Principles *of* Marketing

Second European Edition

Philip Kotler ✦ *Gary Armstrong*
John Saunders ✦ *Veronica Wong*

PRINCIPLES OF MARKETING: SECOND EUROPEAN EDITION

This new edition of the classic Prentice Hall text has received cutting-edge treatment to make it the most complete and up-to-date introductory marketing textbook available.

Principles *of* Marketing

Beautifully laid out, with an accessible and highly readable style, this new edition has impressive case support to bring the dynamics of modern European marketing vividly into focus. An indispensable text for new and intermediate level students alike.

GEOFFREY WOOTTEN
International Business School
Breda, The Netherlands

There are few equivalent alternatives to *Principles of Marketing* when it comes to learning contemporary marketing. In *Principles of Marketing* the reader will find the important basics of marketing, but also up-to-date theories and techniques. Even experienced marketers will find some of the new chapters of interest.

THOMAS HELGESSON
Halmstad University, Sweden

The additions to the second European edition bring the reader up to date with the tools available to the modern marketer. It is an enhancement of an already valuable aid to teaching and learning.

STEPHEN MITCHELL
Gloucestershire Business School, UK

The familiar content and structure remain indispensable companions to any student of marketing. The updated case history material serves to focus the subject matter in a highly contemporary context and the new format makes the whole package even more user friendly.

CHRIS BLACKBURN
Oxford Brooks University, UK

Marketing is a global discipline. How appropriate to combine US and European perspectives in this truly excellent treatment.

NIGEL F. PIERCY
Cardiff Business School, UK

Building on the success of the first European edition, the authors and the publishers are to be congratulated on taking the opportunity to both update material and enhance the accessibility of the text. The new chapter on direct and online marketing is particularly welcome.

MICHAEL BAKER
Strathclyde University, UK
and Dean of the Senate of the
Chartered Institute of Marketing

I can highly recommend this text. It is comprehensive, clearly structured and well written. In addition, it provides a host of very up-to-date relevant examples, which will ensure a high degree of student interest.

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Principles *of* Marketing

Second European Edition

Philip Kotler
Gary Armstrong
John Saunders
Veronica Wong



PRENTICE HALL EUROPE
London New York Toronto Sydney Tokyo Singapore
Madrid Mexico City Munich Paris

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Acquisitions Editor: Julia Helms Icy
Development Editor: Andrew Goss
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Production Editor: Ian Stoneham
Manufacturing Manager: Richard Lamprecht
Marketing Manager: Scott Dustan

Original eighth edition entitled *Principles of Marketing*
published by Prentice Hall Inc.
A Simon & Schuster Company
Upper Saddle River
New Jersey, USA
Copyright © 1999 by Prentice Hall Inc.

First European Edition published 1996
Second European Edition published 1999 by Prentice Hal! Europe
Authorised for sale only in Europe, the Middle East and Africa

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Text and cover design: Design Deluxe, Rath, Avon
Typeset in lOpt Caslon 224 Book by Goodfellow and Egan, Cambridge

Printed and bound in Italy by Rotolito Lombards, Milan

British Library Cataloguing in Publication Data

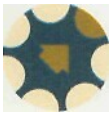
A catalogue record for this book is available from the British Library

ISBN 0-13-262254-8

1 2 3 4 5 0,3 02 01 00 99

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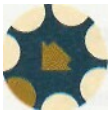
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Preface

Markets are changing fast. New markets are emerging, trading blocks are extending and communications channels about products and selling them are changing at a revolutionary pace. The signs of this change are everywhere in this text. Many people will use *Principles of Marketing* alongside its associated CD-ROM, *Interactive Marketing.* An increasing number of references are now Web-site addresses that anyone can access from their PC. Yet amid this turmoil some issues remain the same. Products change continuously, but the great brands shine through like storm-swept lighthouses: Coca-Cola, Nokia, Sony, BMW, Saab and Shell, to name but a few.

Marketing is changing to meet the changing world. Marketing remains the business activity that identifies an organization's customer needs and wants, determines which target markets it can serve best and designs appropriate products, services and programmes to serve these markets. However, marketing is much more than an isolated business function - it is a philosophy that guides the entire organization. The goal of marketing is to create customer satisfaction profitably by building valued relationships with customers. The marketing people cannot accomplish this goal by themselves. They must work cJosely with other people in their company and with other organizations in their value chain, to provide superior value to customers. Thus, marketing calls upon everyone in the organization to 'think customer' and to do all that they can to help create and deliver superior customer value and satisfaction. As Professor Stephen Burnett says: 'In a truly great marketing organization, you can't tell who's in the marketing department. Everyone in the organization has to make decisions based on the impact on the consumer.'

Marketing is not solely advertising or selling. Real marketing is less about selling and more about knowing what to make! Organizations gain market leadership by understanding customer needs and finding solutions that delight through superior value, quality and service. No amount of advertising or selling can compensate for a lack of customer satisfaction. Marketing is also about applying that same process of need fulfilment to groups other than the final consumer. Paying customers are only one group of stakeholders in our society, so it is important to reach out to others sharing our world.

Marketing is all around us. 'We are all customers now', notes the author Peter Mullen, 'in every area of customer inter-relationship from the supply and consrimption of education and health care to the queue in the Post Office and the ride in an Inter-City express train, and in every financial transaction from the buying of biscuits to the purchase of a shroud.' Marketing is not only for manufacturing companies, wholesalers and retailers, but for all kinds of individuals and organizations. Lawyers, accountants and doctors use marketing to manage demand for their services. So do hospitals, museums and performing arts groups. No politician can get the needed votes, and no resort the needed tourists, without developing and carrying out marketing plans. *Principles of Marketing* helps students learn and apply the basic concepts and practices of modern marketing as used in a wide variety of settings: in product and service firms, consumer

and business markets, profit and non-profit organizations, domestic and global companies, and smail and large businesses.

People in these organizations need to know how to define and segment markets and how to position themselves by developing need-satisfying products and services for their chosen target segments. They must know how to price their offerings attractively and affordably, and how to choose and manage the marketing channel that delivers these products and services to customers. They need to know how to advertise and promote their products and services, so that customers will know about and want them. All of these demand a broad range of skills to sense, serve and satisfy consumers.

People need to understand marketing from the point of view of consumers and citizens. Someone is always trying to sell us something, so we need to recognize the methods they use. When they are seeking jobs, people have to market themselves. Many will start their careers within a sales force, in retailing, in advertising, in research or in one of the many other marketing areas.

Principles ofMarketing provides a comprehensive introduction to marketing, taking a practical and managerial approach. It is rich in real-world illustrative examples and applications, showing the major decisions that marketing managers face in their efforts to balance the organization's objectives and resources against the needs and opportunities in the global marketplace.

Recognizing Europe's internationalism, illustrative examples and cases are drawn not from Europe alone, but also from North America, Japan, China, other countries in south-east Asia, and Africa. Some examples and cases concentrate on national issues, but many are pan-European and global cases that have an exciting international appeal. Although they cover many markets and products, the brands and customers used have been chosen to align closely with the experiences or aspirations of readers. Some examples are about global brands, such as Nike, Calvin Klein and Mercedes, while others cover interesting markets ranging from jeans and beer to executive jets, mine sweepers and Zoo Doo.

Principles of Marketing describes and discusses the stories that reveal the drama of modern marketing: Nike's powerful marketing; BM~\Vs entry into the off-road market; the 8watchmobile; Levi Strauss & Go.'s startling success in finding new ways to grow globally; Apple Computers' and KFC's invasion of Japan; Qantas's struggle in the south-east Asian airline market; 3M's legendary emphasis on new-product development; MTV's segmentation of the European music market; Virgin's lifestyle marketing; B & B's Euro-segmentation; EuroDisney's disastrous adventure; Nestle's difficulty with pressure groups and adverse publicity; Stena Sealink's quest for cross-channel passengers against Le Shuttle and Eurostar. These and dozens of other illustrative examples throughout each chapter reinforce the key concepts and techniques and bring marketing to life.

Its clear writing style, contemporary approach, extensive use of practical illustrative examples, and fresh and colourful design make this test easy to read, lively and an enjoyable learning experience.

The Second European Edition

Following extensive market research throughout Europe, this Second European Edition of *Principles of Marketing* provides significant improvements in content and structure, illustrative examples and case material, pedagogical features and text design.

Content and Structure

The content and structure have been changed to meet the needs of the user and take in new market developments. Chapter 3 is shortened to give a tighter introduction to strategic marketing planning while introdueing the concepts developed in subsequent chapters. Other chapters reflect recent marketing developments. Two related changes are the coverage of key account management in chapter 8 and an extended coverage of relationship marketing in chapter 11. Competitive strategy is expanded upon in chapter 12 paying particular attention to making more money from markets.

During recent years manufacturers' brands have come under increasing attack as companies try to lever more out of the brands they own. These developments receive increased attention in chapter 13. Finally, chapters 21 and 22 on die place dimension of the marketing mix are radically changed to gather new ideas on direct and on-line marketing.

The overall structure is clearer, grouping chapters into seven parts each with a two-page introduction. Within this framework an extended second part, on the marketing setting, covers the marketing environment, buyer behaviour and how marketing research is used as an investigative tool.

Case Studies

A total of 51 case studies are now provided in this text. There are 11 new cases in this Second Edition, and of those retained from the First Edition, many have been revised and updated. There are now three distinct types: preview cases, chapter end case studies and part overview cases.

To improve consistency and the flexibility of case material to meet the needs of a range of different abilities, each of these cases now end with six questions, many of which have been reworked. These are graded by their level of difficulty; there are two questions for each of the three levels:

- Questions 1 and 2 (basic): direct issues arising from the case
- Questions 3 and 4 (intermediate): more penetrating issues which require the application of principles
- Questions 5 and 6 (advanced): demanding issues which require decision-making abilities

To familiarize yourself with the main features you will encounter throughout the text, a Guided Tour is provided on pages xx-xxi.

Supplements arid Web-site

A successful marketing course requires more than a well-written textbook. Today's classroom requires a dedicated teacher and a fully integrated teaching system. *Principles of Marketing* is supported by an extensive, innovative and high-quality range {if teaching and learning materials.

Supplements

Lecturer's Resource Manual/CD-ROM

This comprehensive and helpful teaching resource, prepared by T.C. Melewar, comprises:

- Chapter overviews.
- Teaching tips.
- Class exercises,
- Teachinjydiscussion notes for all the cases.
- Answers to all the chapter-end 'Discussing the Issues' questions and 'Applying the Concepts' exercises.
- CD-ROM containing over 100 full-colour PowerPoint slides of the key figures and tables from the text.

- *Web-site*

This market-leading, fully functional Web-site has been specially commissioned and designed to accompany this Second European Edition. The site is regularly maintained and updated, arid comprises a number of innovative interactive features for both students and lecturers. Lecturers may also download the Resource Manual and PowerPoint slides.

This companion Web-site can be accessed via the Prcntiee Hall Europe Web-site at http://www.prenhall.co.uk. For further details and to apply for an access password to certain areas of the site, please contact your local sales representative or the PHE marketing department at the following address:

Prentice Hall Europe, Campus 400, Maylands Avenue, Hcmel Ilempstead, Hertfordshire HP2 7EZ, UK. Telephone: + (0)1442 881900; Fax: +1442 882265.

Acknowledgements

No book is the work only of its authors. We owe much to the pioneers of marketing who first identified its major issues and developed its concepts and techniques. Our thanks £o to our colleagues at the J.L. Kellogg Graduate School of Manage meni, Northwestern University; the Kenan-Flatter Business School. University of North Carolina; and Aston, Loughborough and Warwick Business Schools for ideas, encouragement and suggestions. Thanks also to all our friends in the Academy of Marketing, the European Marketing Academy, Informs, the American Marketing Association and the Chartered Institute of Marketing, who have stimulated and advised us over the years. It has been an honour to work with so many people who have helped pioneer marketing in Europe.

Special thanks to Chris Stagg of Aston Business School, who has helped with many parts of the book; Marion Aitkenhead, who after the briefest tit retirements gave us indispensable help in organizing our work; Andy Hirst of Ixiughborough Business School, who helped with many of the eases; TG. Melewai of Warwick University for his patience and work in revising the Lecturer's Resource Manual; and Fatimull Moran, Stephen Cleary, Alan ilawley and Ken Randall at Staffordshire University for their work on the Interactive Marketing software. We also owe particular thanks to our many colleagues who share our international vision and have contributed such an outstanding set of international cases to this hook: Pontus Alenroth, Pedro Quelhas Brito, Roberto Alvarez del Blanco, Robert Bjornstrom, Sue Bridgewater, Brenda Gullen, Peter Doyle. Colin Egan, Joakiin Kriksson, Anton Hartmann-Olcsen, Benoit Heilbrunn. Thomas Helgesson, Hiipenga M. Kabeta, Sylvie Laforet, Richard Lynch, i'eter McKiernan, DamienMcLoughlin, Alkis Magdalinos. Malin Nilsson, Franscesc Pares, Verena A. Priemer, Jeff Rapaport, Lluis G. Renart, Javier Surda, Anki Kjostrom and Anneh Zell.

