree of scepticism.

We will now develop a global marketing control system based primarily on output controls. Marketing control is an essential element of the marketing planning process because it provides a review of how well marketing objectives have been achieved. A framework for controlling marketing activities is given in Fig. 5.10.

The marketing control system begins with the company setting some marketing activities in motion (plans for implementation). This may be the result of certain objectives and strategies, each of which must be achieved within a given budget. Hence budgetary control is essential.

The next step in the control process is to establish specific performance standards that will need to be achieved for each area of activity if overall and sub-objectives are to be achieved. For example, in order to achieve a specified sales objective, a specific target of performance for each sales area may be required (below Table 5.1 may give some inspiration in that regards). In turn this may require a specific standard of performance from each of the salespeople in the region with respect to, for example, number of calls, conversion rates and, of course, order value. Marketing performance measures and standards will vary by company and product according to the goals and objectives delineated in the marketing plan.

Table 5.1 Measures of marketing performance

Product	Distribution
• Sales by market segments	• Sales, expenses and contribution margin by channel type
• New product introductions each year	• Percentage of stores carrying the product
• Sales relative to potential	• Sales relative to market potential by channel, intermediary type and specific intermediaries
• Sales growth rates	• Percentage of on-time delivery
• Market share	• Expense-to-sales ratio by channel, etc.
• Contribution margin	• Order cycle performance by channel, etc.
• Product defects	• Logistics cost by logistics activity by channel
• Warranty expense	
• Percentage of total profits	
• Return on investment	
Pricing	**Communication**
• Response time to price changes of competitors	• Advertising effectiveness by type of media (e.g. awareness levels)
• Price relative to competitor	• Actual audience/target audience ratio
• Price changes relative to sales volume	• Cost per contact
• Discount structure relative to sales volume	• Number of calls, enquiries and information requests by type of media
• Bid strategy relative to new contacts	• Sales per sales call
• Margin structure relative to marketing expenses	• Sales per territory relative to potential
• Margins relative to channel member performance	• Selling expenses to sales ratio
	• New accounts per time period
	• Lost accounts per time period

Source: Based on Hollensen (2014), p. 731

The next step is to locate responsibility. In some cases responsibility ultimately falls on one person (e.g. the brand manager); in others it is shared (e.g. the sales manager and sales force). It is important to consider this issue, because corrective or supportive action may need to focus on those responsible for the success of marketing activity.

In order to be successful the people involved and affected by the control process should be consulted in both the design and implementation stages of marketing control. Above all they will need to be convinced that the purpose of control is to improve their own levels of success and that of the company. Subordinates need to be involved in setting and agreeing their own standards of performance, preferably through a system of management by objectives.

Performance is then evaluated against these standards, which relies on an efficient information system. A judgement has to be made about the degree of success and failure achieved and what corrective or supportive action is to be taken.

Many firms assume that corrective action needs to be taken only when results are less than those required or when budgets and costs are being exceeded. In fact both 'negative' (underachievement) and 'positive' (overachievement) deviations may require corrective action. For example, failure to spend the amount budgeted for, say, sales force expenses may indicate that the initial sum allocated was excessive and needs to be reassessed, and/or that the sales force is not as 'active' as it might be.

It is also necessary to determine such things as the frequency of measurement (e.g. daily, weekly, monthly or annually). More frequent and more detailed measurement usually means more cost. We need to be careful to ensure that the costs of measurement and the control process itself do not exceed the value of such measurements and do not overly interfere with the activities of those being measured.

The impact of the environment must also be taken into account when designing a control system:

- The control system should measure only dimensions over which the organization has control. Rewards or sanctions make little sense if they are based on dimensions that may be relevant for overall corporate performance, but over which no influence can be exerted (e.g. price controls). Neglecting the factor of individual

performance capability would send the wrong signals and severely impair the motivation of personnel.
- Control systems should harmonize with local regulations and customs. In some cases, however, corporate behavioural controls have to be exercised against local customs even though overall operations may be affected negatively. This type of situation occurs, for example, when a subsidiary operates in markets where unauthorized facilitating payments are a common business practice.