Many reviewers at other colleges provided valuable comments and suggestions. We are indebted to the following colleagues: Chris Blackburn, Oxford Brookes University; D. Brownlie, University of Stirling, Ors H.D. and H.A. Cabooter, Ilogeschool Venlo; Auorey Gilmore, University of Ulster at Jordanstown; Dr Gonstantine S. Katsikeas, Cardiff Business School, University of Wales; Tore Kristensen, IOA - Copenhagen Business School;. Damien MeLoughlin, Dublin City University; Professor M.T.G. Meulenberg, Agricultural University; Blaiu Mcyrick, Coventry University; Elaine O'Brien, University of Strathclyde; Adrian Palmer, DC Monti'ort University; David Shipley, Trinity College. Dublin; Chris Simango, University of Northumbrla at Newcastle; M. van den Bosch, HEAD - Arnhem; Richard Varcy, Sheffield Hallam University; and Helen R. Woodruffe, University of Salford.

We remain grateful to the numerous teachers who helped develop the First Edition, and to those listed below who provided comments and su; gestions during the market research for [his Second **Edition:**

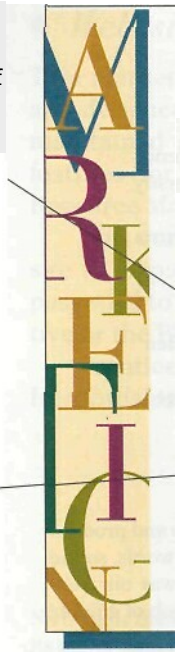
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G. Clarke, De Montfort Univcrsitv

We also owe a great deaf to the people at Prentice Hall Europe who helped to develop and produce this Second Edition: Marketing Editor, Julia Helmsley provided encouragemetit, calming words, sound adviee and a steadying hand; Andy (loss, Senior Development Editor, Chris Bessant was our very patient and professional copy editor; Ian Stonebam, Production Editor, did a very fine job of guiding the book smoothly through production.

PHILIP KOTLER
GARY ARMSTRONG
JOHN SAUNDERS
VERONICA WONG

Guided **Tour**

LEARNING OBJECTIVES: Bullet-pomes which highlight the core coverage in terms of the learning outcomes you should acquire after reading each chapter.




1

Marketing in a Changing World:

Satisfying Human Needs

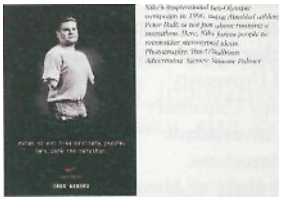
CHAPTER OBJECTIVES

After reading this chapter, you should be able to:

- Define marketing and discuss its core concepts.
- Define marketing management and examine how marketers manage demand and build profitable customer relationships.
- Compare the five marketing management philosophies, and express the basic ideas of demand management and the creation of customer value and satisfaction.
- Analyse the key marketing challenges facing marketers heading into the next century.

Preview Case

Nike



Nike shoes, or your Nike hat or T-shirt, carries no brand identification at all other than the swoosh.

The power of its brand and logo speaks loudly to Nike's superb marketing skills. The company's now-proven strategy of building superior products around popular athletes has changed the face of sports marketing for ever. Nike spends hundreds of millions of dollars each year on big-name endorsers, splashy promotional events and lots of attention-getting ads. Over the years, Nike has associated itself with some of the biggest names in sports. No matter what your sport, the chances are good that one of your favourite athletes wears the Nike swoosh.

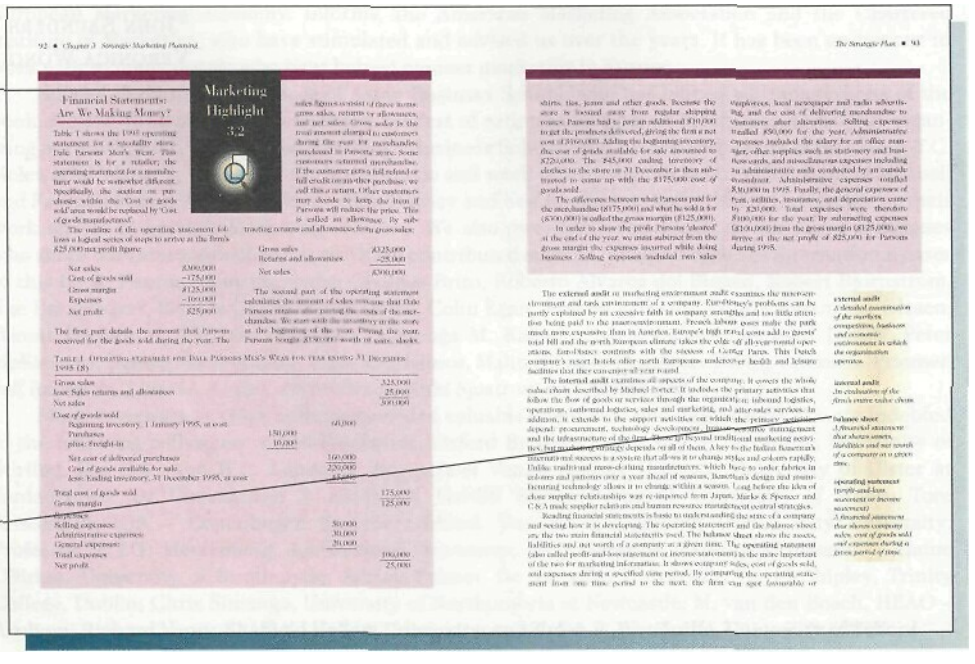
Nike knows, however, that good marketing runs much deeper than promotional hype and promises. Good marketing means consistently delivering real value to customers. Nike's initial success resulted from the technical superiority of its running and basketball shoes, pleasing to serious athletes who were frustrated by the lack of innovation in athletic equipment. To this day, Nike leads the industry in product development and innovation.

But Nike gives its customers more than just good athletic gear. As the company notes on its Web page (www.nike.com): Nike has always known the truth – it's not so much the shoes but where they take you. Beyond shoes, apparel and equipment, Nike markets a way of life, a sports culture, a 'just do it!' attitude. When you lace up your Nikes, you link yourself, in at least some small way, with all that Nike and its athletes have come to represent – a genuine passion for sports, a maverick disregard for convention, hard work and serious sports performance. Through Nike, you share a little of Michael Jordan's intense competitiveness, Tiger Woods' cool confidence, Jackie Joyner-Kersee's grittty endurance, Ken Griffey, Jr's effortless consistency or Michael Johnson's alarming speed. Nike is athletics, athletes are sports, Nike is sports.

Nike's marketers build relationships – between Nike, its athletes and customers. For example, a recent ad in a tennis magazine shows only a Nike tennis shoe with the red swoosh and a freephone number. Readers who call the number hear tennis favourite Jim Courier talking down with his

PREVIEW CASE: Combines both a practical illustrative overview of the chapter material, and a short problem-based case study (including graded questions) which should be attempted after you have read each chapter.

MARKETING HIGHLIGHT: Integrated throughout each chapter, these provide additional illustrative examples and/or discussion of more advanced marketing techniques and concepts.



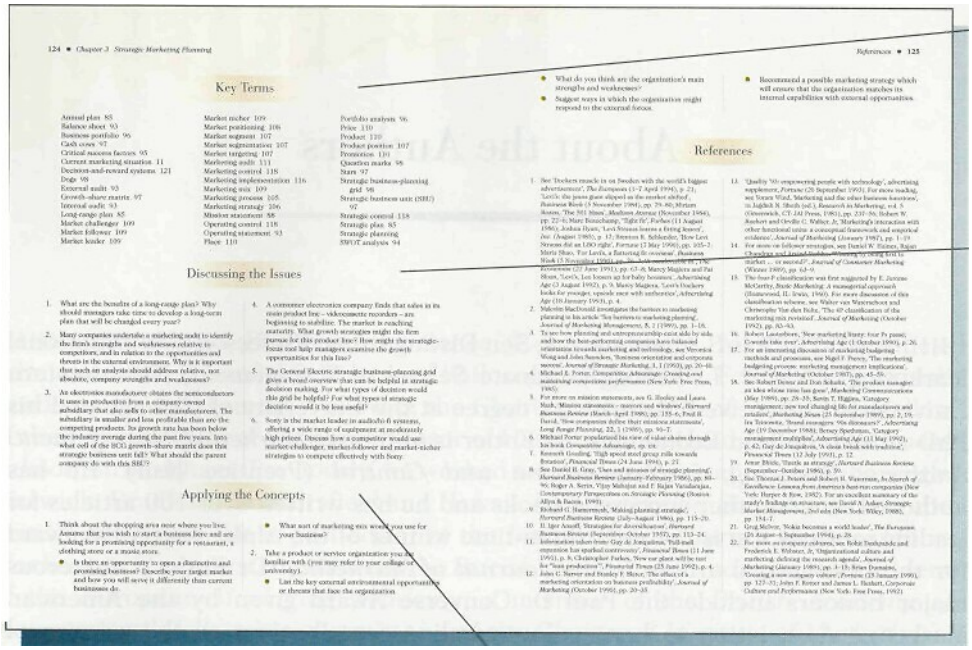
92 ■ Chapter 3 Strategic Marketing Planning

Financial Statements: Are We Making Money?

Marketing Highlight 3.2

The Strategic Plan ■ 93

KEY TERMS: Emboldened in the text with a concise definition in the margin to highlight the key concepts and techniques in each chapter.

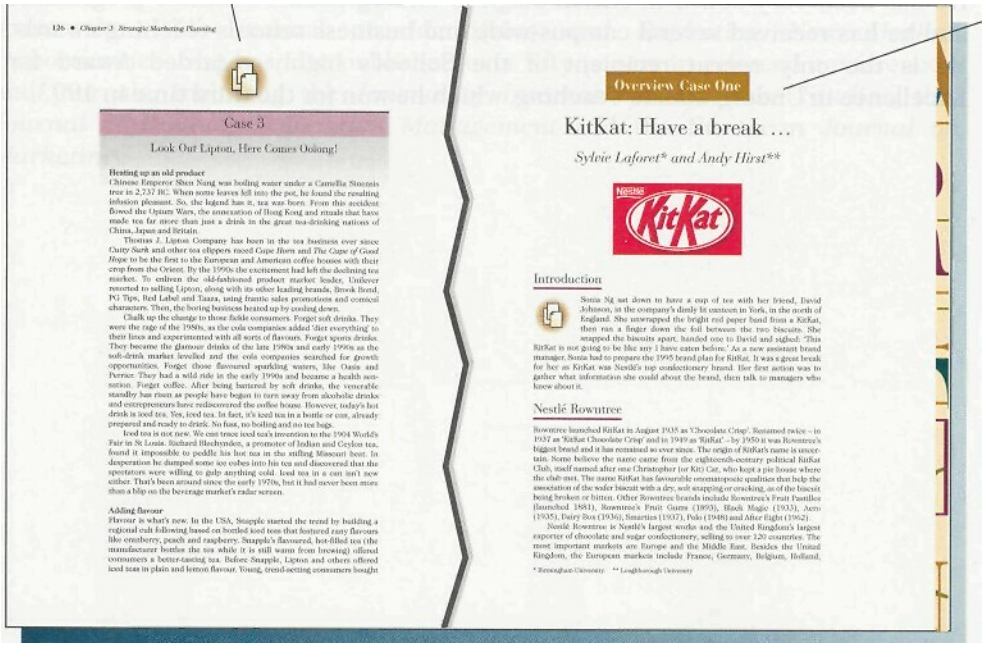


KEY TERMS LIST: An alphabetical listing of the key terms in each chapter, including a page reference, to assist rapid revision of the key concepts and techniques.

DISCUSSING THE ISSUES: Short questions that encourage yon to review and/or critically discuss your understanding of the main topics in each chapter, either individually or in a group.

APPLYING THE CONCEPTS; Practical exercises that encourage you to develop and apply your understanding of the main topics in each chapter, cither individually or in a group.

CASE STUDY: Each chapter ends with a practical problem-based illustration, including graded questions. Each of these case studies is more substantive and challenging than a chapter-opening preview ease.



OVERVIEW CASE: Each part of the text ends with a comprehensive and practical problem-based illustration, including graded questions. Each of these cases integrates concepts and techniques from preceding chapters, allowing you to apply your ondel-standing within a broader business context.

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PHILIP KOTLER is S. 0. Johnson & Son Distinguished Professor of International Marketing at the J. L. Kellogg Graduate School of Management. Northwestern University, lie received his master's degree at the University of Chicago and his PhD at MIT, both in Economics. Dr Kotler is author *of Marketing Management: Analysis, Planning, Implementation and Control* (Prentice Hall). He has authored several other successful books and he has written over 100 articles for leading journals. He is the only three-time winner of the Alpha Kappa Psi award for the best annual article in the *Journal of Marketing. Dr* Kotler's numerous major honours include the Paul D. Converse Award given by the American Marketing Association to honour 'outstanding contributions to the science of marketing' and the Stuart Henderson Britt Award as Marketer of the Year. In 1985, he was named the first recipient of two major awards: the Distinguished Marketing Educator of the Year Award, given by the American Marketing Association and the Philip Kotler Award for Excellence in Health Care Marketing. Dr Kotler has served as a director of the American Marketing Association. He has consulted with many major US and foreign companies on marketing strategy.



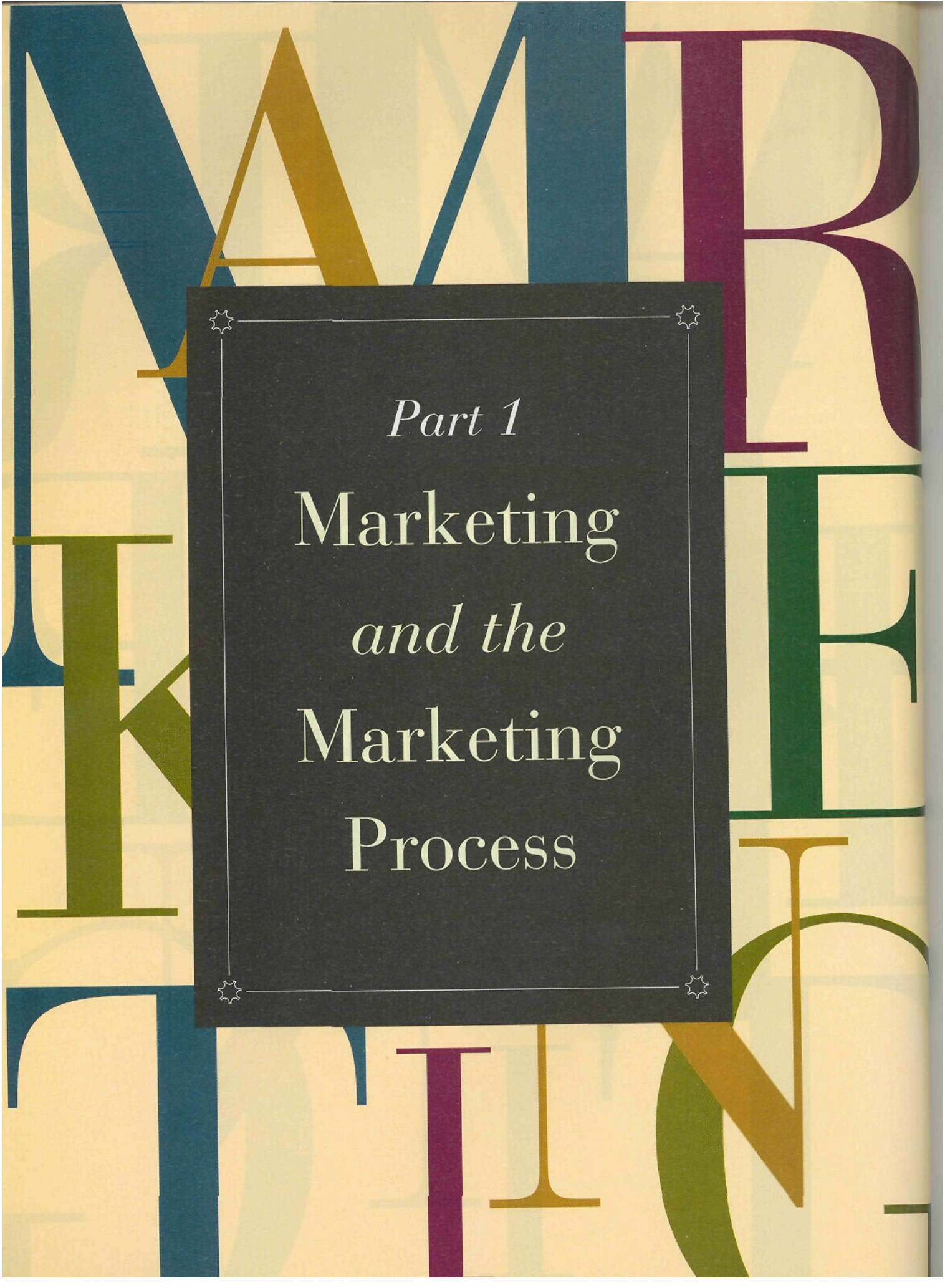
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Part 1

Marketing *and the* Marketing Process

'*No profit grows where is no pleasure taken.*'

WILLIAM SHAKESPEARE

PartIntroduction

PART ONE OF *PRINCIPLES OF MARKETING* examines marketing's role in society and the organizations that use it.

Chapter 1 shows how marketing is everywhere. It also tells how marketing has grown as the belief that organizations do best by caring for their customers. This understanding is expanded in Chapter 2, which looks beyond buying and selling to examine marketing's role and responsibilities in society. Together these **chapters** examine marketing as 'the place where the selfish interests of the manufacturer coincide with the interest of society', as the advertising guru David Ogilvy put it.

Chapter 3 takes the discussion from what marketing does to how **marketing** is done. In developing the strategic marketing planning process, it looks at how marketing fits with other business activities and how it is organized. Most importantly, it introduces the marketing activities appearing elsewhere in *Principles of Marketing* and shows how they combine to make modern marketing.



CHAPTER 1

Marketing in a Changing World: Satisfying Human Needs

CHAPTER 2

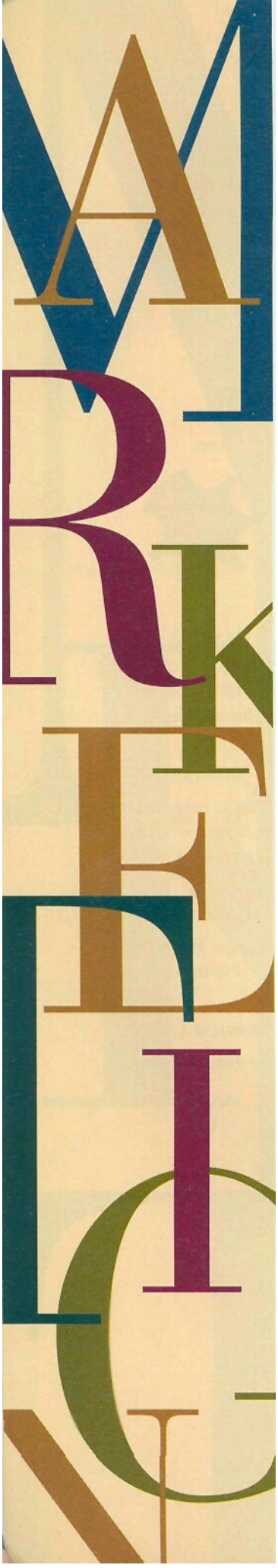
Marketing and Society: Social Responsibility and Marketing fit/lies

CHAPTER 3

Strategic Marketing Planning

OVERVIEW CASE 1

KitKat: Have a Break ..



1

Marketing in a Changing World:

Satisfying Human Needs

CHAPTER OBJECTIVES

After reading this chapter, you should he able to:

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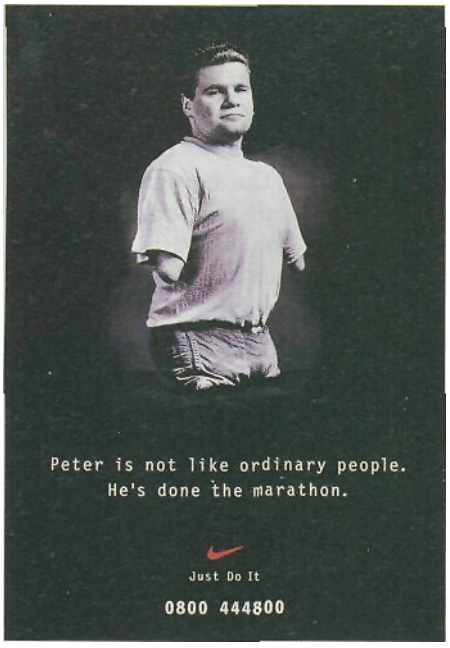
Analyse the key *marketing challenges* facing marketers heading into *the next century:*



Preview Case

Nike

THE 'SWOOSH' - IT'S EVERYWHERE! JUST for fun, try counting the swooshes whenever you pick up the sports pages, watch a tennis match or basketball game, or tune into a televised golf match. Nike has built the ubiquitous swoosh (which represents the wing of Nike, the Greek goddess of victory) into one of the best-known brand symbols on the planet. The symbol is so well known that the company routinely runs atis without even mentioning the Nike name. In fact, you may be surprised to find that your latest pair of



Nike's inspirational prc-Olympic campaign in 1996, using disabled athlete Peter Hull, i,s not just about running a marathon. Here, Nike forces people to reconsider stereotyped ideas.

Photography: Tim O'Sullivan
Advertising Agency: Simons Palmer

Nike shoes, or your Nike hat or T-shirt, carries no brand identification at all other than the swoosh.

The power of its brand and logo speaks loudly to Nike's superb marketing skills. The company's now-proven strategy of building superior products around popular athletes has changed the face of sports marketing for ever. Nike spends hundreds of millions of dollars eaeh year on big-name endorsements, splashy **promotional** events and lots of attention-getting ads. Over the years, Nike has associated itself with some of the biggest names in sports. No matter what your sport, the chances arc good that one of your favourite athletes wears the Nike swoosh.

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Nike's marketers build relationships - between Nike, its athletes and customers. For example, a recent ad in a tennis magazine shows only a Nike tennis shoe with the red swoosh and a freephone number. Readers who call the number hear tennis favourite Jim Courier talking drums with his

favourite drummer, Randy (Joss of Toad the Wet Sprocket. (Jail the number in a similar basketball ad and you'll overhear a humorous phone conversation In which Father Guido Sardueci tries to get Michael Jordan to invest in his newest invention, edible bicycles.

Nike seems to care as much about its customers' lives as their bodies. It doesn't just promote sales, it promotes *sports* for the benefit of all. For example, its 'If you let me play' campaign lends strong support to women's sports and the many benefits of sports participation for girls and young women. Kike also invests in a wide range of lesser-known sports, even though they provide less lucrative marketing opportunities. Such actions establish Nike not just as a producer of good athletic gear, but as a good and earing company.

Taking care of customers has paid off handsomely for Nike. Over the past decade, Nike's revenues have grown at an incredible annual rate of 21 per cent; annual return to investors has averaged 47 per cent. Over 1996 alone, total revenues increased by 36 per cent. Nike, with 27 per cent share, twice that of nearest competitor Reebok, flat-out dominates the world's athletic footwear market.

Nike founder and chief executive Phil Knight has brashly predicted that Nike will double its sales within the next five years. To meet this ambitious goal in the face of a maturing US footwear market, Nike is moving aggressively into new product categories, sports and regions of the world. In only a few years, Nike's sports apparel business has grown explosively, now accounting for nearly a quarter of Nike's 88 billion in yearly sales. And Nike is slapping its familiar swoosh logo on everything from sunglasses and footballs to batting gloves and hockey sticks. Nike has recently invaded a dozen new sports, including baseball, golf, ice and street hockey, inline skating, wall climbing, and hiking and other outdoor endeavours.

Still, to meet its goals, much of Nike's growth will have to come from overseas. And to dominate globally, Nike must dominate in football, the world's most popular sport. Nike has previously all but ignored the multi-billion dollar world football market, which currently accounts for only 3 per cent of its sales. Now, soccer is Nike's top priority. In typical fashion, Nike has set World Cup 2002 as its deadline for becoming the world's no. 1 supplier of football boots, clothing and equipment.

Elbowing its way to the top by 2002 won't he easy. World football has long been dominated by Adidas, which claims an 80 per cent global market share in football gear. Nike will have to build in just a few years what Adidas has built over the past fifty. Employing classic in-your-face marketing tactics, Nike is spending hundreds of millions of dollars in an all-out assault on competitors. Its open-wallet spending has dazzled the football world and its vast resources are rapidly changing the economics of the game. For example, it recently paid a record-setting $200 million over ten years to snatch sponsorship of the World Cup champions, Brazil's national team, from Umbro.

Still, winning in worldwide football, or in anything else Nike does, will take more than just writing fat cheques. Some Nike watchers fear that Nike's massive global expansion, coupled with its entry into new sports and products, will result in a loss of focus and overexposure of the Nike brand name. They worry that the swoosh could suddenly become imhip. To prevent this, Nike will have to deliver worldwide a consistent image of superior quality, innovation and value compared to its rivals. It will have to earn respect on a country-by-country basis and become a part of the cultural fabric of each newmarket.