5.3.2 Feedforward Control

Much of the information provided by the firm's marketing control system is feedback on what has been accomplished in both financial (profits) and non-financial (customer satisfaction, market share) terms. As such, the control process is remedial in its outlook. It can be argued that control systems should be forward-looking and preventive, and that the control process should start at the same time as the planning process. Such a form of control is **feedforward control** (see Fig. 5.11).

Feedforward control would continuously evaluate plans, monitoring the environment to detect changes that would call for revising objectives and strategies. Feedforward control monitors variables other than performance; variables that may change before performance itself changes. The result is that deviations can be controlled before their full impact has been felt. Such a system is proactive in

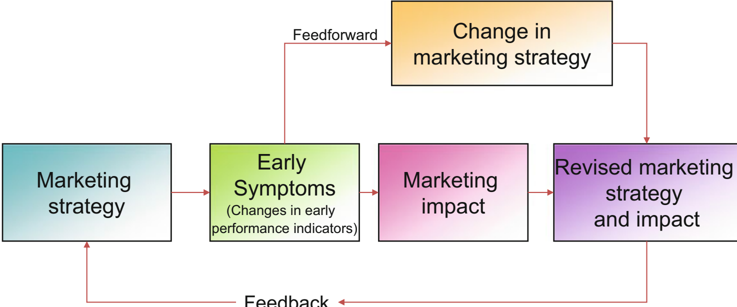

Fig. 5.11 Adjustment of marketing strategy by feed forward control. *Source*: Based on Hollensen (2014), p. 732

Table 5.2 Some key early performance indicators

Early performance indicators	Market implication
Sudden drop in quantities demanded	Problem in marketing strategy or its implementation
Sharp decrease or increase in sales volume	Product gaining acceptance or being rejected quickly
Customer complaints	Product not debugged properly
A notable decrease in competitors' business	Product gaining acceptance quickly or market conditions deteriorating
Large volumes of returned merchandise	Problems in basic product design
Excessive requests for parts or reported repairs	Problems in basic product design, low standards
Sudden changes in fashions or styles	Product (or competitors' product) causing a deep impact on the consumers' lifestyles

Source: Based on Hollensen (2014), p. 733

that it anticipates environmental change, whereas after-the-fact and steering control systems are more reactive in that they deal with changes after they occur. Examples of early symptoms (early performance indicators) are presented in Table 5.2.

Feedforward control focuses on information that is prognostic: it tries to discover problems waiting to occur. Formal processes of feedforward control can be incorporated into the business marketer's total control programme to enhance its effectiveness considerably. Utilization of a feedforward approach would help ensure that planning and control are treated as concurrent activities.

Conclusion: Marketing and Railroad Companies 6

Back in 1960, Theodore Levitt (1960) formulated the decisive notion that companies wishing to achieve continuous growth must look at the markets from the customer perspective given that—in dynamic environments—no state of affairs can be taken for granted and the customer is king. He cited the relevance of the railroads in the U.S. as an example: their relevance was declining because the firms involved saw themselves not as transportation companies but as railroad companies. Their marketing focused on "railroad" as a product rather than on "transportation" as a customer need. This caused them to lose their initial advantage, and the burgeoning demand was covered by cars, trucks, and airplanes.

A little over a hundred and thirty pages is absolutely sufficient space in which to gain an understanding of the fundamentals of marketing, to become familiar with **the quintessential Marketing Arena** and its most important instruments and the underlying marketing process. You are enabled to develop your own, comprehensive and thorough marketing plan. And if you follow the recommendations and examples provided in this short book you will be able to avoid the mistake that was done by the U.S. railroads in the twentieth century—forgetting the customer in your marketing plan.

Or as Henry Ford put it: "It is not the employer who pays the wages. Employers only handle the money. It is the customer who pays the wages." Now it's your turn!

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