Competitors can only hope that Nike will overreach, but few are counting on it. For now, most can only sit back and marvel at Nike's marketing prowess. As for football, rival Puma sees Nike's taeties as heavy handed but has little doubt that Nike's superb marketing will prevail. Its president states **flatly,** 'Nike will control the soccer world.'[1]

QUESTIONS

You should attempt these questions only after completing your reading of this chapter

1. What do you understand by the term 'marketing'?
2. What would you consider to be Nike's 'superb marketing skills'?
3. Why does Nike require these skills to compete in the marketplace?
4. Why does Nike spend hundred of millions of dollars on promoting its brand and logo?
5. Who are Nike's consumers? What might their needs be?
6. Show how marketing principles and practices will enable Nike to satisfy these needs, bearing in mind the diverse range of product and geographic markets die company operates in.

Introduction

Many large and small organizations seek success. A myriad factors contribute to making a business successful - strategy, dedicated employees, good information systems, excellent implementation. However, today's successful companies at all levels have one thing in common - like Nike they are strongly customer-focused and heavily committed to marketing. These companies share an absolute dedication to sensing, serving and satisfying the needs of customers in well-defined target markets. They motivate everyone in the organization to deliver high quality and superior value for their customers, leading to high levels of customer satisfaction. These organizations know that if they take care of their customers, market share and profits will follow.

Marketing, more than any other business function, deals with customers. Creating customer value and satisfaction are at the very heart of modern marketing thinking and practice. Although we will explore more detailed definitions of marketing later in this chapter, perhaps the simplest definition is this one: Marketing is the delivery of customer satisfaction at a profit. The goal of marketing is to attract new customers by promising superior value, and to keep current customers by delivering satisfaction.

Many people think that only large companies operating in highly developed economies use marketing, but some marketing is critical to the success of every organization, whether large or small, domestic or global. In the business sector, marketing first spread most rapidly in consumer packaged-goods companies, consumer durables companies and industrial equipment companies. Within the past few decades, however, consumer service firms, especially airline, insurance and financial services companies, have also adopted modern marketing practices. Business groups such as lawyers, accountants, physicians and architects, too,

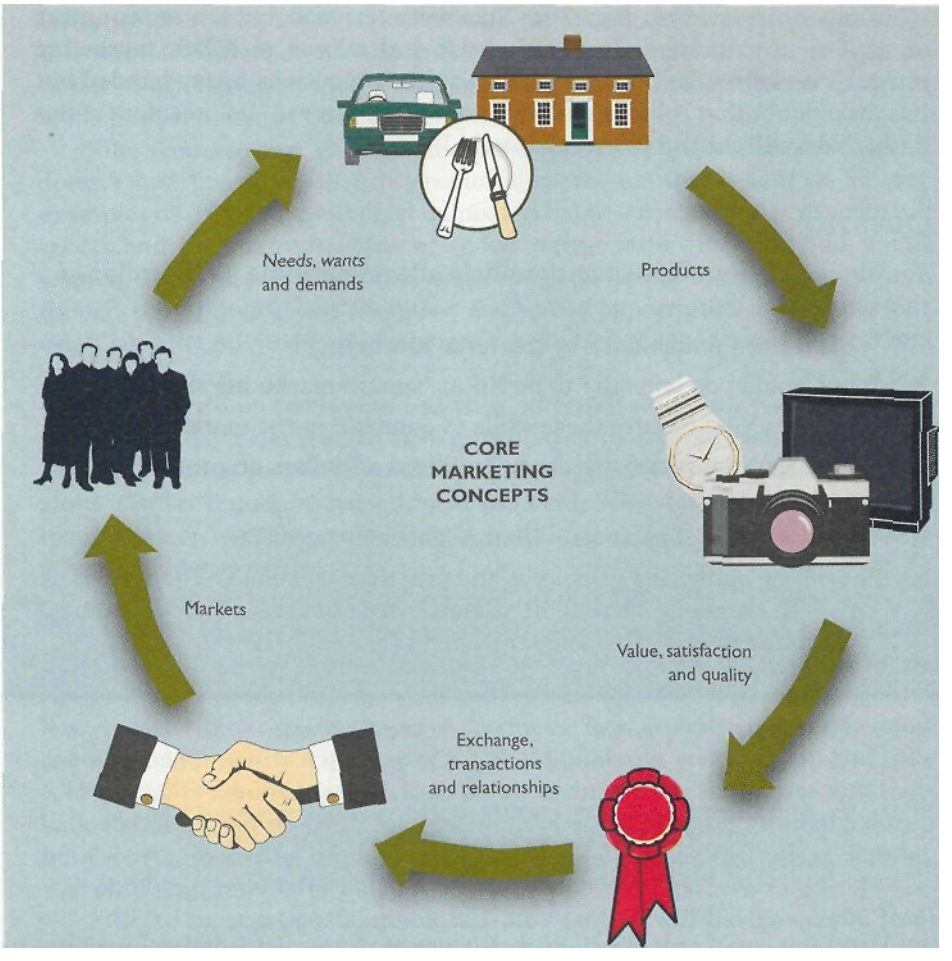


Figure 1.1 *Core* marketing **concepts**

have begun to take an interest in marketing and to advertise and to price their services aggressively.

Marketing has also become a vital component in the strategies of many *non-profit* organizations, sueh as schools, charities, churches, hospitals, museums, performing arts groups and even police departments. We will explore the growth of non-profit marketing later in this chapter.

Today, marketing is practised widely all over the world. Most countries in North and South America, western Europe and Asia have well-developed marketing systems. Even in eastern Europe and the former Soviet republics, where marketing has long had a bad name, dramatic political and social changes have created new opportunities for marketing. Business and government leaders in most of these nations are eager to learn everything they can about modern marketing practices.

You already know a lot about marketing - it's all around you. You see the results of marketing in the abundance of products that line the store shelves in your nearby shopping mall. You see marketing in the advertisements that fill your TV screen, magazines and mailbox. At home, at school, where you work, where you play - you are exposed to marketing in almost everything you do. Yet, there is much more to marketing than meets the consumer's casual eye. Behind it all is a massive network of people and activities competing for your attention and money.

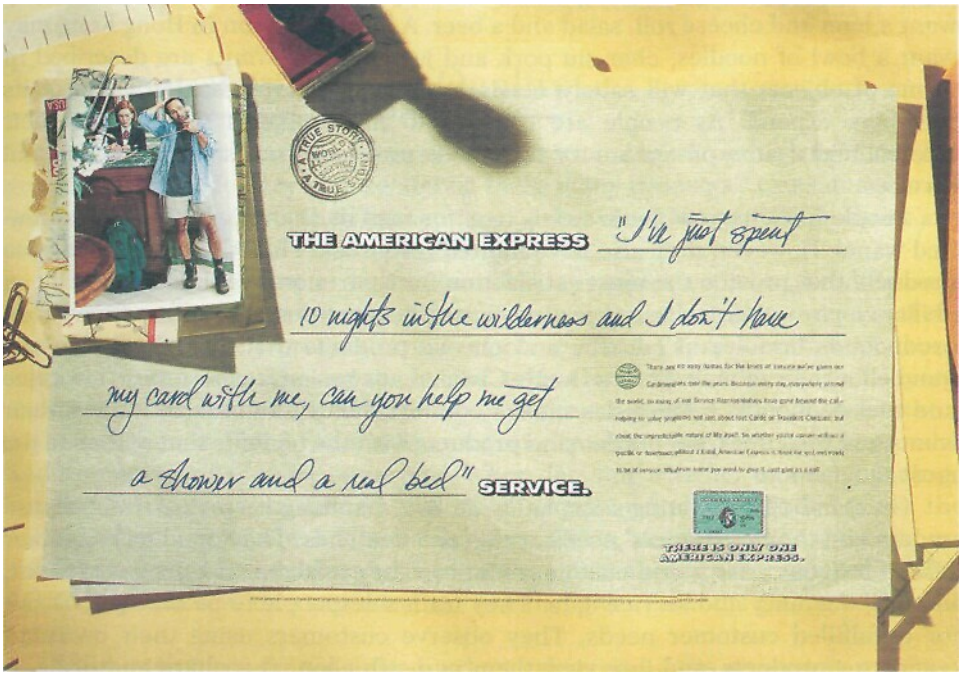
The remaining pages of this book will give you a more complete and formal introduction to the basic concepts and practices of today's marketing. In this chapter, we begin by defining marketing and its core concepts, describing the major philosophies of marketing thinking and practice, and discussing some of the major new challenges that marketers now face.

What is Marketing?

What does the term *marketing* mean? Marketing must be understood not in the old sense of making a sale - 'selling' - but in the new sense of satisfying customer needs. Many people think of marketing only as selling and advertising. And no wonder, for every day we are bombarded with television commercials, newspaper ads, direct mail and sales calls. Someone is always trying to sell us something. It seems that we cannot escape death, taxes or selling!

Therefore, you may be surprised to learn that selling and advertising are only the tip of the marketing iceberg. Although they are important, they are only two of many marketing functions, and often not the most important ones. If die marketer does a good job of identifying customer needs, develops products that provide superior value, distributes and promotes them effectively, these goods will sell very easily.

Everyone knows something about 'hot' products. When Sony designed its first Walkman cassette and disc players, when Nintendo first offered its improved video game console, and when The Body Shop introduced animal-cruelty-free cosmetics and toiletries, these manufacturers were swamped with orders. They had designed the 'right' products; not 'me-too' products, but ones offering new benefits. Peter Drucker, a leading management thinker, has put it this way: 'The



This ad assures card members that American Express World' Service representatives go beyond the call of duty to solve their unexpected problems.

aim of marketing is to make selling superfluous. The aim is to know and understand the customer so well that the product or service fits ... and sells itself.[12]

This does not mean that selling and advertising are unimportant. Rather, it means that they are part of a larger marketing mix - a set of marketing tools that work together to affect the marketplace. We define marketing as: *a nodal and managerial* process *by which individuals and groups obtain what they need and want through creating and exchanging products and value with others:*" To explain this definition, we examine the following important terms: *needs, -wants* and *demands-products; value* and *satisfaction; exchange, transactions* and *relatitmships;* and *markets.* Figure 1.1 shows that these core marketing concepts are linked, with each eoneept building on the one before it.

marketing
A social *and managerial* process *by which individuals and groups obtain what they need and want through creating ami exchanging products and value with others.*

Needs. Wants and Demands

human need
A state of felt deprivation.

The most basic concept underlying marketing is that of human needs. A human need is a state of felt deprivation. Humans have many complex needs. These include basic *physical* needs for food, clothing, warmth and safety; *social* needs for belonging and affection; and *individual* needs for knowledge and self-expression. These needs are not invented by marketers, they are a basic part of the human make-up. When a need is not satisfied, a person will do one of two things:

1. look for an object that will satisfy it; or
2. try to reduce the need.

People in industrial societies may try to find or develop objects that will satisfy their desires. People in less developed societies may try to reduce their desires and satisfy them with what is available.

human want
The form that a human need takes as shaped by culture and individual personality.

Human wants are the form taken by human needs as they are shaped by culture and individual personality. A hungry person in Bahrain may want a vegetable eurry, mango chutney and lassi. A hungry person in Eindhoven may want a ham and cheese roll, salad and a beer. A hungry person in Hong Kong may want a bowl of noodles, char siu pork and jasmine tea. Wants are described in terms of objects that will satisfy needs. As a society evolves, the wants of its members expand. As people are exposed to more objects that arouse their interest and desire, producers try to provide more want-satisfying products and services.

People have narrow, basic needs (e.g. for food or shelter), but almost unlimited wants. However, they also have limited resources. Thus they want to choose products that provide the most satisfaction for their money. When backed by an ability to pay - that is, buying power - wants become demands. Consumers view products as bundles of benefits and choose products that give them the best bundle for their money. Thus a Honda Civic means basic transportation, low price and fuel economy. A Mercedes means comfort, luxury and status. Given their wants and resources, people demand products with the benefits that add up to the most satisfaction.

demands
Human ^ants that are backed by buying power.

Outstanding marketing companies go to great lengths to learn about and understand their customers' needs, wants and demands. They conduct consumer research, focus groups and customer clinics. They analyze customer complaint, inquiry, warranty and service data. They train salespeople to be on the look-out for unfulfilled customer needs. They observe customers using their own and competing products, and interview them in depth about their likes and dislikes. Understanding customer needs, wants and demands in detail provides important input for designing marketing strategies.

Products and Services

People satisfy their needs and wants with products. A product is anything that can he offered to a market to satisfy a need or want. Usually, the word *product* suggests a physical object, such as a car, a television set or a bar of soap. However, the concept of product is not limited to physical objects - anything capable of satisfying a need can be called a product. In addition to tangible goods, products include services, which are activities or benefits offered for sale that are essentially intangible and do not result in the ownership of anything. Examples are banking, airline, hotel and household appliance repair services. Broadly defined, products also include other entities such as persons, *places, organizations, activities* and *ideas.* Consumers decide which entertainers to watch on television, which political party to vote for, which places to visit on holiday, which organizations to support through contributions and which ideas to adopt. Thus the term *product* covers physical goods, services and a variety of other vehicles that can satisfy consumers' needs and wants. If at times the term *product* does not seem to fit, we could substitute other terms such as *satisfier, resource* or *offer.*

product
Anything that van be offered to a market for attention, txccfuisition, use or consumption that might satisfy a want or need. It includes physical objects, services, persons, places, organizations and ideas.

service
Any activity or benefit that one party can offer to another which is essentially intangible and does not result in ownership of anything.

Many sellers make the mistake of paying more attention to the physical products they offer than to the benefits produced by these products. They see themselves as selling a product rather than providing a *solution* to a need. The importance of physical goods lies not so much in owning them as in the benefits they provide. We don't buy food to look at, but because it satisfies our hunger. We don't buy a microwave to admire, but because it cooks our food. A manufacturer of drill bits may think that the customer needs a drill bit, but what the customer *really* needs is a hole. These sellers may suffer from 'marketing myopia'.[4] They are so taken with their products that they focus only on existing wants and lose sight of underlying customer needs. They forget that a physical product is only a tool to solve a consumer problem. These sellers have trouble if a new product comes along that serves the need better or less expensively. The customer with the same *need* will -*want* the new product.

Value, Satisfaction and Quality

Consumers usually face a broad array of products and services that might satisfy a given need. How do they choose among these many products? Consumers make buying choices based on their perceptions of the value that various products and sendees deliver.

customer value
The consumer's assessment of the product's overall capacity to satisfy his or her n<xds.

The guiding concept is customer value. Customer value is the difference between the values the customer gains from owning and using a product and the costs of obtaining the product. For example, Federal Express customers gain a number of benefits. The most obvious is fast and reliable package deliver;'. However, when using Federal Express, customers may also receive some status and image values. Using Federal Express usually makes both the package sender and the receiver feel more important. When deciding whether to send a package via Federal Express, customers will weigh these and other values against the money, effort and psychic costs of using the service. Moreover, they will compare the value of using Federal Fjxpress against the value of using other shippers-UPS, DHL, the postal service - and select the one that gives them the greatest delivered value.

Customers often do not judge product values and costs accurately or objectively. They act on *perceived* value. Customers perceive the firm to provide faster, more reliable delivery and are hence prepared to pay the higher prices that

customer satisfaction
The extent to -which a product's perceived performance matches a buyers expectations. If the product's *performance falls shore, of expectations, the buyer is disatisfied. If performance matches or exceeds expectations the buyer* is *satisfied, or delighted.*

Federal Express charges. Customer satisfaction depends on -*A* product's perceived performance in delivering value relative to a buyer's expeetations. If the product's performance falls short of the customer's expectations, the buyer is dissatisfied. If performance matches expectations, the buyer is satisfied. If performance exceeds expectations, the buyer is delighted. Outstanding marketing companies go out of their way to keep their customers satisfied. Satisfied customers make repeat purchases, and they tell others about their good experiences with the product. The key is to match customer expectations with company performance. Smart companies aim to *delight* customers by promising only what they can deliver, then delivering *more* than they promise.[5]

Customer satisfaction is closely linked to quality. In recent years, many companies have adopted total quality management (TQM) programmes, designed constantly to improve the quality of their products, services and marketing processes. Quality has a direct impact on product performance, and hence on customer satisfaction.

total **quality** management (TQM)
Programmes designed to constantly improve the quality of products, service and marketing processes

In the narrowest sense, quality can be defined as 'freedom from defects'. But most customer-centred companies go beyond this narrow definition of quality. Instead, they define quality in terms of customer satisfaction. For example, Motorola, a company that pioneered total quality efforts in the United States, stresses that 'Quality has to do something for the customer ... Our definition of a defect is "if the customer doesn't like it. it's a defect".' Customer-focused definitions of quality suggest that a company has achieved total quality only when its products or services meet or exceed customer expectations. Thus, the fundamental aim of today's *total quality* movement has become *total* customer *satisfaction.* Quality begins with customer needs and ends with customer satisfaction.

Today, consumer-behaviourists have gone far beyond narrow economic assumptions about how consumers form value judgements and make product choices. We will look at modern theories of consumer-choice behaviour in Chapter 7. In Chapter 11, we will examine more fully customer satisfaction, value and quality.

Exchange, Transactions and Relationships

exchange
The act of obtaining a desired object from someone by offering something in return.

Marketing occurs when people decide to satisfy needs and wants through exchange. Exchange is the act of obtaining *a* desired object from someone by offering something in return. Exchange is only one of many ways people can obtain a desired object. For example, hungry people can find food by hunting, fishing or gathering fruit. They could beg for food or take food from someone else. Finally, they could offer money, another good or a service in return for food.

As a means of satisfying needs, exchange has much in its favour. People do not have to prey on others or depend on donations. Nor must they possess the skills to produce every necessity for themselves. They can concentrate on making things they are good at making and trade them for needed items made by others. Thus exchange allows a society to produce much more than it would with any alternative system.

Exchange is the core concept of marketing. For an exchange to take place, several conditions must be satisfied. Of course, at least two parties must participate and each must have something of value to offer the other. Each party must also want to deal with the other party and each must be free to accept or reject the other's offer. Finally, each party must be able to communicate and deliver.

These conditions simply make exchange *possible.* Whether exchange actually *takes place* depends on the parties coming to an agreement. If they agree, we must conclude that the act of exchange has left both of them better off or, at least,

not worse off. After all, each was free to reject or accept the offer. In this sense, exchange creates value just as production creates value. It gives people more consumption choices or possibilities.

Whereas exchange is the core concept of marketing, a transaction is marketing's unit of measurement. A transaction consists of a trading of values between two parties. In a transaction, we must be able to say that one party gives *X* to another party and gets Fin return. For example, you pay a retailer £300 fora television set or the hotel £90 a night for a room. This is a classic *monetary transaction,* but not all transactions involve money. In a barter transaction, you might trade your old refrigerator in return for a neighbour's second-hand television set.

transaction
A erode between i *parties that involves at least two things of value, agrecd-upon conditions, a time of agreement and a place of agreement.*

Marketing Highlight 1.1

Going Back lo Barter

With todays high prices, many companies are returning to the primitive but time-honoured practice of barter - trading goods and services that they make or provide for other goods and services that they need. The European barter market is estimated to be worth up to S200 million a year and forecasts put the value at nearly $1 billion by the year 2000. On a global scale, companies barter more than $275 billion worth of goods and services a year, and the practice is growing rapidly.

Companies use barter to increase sales, unload extra goods and save cash. For example, companies are offering television programmes to broadcasters in exchange for air-time: Unilever owns the European rights to the TV game shows, *Wliesl of Fortune* and *Jeopardy,* which it barters to stations all over Europe. Others like PepsiCo traded Pcpsi-Cok and pizza parlours to the Russians for ships and Stolichnaya vodka, while Pierre Gardin served as a consultant to China in exchange for silks and cashmeres, and Turnkey Contracts and Consultancy, a Singapore company, was paid in Burmese logs for the construction of an International Business Centre in Burma's capital city, Rangoon.

As a result of this increase in barter activity, many kinds of speciality company have appeared to help other companies with their bartering. Retail-trade exchanges and trade clubs arrange barter for small retailers. Larger corporations use trade consultants and brokerage firms. Media brokerage houses provide advertising in exchange for products, and international barter is often handled by counter-trade organizations.

Barter has become especially important in today's global markets, where it now accounts for as much as 40 per cent of all world trade. The present world currency shortage means that more and more companies are being forced to trade for goods and services rather than cold, hard cash. International barter transactions can be very complex. For example, a trader for KGD International, a New York-based bartering company, arranged the following series of exchanges:

> [The trader] supplied a load of latex rubber to a Czech company in exchange for 9,000 metres of finished carpeting. lie then traded the carpeting for hotel room credits. The rooms were traded to a Japanese company for electronic equipment, which [the trader] bartered away lor convention space. The final [exchange] came when he swapped the convention space for ad space that his company used.

SOURCES: 'TV barters for the future'. *The Kumpean* (25-31 March 1994); Victor Mallet, 'Barter proves best for business, Burma style', *Financial Times* (8 February 1994), p. 8; Quote from Cyndee Miller, 'Worldwide money crunch fuels more international barter', *Marketing Nemos* (2 March 1992). p. 5; also see Arthur Bragg, 'liarterinf; comes of age', *Sales and Marketing Management* (January 1988), pp. 61-3; Joe Mandese, 'Marketers swap old product for ad time, space', *Advertising Age (*14 October 1991), p. 3.

A *barter transaction* can also involve services as well as goods: for example, when a lawyer writes a will for a doctor in return for a medical examination (sec **Marketing** Highlight 1.1). A transaction involves at least two things of value, conditions that are agreed upon, a time of agreement and a place of agreement.

In the broadest sense, the market tries to bring about a response to some offer. The response may tie more than simply 'buying' or 'trading' goods and services. A political candidate, for instance, wants a response called 'votes', a church wants 'membership', and a social-action group wants "idea acceptance'. Marketing consists of actions taken to obtain a desired response from a target audience towards some product, service, idea or other object.

relationship **marketing** *The* process *recreating, maintaining and enhancing strong, value-laden relationships with customers and other stakeholders.*

Transaction marketing is part of the larger idea of **relationship** marketing. Smart marketers work at building long-term relationships with valued customers, distributors, dealers and suppliers. They build strong economic and social tics by promising and consistently delivering high-quality products, good service and fair prices. Increasingly, marketing is shifting from trying to maximize the profit on each individual transaction to maximizing mutually beneficial relationships with consumers and other parties. In fact, ultimately, a company wants to build a unique company asset called ^ *.marketing network,* A marketing network consists of the company and all of its supporting stakeholders: customers, employees, suppliers, distributors, retailers, ad agencies, and others with whom it has built mutually profitable business relationships. Increasingly, competition is not between companies but rather between whole networks, with the prize going to the company that has built the best network. The operating principle is simple: build a good network of relationships with key stakeholders, and profits will follow/' Chapter 11 will explore relationship marketing and its role in creating and maintaining customer satisfaction.

Markets

market *The sec of all actual arid potential buyers of a product or service.*

The concept of exchange leads to the concept of a market. A market is the set of actual and potential buyers of a product. These buyers share a particular need or want that can be satisfied through exchange. Thus, the size of a market depends on the number of people who exhibit the need, have resources to engage in exchange, and are willing to offer these resources in exchange for what they want.

Originally the term *market* stood for the place where buyers and sellers gathered to exchange their goods, such as a village square. Economists use the term to refer to a collection of buyers and sellers who transact in a particular product class, as in the housing market or the grain market. Marketers, however, see the sellers as constituting an industry and the buyers as constituting a market. The relationship between the *industry* and the *market* is shown in Figure 1.2. The sellers and the buyers are connected by four flows. The sellers send products, services and communications to the market; in return, they receive money and information. The inner loop shows an exchange of money for goods; the outer loop shows an exchange of information.

Modern economics operate on the principle of division of labour, where each person specializes in producing something, receives payment, and buys needed things with this money. Thus, modern economies abound in markets. Producers go to resource markets (raw material markets, labour markets, money markets), buy resources, turn them into goods and services, and sell them to intermediaries, who sell them to consumers. The consumers sell their labour, for which they receive income to pay for the goods and services they buy. The government is another market that plays several roles. It buys goods from resource, producer and intermediary markets; it pays them; it taxes these markets (including

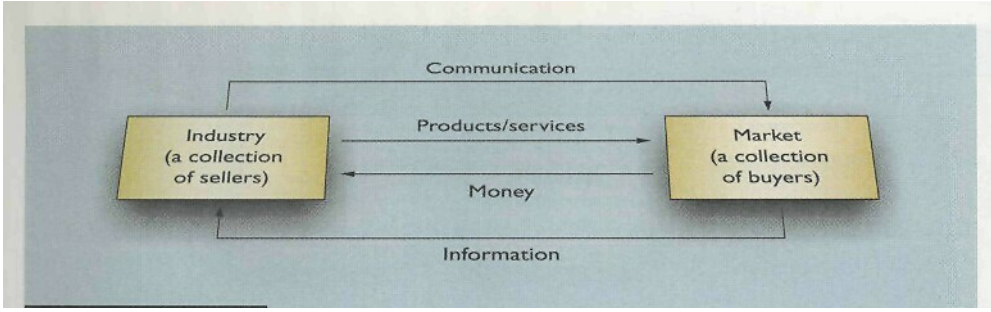


Figure 1.2 A simple **marketing** system

consumer markets); and it returns needed public services. Thus each nation's economy and the whole world economy consist of complex interacting sets of markets that are linked through exchange processes.

In advanced societies, markets need not be physical locations where buyers and sellers interact. With modern communications and transportation, a merchant can easily advertise a product on a late evening television programme, take orders from thousands of customers over the phone, and mail the goods to the buyers on the following day without having had any physical contact with them.

Businesspeople use the term *markets* to cover various groupings of customers. They talk about *need markets* (such as health seekers); *product markets* (such as teens or the baby boomers); and *geographic markets* (such as western Europe or the United States). Or they extend the concept to cover non-customer groupings. For example, a *labour market* consists of people who offer their work in return for wages or products. Various institutions, such as employment agencies and job-counselling firms, will grow up around a labour market to help it function better. The *money market* is another important market that emerges to meet the needs of people so that they can borrow, lend, save and protect money. The *donor market* has emerged to meet the financial needs of non-profit organizations.

Marketing

The concept of markets finally brings us full circle to the concept of marketing. Marketing means managing markets to bring about exchanges for the purpose of satisfying human needs and wants. Thus, we return to our definition of marketing as a process by which individuals and groups obtain what they need and want by creating and exchanging products and value with others.

Exchange processes involve work. Sellers must search for buyers, identify their needs, design good products and services, promote them, and store and deliver them. Activities such as product development, research, communication, distribution, pricing and service are core marketing activities.

Although we normally think of marketing as being carried on by sellers, buyers also carry out marketing activities. Consumers do 'marketing' when they search for the goods they need at prices they can afford. Company purchasing agents do 'marketing' when they track down sellers and bargain for good terms. A *sellers' market* is one in svhich sellers have more power and buyers must be die more active 'marketers'. In a *buyers' market,* buyers have more power and sellers have to be more active 'marketers'.

Figure 1.3 shows the main elements iir a modern marketing system. In the usual situation, marketing involves serving a market of end users in the face of

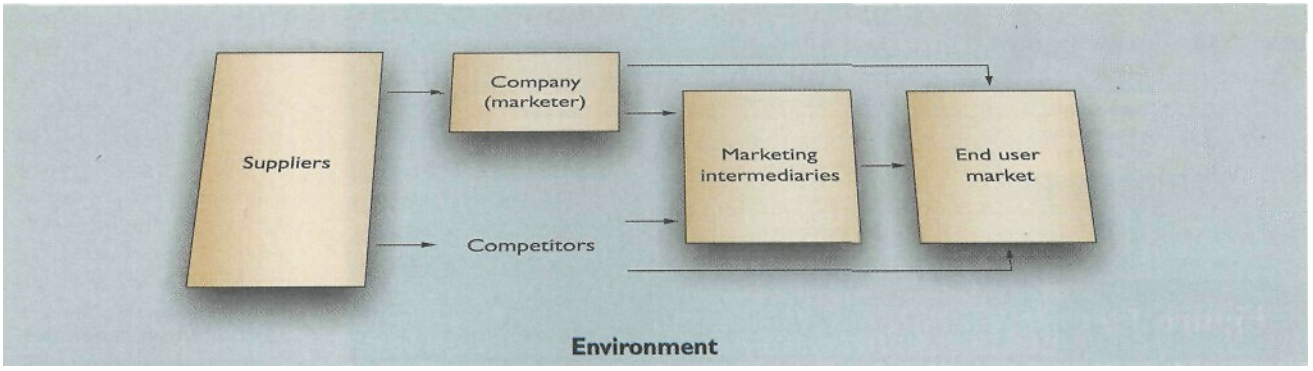


Figure 1.3 **Main actors and forces in a modern marketing system**

eompetitors. The company and the competitors send their respective products and messages directly to eonsumers or through marketing intermediaries to the end users. All of the actors in the system are affected by major environmental forces - demographic, eeonomic, physical, technological, political/legal, social/cultural. We will address these forces that affect marketing decisions in Chapter 4.

Eaeh party in the system adds value for the next level. Thus, a company's success depends not only on its own actions, but also on how well the entire value chain serves the needs of final consumers. IKEA cannot fulfil its promise of Sow prices unless its suppliers provide merchandise at low costs. And Toyota cannot deliver high quality to car buyers unless its dealers provide outstanding service.

Marketing Management

marketing **management** *The analysis, planning, implementation arid control of programmes designed to create, build and maintain beneficial exchanges with target buyer a for the purpose of achieving organisational objectives.*

We define marketing management as the analysis, planning, implementation and control of programmes designed to create, build and maintain beneficial exchanges with target buyers for the purpose of achieving organizational objectives. Thus, marketing management involves managing demand, which in turn involves managing customer relationships.

Demand Management

Most people think of marketing management as finding enough customers for the company's current output, but this is too limited a view. The organization has a desired level of demand for its products. At any point in time, there may be no demand, adequate demand, irregular demand or too much demand, and marketing management must find ways to deal with these different demand states. Marketing management is concerned not only with finding and increasing demand, but also with changing or even reducing it.

dcmarkcting *Marketing to reduce demand temporarily or permanently - the aim* is *not to destroy demand but only to reduce or shift it.*

For example, Disney World is badly overcrowded in the summertime and power companies sometimes have trouble meeting demand during peak usage periods. In these and other cases of excess demand, the needed marketing task, called deniarketing, is to reduce demand temporarily or permanently. The aim of demarketing is not to destroy demand, but only to reduce or shift it. Thus, marketing management seeks to affect the level, timing and nature of demand in a

way that helps the organization achieve its objectives. Simply put, marketing management is *demand management.*

• *Building Profitable Customer Relationships*

Managing demand means managing customers. A company's demand comes from two groups: new customers and repeat customers. Traditional marketing theory and practice have focused on attracting new customers and making the sale. Today, however, the emphasis is shifting. Beyond designing strategics to *attract* new customers and create *transactions* with them, companies are now going all out to retain current customers and build lasting customer *relationships.*

Why the new emphasis on keeping customers? In the past, companies facing an expanding economy and rapidly growing markets could practise the leaky bucket' approach to marketing. Growing markets meant a plentiful supply of new customers. Companies could attract new customers without worrying about losing old customers. However, companies today are facing some new marketing realities. Changing demographics, a slow-growth economy, more sophisticated competitors and overcapacity in many industries - all of these factors mean that there are fewer new customers to go around. Many companies are now fighting for shares of flat or fading markets. Thus, the costs of attracting new customers are rising. In fact, it costs five times as much to attract a new customer as it does to keep a current customer satisfied.[7]

Companies are also realizing that losing a customer means more than losing a single sale - it means losing the entire stream of purchases that the customer would make over a lifetime of patronage. For example, the *customer lifetime value* of a Ford customer might well exceed £250,000. Thus, working to retain customers makes good economic sense. A company can lose money on a specific transaction, but still benefit greatly from a long-term relationship.

Attracting new customers remains an important marketing management task. However, the focus today is shifting towards retaining current customers and building profitable, long-term relationships with them. The key to customer retention is superior customer value and satisfaction.

Marketing Management Philosophies

We describe marketing management as carrying out tasks to achieve desired exchanges with target markets. What *philosophy* should guide these marketing efforts? What weight should be given to the interests of the organization, customers and society? Very often these interests conflict. Invariably, the organization's marketing management philosophy influences the way it approaches its buyers.

There are five alternative concepts under which organizations conduct their marketing activities: the *production, product, selling, marketing* and *societal marketing* concepts.

production concept *The philosophy that* consumers *will favour products that are available and highly affordable, and that management should therefore focus on imprttving production and distribution efficiency.*

The Production Concept

The production concept holds that consumers will favour products that are available and highly affordable, and that management should therefore focus on improving production and distribution efficiency. This concept is one of the oldest philosophies that guides sellers.

The production concept is a useful philosophy in two types of situation. The first occurs when the demand for a product exceeds the supply. Here, management should look for ways to increase production. The second situation occurs when the product's cost is too high and improved productivity is needed to bring it down. For example, Henry Ford's whole philosophy was to perfect the production of the Model T so that its cost eould be reduced and more people could afford it. He joked about offering people a ear of any colour an long as it was black. Today, Texas Instruments (Tl) follows this philosophy of increased production and lower eosts in order to bring clown prices. The company won a big share of the hand-calculator market with this philosophy. However, companies operating under a production philosophy run a big risk of focusing too narrowly on their own operations. When Tl used the same strategy in the digital watch market, it failed. Although TTs watches were priced low, customers did not find them very attractive. Tn its drive to bring down prices, Tl lost sight of -something else that its customers wanted - namely, *attractive,* affordable digital watches.

The Product Concept

product concept
The idea that C"l will favour products that offer the most quality, performance and features, and tliat the organisation *should therefore, devote its energy to making continuous produce improve* merits.

Another important concept guiding sellers, the product concept, holds that consumers will favour products that offer the most quality, performance and innovative features, and that an organization should thus devote energy to making continuous product improvements. Some manufacturers believe that if they can build a better mousetrap, the world will beat a path to their door." But they are often rudely shocked. Buyers may well be looking for a better solution to a mouse problem, but not necessarily for a better mousetrap. The solution might be a chemical spray, an exterminating service or something that works better than a mousetrap. Furthermore, a better mousetrap will not sell unless the manufacturer designs, packages and price-s it attractively; places it in convenient distribution channels; and brings it to the attention of people who need it and convinces them that it is a better product. A product orientation leads to obsession with technology because managers believe that technical superiority is the key to business success.

The product concept also can lead to 'marketing myopia'. For instance, railway management once thought that users wanted *trains* rather than *transportation* and overlooked the growing challenge of airlines, buses, trucks and cars. Building bigger and better trains would not satisfy consumers' demand for transportation, but creating other forms of transportation and extending choice would.

The Selling Concept

selling concept
The idea that consumers •will not buy enough of the organisation's products unless the organisation undertakes n large-scale selling and promotion effort.

Many organizations follow the selling concept, which holds that consumers will not buy enough of the organization's products unless it undertakes a large-scale selling and promotion effort. The concept is typically practised with *unsought floods* - those that buyers do not normally think of buying, such as encyclopaedias and funeral plots. These industries must be good at tracking down prospects and convincing them of product benefits.

The selling concept is also practised in the non-profit area. A political party, for example, will vigorously sell its candidate to voters as a fantastic person for the job. The candidate works hard at selling him or herself - shaking hands, kissing babies, meeting donors and making speeches. Much money also has to be spent on radio and television advertising, posters and mailings. Candidate flaws are

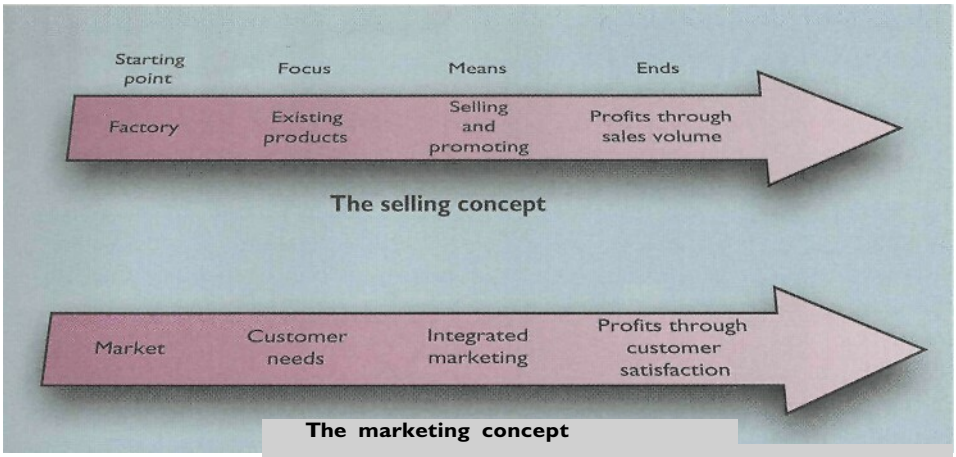


Figure 1.4 The selling and marketing **concepts** contrasted

often hidden from the public because the aim is to get the sale, not to worry about consumer satisfaction afterwards.

Most firms practise the selling concept when they have overcapacity. Their aim is to sell what they make rather than make what the market wants. Thus marketing based on hard selling carries high risks. It focuses on short-term results - creating sales transactions - rather than on building long-term, profitable relationships with customers. It assumes that customers who are coaxed into buying the product will like it. Or, if they don't like it, they may forget their disappointment and buy it again later. These are usually poor assumptions to make about buyers. Most studies show that dissatisfied customers do not buy again. Worse yet, while the average satisfied customer tells three others about good experiences, the average dissatisfied customer tells ten others his or her bad experiences.[9]

The Marketing Concept

The marketing **concept** holds that achieving organizational goals depends on determining the needs and wants of target markets and delivering the desired satisfactions more effectively and efficiently than competitors do. Surprisingly, this concept is a relatively recent business philosophy.

marketing concept
The marketing management philosophy which holds that achieving organisational goals depends on determining the needs and wants qf target markets and delivering the desired satisfactions more effectively and efficiently than competitors do.

The selling concept and the marketing concept are frequently confused. Figure 1.4 compares the two concepts. The selling concept takes an *inside-out* perspective. It starts with the factory, focuses on the company's existing products and calls for heavy selling and promotion to obtain profitable sales. It focuses on customer conquest - getting short-term sales with little concern about who buys or why. In contrast, the marketing concept takes an *outside-in* perspective. It starts with a well-defined market, focuses on customer needs, co-ordinates all the marketing activities affecting customers and makes profits by creating long-term customer relationships based on customer value and satisfaction. Under die marketing concept, companies produce what consumers want, thereby satisfying consumers and making profits.

Many successful and well-known global companies have adopted the marketing concept. IKEA. Marks & Spencer, Procter & Gamble, Marriott, Nordstrom and McDonald's follow it faithfully (sec Marketing Highlight 1.2). Toyota, the highly successful Japanese car manufacturer, is also a prime example of an organization that takes a customer- and marketing-oriented view of its business.

Marketing Highlight 1.2

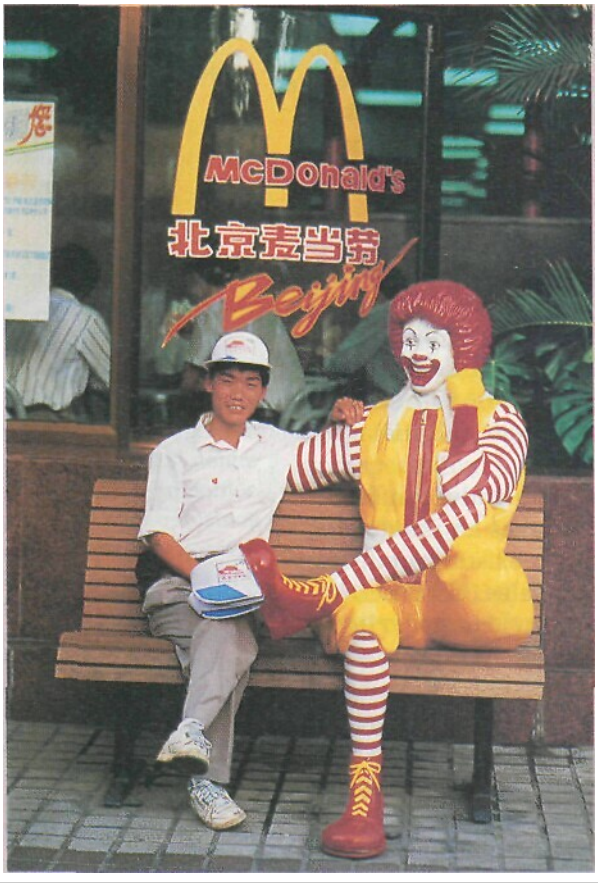
McDonald's Applies the Marketing Concept

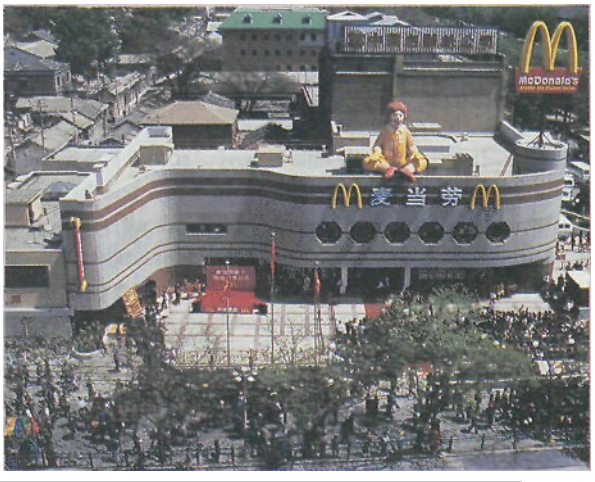
McDonald's Corporation, the American fast-food hamburger retailer, is a master global marketer. With over 18,000 outlets in more than 90 countries and more than $23 billion in annual worldwide sales, McDonald's opens a new restaurant every three hours somewhere in the world. Credit for this performance belongs to a strong marketing orientation: McDonald's knows how to serve people and adapt to changing consumer wants.

Before McDonald's appeared, Americans could get hamburgers in restaurants or diners. But consumers often encountered poor-quality hamburgers, slow and unfriendly service, unattractive d6cor, unclean conditions and a noisy atmosphere. In 1955 Ray Kroc, a 52-year-old salesman of milkshake-mixing machines, became excited about a string of seven fast-food restaurants owned by Richard and Maurice McDonald. He bought the chain for $2.7 million and expanded it by selling franchises, and the number of restaurants grew rapidly. As times changed, so did McDonald's. It expanded its sit-down sections, improved the decor, launched a breakfast menu, added new food items and opened new outlets in busy, high-traffic areas.

Kroc's marketing philosophy is captured. in McDonald's motto of 'QSC & *V,* which stands for quality, service, cleanliness and value. Customers enter a spotlessly clean restaurant, walk up to a friendly counter-person, quickly receive a good-tasting meal, and eat it there or take it out. There are no jukeboxes or telephones to create a teenage hang-out. Nor are there any cigarette machines - McDonald's is a family affair, appealing strongly to children.

McDonald's has mastered the art of serving consumers and it carefully teaches the basics to its employees and franchisees. All franchisees take training courses at McDonald's 'Hamburger





McDonald's delivers "quality, service, cteanlmess, and value" Co customers around the 'world, hern in the world's largest McDonald's in Beijing.

University' in Elk Grove Village, Illinois. **McDonald's** monitors product and service quality through continuous customer surveys and puts great energy into improving hamburger production methods in order to simplify operations, bring down costs, speed up service and bring greater value to customers. Beyond these efforts, each McDonald's restaurant works to become a part of its neighbourhood through community involvement and service projects.

In its restaurants outside the United States, McDonald's carefully customizes its menu arid service to local tastes and customs. For instance, McDonald's India offers products developed especially for the Indian market - particularly vegetarians. It serves only mutton, chicken, fish and vegetable products, not beef, pork and their by-products. Big Mac in India is called Maharaja Mac! It serves corn soup and teriyaki burgers in Japan, pasta salads in Rome, and wine and live piano music with its McNuggets in Paris. When McDonald's opened its first restaurant in Moscow, the company had to overcome enormous hurdles to meet its high standards for consumer satisfaction in this new market. It had to educate suppliers, employees and even consumers about the time-tested McDonald's way of doing things. Technical experts with special strains of disease-resistant seed were brought in from Canada to teach Russian farmers how to grow nisset Burbank potatoes for French fries, and the company built its own pasteurizing plant to ensure a plentiful supply of fresh milk, it trained Russian managers at Hamburger University and subjected each of 630 new employees to hours of training on such essentials as cooking meat patties, assembling Filet-O-Fish sandwiches and giving service with a smile. McDonald's even had to train consumers, most of whom had never seen a fast-food restaurant. Customers waiting in line were shown videos telling them everything from how to order and pay at the counter to how to handle a Big Mae. And in its usual way, McDonald's began immediately to build community involvement. On opening day, it held a kick-off party for 700 Muscovite orphans and donated the day's proceeds to the Moscow Children's Fund. As a result, the new Moscow restaurant got off to a very successful start. About 50,000 customers swarmed through the restaurant during its first day of business.

Riding on its success in Moscow, McDonald's continues to expand its worldwide presence. The 28,000 square-foot restaurant in Beijing has 29 cash registers and seats 700 people.

Thus, McDonald's focus on consumers has made it the world's largest food-service organization. The company's huge success has been reflected in the increased value of its stock over the years: 250 shares of McDonald's stock purchased for less than $6,000 in 1965 would be worth well over a million dollars today!

SOURCES: Scott Hume, 'McDonald's l<'red Turner: making all the right moves', *Ad-oertiKini> Age* (1 January 1990), pp. 6, 17; Gail McKnight, '1 [ere comes Bolshoi Mac', *USA Today Weekend* (26-8 January 1990), pp. 4-5; Roscniarie Boyle, 'McDonald's gives Soviets something worth waiting for', *Adocrtising Age* (19 March 1990), p. 61; 'Food draws raves, prices don't aE Beijing McDonald's opening', *Durham Herald-Sun* (12 April 1992|, p. HI 2; Laura Manur, *Marketing Kusiness* (September 1997), p. 35.

Toyota openly publicizes its intent on getting deep into the hearts and minds of its customers, to establish precisely what they want and subsequently find ways to fulfil their wishes. In Japan, Toyota has built the Amhix, a 14-storey building resembling a blue and black striped rocket, which it uses to attract millions of visitors. These could be potential customers or people with ideas on how the company should respond to consumers[7] vehicle requirements. These visitors are allowed to spend as much time as they want designing their own vehicles on computer/ TV screen in the vehicle-design studio. There is a two-way information centre where visitors obtain specific information about the company, its dealers or products. The visitors are also allowed to expound, at length, on what they think Toyota should be doing or making. Meanwhile, Toyota's attentive note-taking staff ensure that the entire Amlux complex is dedicated to involving

potential customers who can give them close insights into how their car needs can be satisfied.

In marketing-led organizations, real customer focus has to work from the top down and the bottom up, and it has to be totally accepted by the whole workforce. This organization-wide belief ensures that customer retention becomes a priority and all staff are committed to building lasting relationships with the eustomer. To achieve successful implementation of the marketing concept, the organization therefore focuses on how best to tap and channel the knowledge and understanding, the motivation, the inspiration and the imagination of all staff to deliver products and services that meet exactly what the eustomer requires from the organization.

Many companies claim to practise the marketing concept, but do not. They have the *forms* of marketing - such as a marketing director, product managers, marketing plans and marketing research - hut this does not mean that they are *market-focused* and *customer-driven* companies. The question is whether they are finely tuned to changing customer needs and competitor strategies. Formerly great western companies - Philips, General Motors, IBM, General Electric Company - all lost substantial market share because they failed to adjust their marketing strategies to the changing marketplace. Years of hard work are needed to turn a sales-oriented company into a marketing-oriented company. The goal is to build customer satisfaction into the very fabric of the firm. Customer satisfaction is no longer a fad. As one marketing analyst notes; 'It's becoming a way of life ... as embedded into corporate cultures as information technology and strategic planning.'[1"]

However, the marketing concept does not mean that a company should try to give *all* consumers *everything* they want. Marketers must balance creating more value for customers against making profits for the company: As one marketing expert notes, "The purpose of marketing is not to *maximise* customer satisfaction. The shortest definition of marketing I know is "meeting needs profitably". The purpose of marketing is to generate eustomer value (at a profit]. The truth is [that the relationship with a eustomer] will break up if value evaporates. You've got to continue to generate more value for the consumer but not give away the house. It's a very delicate balance.'[11]

The Societal Marketing Concept

societal marketing concept
The idea that the organization should determine the needs, wants and interests of target markets and deliver the desired satisfactions more effectively and efficiently than competitors *in a* <u>ay *that maintains or improves the consumer's and society's well-being.*

The societal marketing coneept holds that the organization should determine the needs, wants and interests of target markets. It should then deliver the desired satisfactions more effectively and efficiently than competitors in a way that maintains or improves the consumer's and *the* society's well-being. The societal marketing concept is the newest of the five marketing management philosophies.

The societal marketing concept questions whether the pure marketing concept is adequate in an age of environmental problems, resource shortages, worldwide economic problems and neglected social services. It asks if the firm that senses, serves and satisfies individual wants is always doing what's best for consumers and society in the long run. According to the societal marketing concept, the pure marketing concept overlooks possible conflicts between short-run consumer *wants* and long-run *consumer welfare.*

Consider the Coca-Cola Company. Most people see it as a highly responsible corporation producing fine soft drinks that satisfy consumer tastes. Yet certain consumer and environmental groups have voiced concerns that Coke has little nutritional value, can harm people's teeth, contains caffeine and adds to the litter problem with disposable bottles and cans.

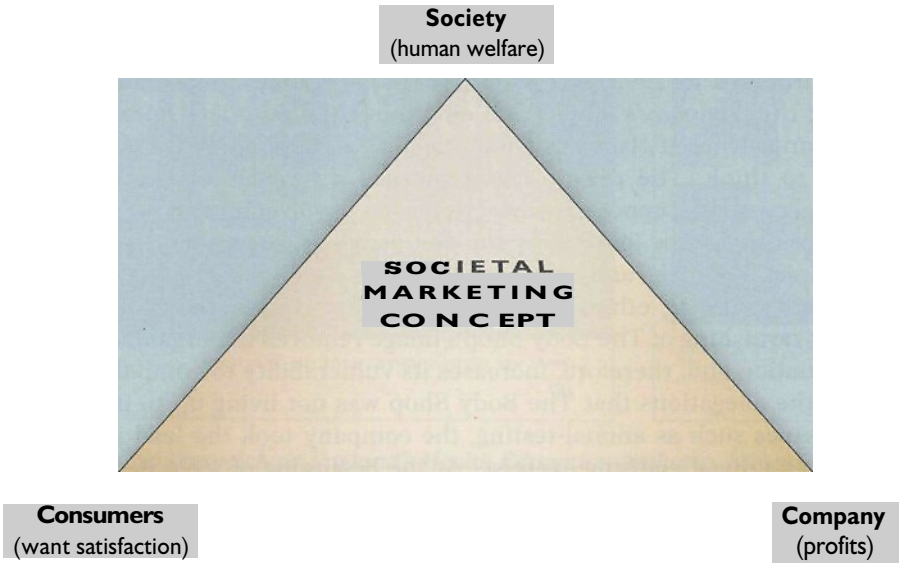


Figure 1.5 **I'hrce** considerations underlying the **societal** marketing **concept**

Such concerns and conflicts led to the societal marketing concept. As Figure 1,5 shows, the societal marketing concept calls upon marketers to balance three considerations in setting their marketing policies: company profits, consumer wants and society's interests. Originally, most companies based their marketing decisions largely on short-run company profit. Eventually, they began to recognize the long-run importance of satisfying consumer wants, and the marketing concept emerged. Now many companies are beginning to think of society's interests when making their marketing decisions.

One such company is the international corporation Johnson & Johnson, which stresses community and environmental responsibility. J & J's concern for societal interests is summarized in a company document called 'Our Credo', which stresses honesty, integrity and putting people before profits. Under this credo. Johnson & Johnson would rather take a big loss than ship a bad batch of one of its products. And the company supports many community and employee programmes that benefit its consumers and workers, and the environment. J & J's chief executive puts it this way: 'If we keep trying to do what's right, at the end of the day we believe the marketplace will reward us.'[13]

Consider the tragic tampering ease in whieh eight people died from swallowing cyanide-laced capsules of Tylenol, a Johnson & Johnson brand. Although J & J believed that the pills had been altered in only a few stores, not in the factory, it quickly recalled all of its product. The recall cost the company $240 million in earnings. In the long run, however, the company's swift recall of Tylenol strengthened consumer confidence and loyalty, and Tylenol remains the leading brand of pain reliever in the US market. In this and other cases, J & J management has found that doing what's right benefits both consumers and the company. Says the chief executive: The Credo should not be viewed as some kind of social welfare program - it's just plain good business.'[1-1] Thus over the years, Johnson & Johnson's dedication to consumers and community service has made it one of America's most admired companies, *and* one of the most profitable.

Increasingly, firms also have to meet the expectations of society as a whole. For example, society expects businesses genuinely to uphold basic ethical and

environmental standards. Not only should they have ethics and environmental policies, they must also back these with actions. Consider, for instance, the bad publicity The Body Shop received during the early 1990s when the company came under attack in 1992 over its environmental standards. Some critics who researched the company's ethical and environmental practices charged that the high standards which it claims to uphold might be less genuine than it would like the world to think. The critics also expressed a broader concern - that the company persistently appears to exaggerate its involvement in worthy causes. Such charges cannot be ignored by the company's management, particularly its founder, Anita Roddick, and chairman, Gordon Roddick, who have long been involved in promoting ethical and environmental causes within the business world. Any tarnishing of The Body Shop's image removes the organization's point of differentiation and, therefore, increases its vulnerability to competition.[14] As a riposte to the allegations that The Body Shop was not living up to its own standards on issues such as animal testing, the company took the lead in the UK to undertake an ethical auditing exercise. At the beginning of 1996 it published its first Values Report, a massive affair spanning five volumes and over 300 pages of data and feedback from stakeholders - suppliers, customers, employees, shareholders and others representing the public at large - in three mam areas: environment, social policy and animal protection.

Marketing Challenges into the Next Century

Marketing operates within a dynamic global environment. Every decade calls upon marketing managers to think afresh about their marketing objectives and practices. Rapid changes can quickly make yesterday's winning strategies out of date. As management thought-leader Peter Drueker once observed, a company's winning formula for the last decade will probably be its undoing in the next decade.

What are the marketing challenges as we head into the twenty-first century? Today's companies are wrestling with changing customer values and orientations, increased global competition, environmental decline, economic stagnation and a host of other economic, political and social problems. In the European Union (EU), as the concept of nationally separate markets vaporizes, competition among sellers will further intensify. There is increasing pressure on individual firms within member countries to adjust to evolving deregulation and advancement of universal trading standards within the single market. However, these problems also provide marketing opportunities.

We now look more deeply into several key trends and forces that are **changing** the marketing landscape and challenging marketing strategy: the growth of non-profit marketing, the information technology boom, rapid globalization, the changing world economy and the call for more socially responsible actions.

Growth of Non-Profit Marketing

In the past, marketing has been most widely applied in the business sector. In recent years, however, marketing also has become a major component in the strategies of many non-profit organizations, such as colleges, charities, churches, hospitals, museums, performing arts groups and even police departments. Consider the following examples:



Government agencies such as England's Health Education Authority have successfully used marketing tools to reach target audiences.

Faced with the daunting task of selling the single currency to European citizens, many of whom appeared disturbed by the economic sacrifices involved, the European Commission turned to marketing and media experts to develop a strategy to promote the 'euro', Pan-European advertising campaigns were also launched to reinforce national initiatives to influence public opinion in favour of replacing national currencies.[15]

To stem the falling number of church-goers, many of Britain's church groups are seeking more effective ways to attract members and maintain **financial** support. Increasingly, and despite the controversy, preachers are using the press, television and radio to advertise religion to the general public. They are conducting marketing research to better understand member needs and are redesigning their 'service offerings' accordingly. Some evangelical groups are even starting their own radio and television stations. The Vatican has been known to have appointed the advertising agency, Saatchi and Saatchi, to run a £2,5m television campaign.'"

Over the past decade, many charities have moved on from tin-rattling and tombolas to employing some of the most sophisticated marketing tools, to win support for their causes. For example, the Royal Society for the Protection of Birds (RSPB) is Europe's largest wildlife conservation charity, dealing with issues as wide-ranging as biodiversity, protection of wildlife sites, and marine life. The charity hired a marketing agency to run an awareness advertising campaign for them, which aimed to take their membership up to one million in 1997. They also tied in the campaign with direct marketing activity. One of the objectives is to reach a younger audience than the RSPB's traditional 55+, the 30-somethings, who get more worried about the environment when they have kids of their own. The campaign used a message that suggested birds are a barometer of the health of the environment.

Many longstanding non-profit organizations - the YMCA, the Red Cross, the Salvation Army, the Girl Scouts - are striving to modernize their missions and 'products' to attract more members and donors.[17]

Finally, government agencies have shown an increased interest in marketing. For example, various government agencies are now designing

Charities such as Save the Children also use marketing techniques to attract donors.



social marketing campaigns to encourage energy conservation and concern for the environment, or to discourage smoking, excessive drinking and drug use.[1N]

The continued growth of non-profit and public sector marketing presents new and exciting challenges for marketing managers.

The Information Technology Boom

The explosive growth in computer, telecommunications and information technology has had a major impact on the way companies bring value to their customers. The technology boom has created exciting new ways to learn about and track customers, create products and services tailored Co meet customer needs, distribute products more efficiently and effectively, and communicate with customers in large groups or one-to-one. For example, through videoconferencing, marketing researchers at a company's headquarters in Mew York can look in on focus groups in Chicago or l[j]aris without ever stepping on to a plane. With only a few clicks of a mouse button, a direct marketer can tap into online data services to learn anything from what car you drive to what you read to what flavour of iee cream you prefer.

Using today's vastly more powerful computers, marketers create detailed databases and use them to target individual customers with offers designed to meet their specific needs and buying patterns. With a new wave of communication and advertising tools - ranging from eel! phones, fax machines and CD-ROMS to interactive TV and video kiosks at airports and shopping malls - marketers can zero in on selected customers with carefully targeted messages. Through electronic commerce, customers can design, order and pay for products and services - all without ever leaving home. From virtual reality displays that test new products to online virtual stores that sell them, the boom in computer, telecommunications and information technology is affecting every aspect of marketing.

internet (the Net)
A <oast global computer network that enables computers, with the right software and a modem (a telecommunications device that sends data across telephone lines), to be linked together so that their users can obtain or share information and interact •with other users.

• *The Internet*

Perhaps the most dramatic new technology surrounds the development of the Information Superhighway and its backbone, the Internet. The Internet is a vast and burgeoning global Web of computer networks, with no central management or

ownership. It was created during the late 1960s by the UK Department of Defense, initially to link government labs, contractors and military installations. Today, the Internet links computer users of all types around the world. Anyone with a PC and modem - or TV and set-top 'Web box' - and the right software can browse the internet to obtain or share information on almost any subject and to interact with other users.[19] Companies are using the Internet to link employees in remote offices, distribute sales information more quickly, build closer relationships with customers and suppliers, and sell and distribute their products more efficiently and effectively. Internet usage surged in the 1990s with the development of the user-friendly World Wide Web. More than 50 million people surf the Internet each month, up from just 1 million people in late 1994. There may be as many as 4-6 million Web sites worldwide, and these numbers are growing explosively.[20] The advent of the World Wide Web has given companies access to millions of new customers at a fraction of the cost of print and television advertising. Companies of all types are now attempting to snare new customers in the Web. For example:

> Car makers like Toyota (www.Toyota.com) use the Internet to develop relationships with owners, as well as to sell cars. Its site offers product information, dealer services and locations, leasing information and much more. For example, visitors to the site can view any of seven lifestyle magazines - *altlerrain, A Man's Life, Women's Web Weekly, Sportzine, Living* Arts, *Living Home* and *Car Culture* - designed to appeal to Toyota's well-educated, above-average-income target audience.
>
> Sports fans can cosy up with Kike by logging on to www.nike.com, where they can check out the latest Nike products, explore the company's history, down-load Michael Jordan's latest stats, or keep up with Tiger Woods' latest movements. Through its Web page, in addition to its mass-media presence, Nike relates with eustomers in a more personal, one-to-one way.
>
> The Ty Web site (www.ty.com) builds relationships with children who collect Beanie Babies by offering extra information, including the 'birth date' of the 50-plus toys, highlights on special Beanie Babies each month, promotion of newly developed Beanie Babies, and even a role of honour section that includes a child's photo and grades. Is it effective? In less than a year, based on the counter on the site, Ty.com received over 266 million visitors.
>
> The very small retail ohain Next Stop North Pole (NSNP) sells only penguin-related products - T-shirts, plush toys, porcelain reproductions, books and others. A search for 'penguins' on the Web yields Pete & Barbara's Penguin Page ('the best source for information about penguins'), which contains a link to the NSNP Web site. The Web site contains pages from the store's direct-mail catalogue and a link to its e-mail mailbox, where visitors can request the full printed catalogue. The Internet gives tiny Next Stop North Pole access to consumers around the world at very little cost.[21]

It seems that almost every business, from garage-based start-ups to established giants, is setting up shop on the Internet. All are racing to explore and exploit the Web's possibilities for marketing, shopping and browsing for information. However, for all its potential, the Internet does have drawbacks. It's yet to be seen how many of the millions of Web browsers will become actual buyers. Although the value of a Web site is difficult to measure, the actuality is that few companies have made any money from their Internet efforts. And the Web poses

security problems. Companies that link their internal computer networks to the outside world expose their systems to possible attacks by vandals. Similarly, consumers are wary about sending credit card account numbers or other confidential information that may he intercepted in cyberspace and misused. Finally, using the Web can he costly. For companies to make the most of the Internet, they must invest heavily in leased telephone lines, powerful computers and other technologies, and Internet specialists.

However, given the lightning speed at which Internet technology and applications are developing, it's unlikely that these drawhacks will deter the millions of businesses and consumers who are logging on to the Net each day. 'Marketers aren't going to have a choice about being on Internet,' says Midori Chan, vice president of creative services at Interse, which helped put Windham Hill Records and Digital **Equipment** Corp. on the Internet. 'To not be on the Internet... is going to be like not having a phone.'[32] We will examine these online marketing developments more fully in Chapter 22.

Rapid **Globalization**

The world economy has undergone radical change during the past two decades. Geographical and cultural distances have shrunk with the advent of jet planes, fax machines, global computer and telephone hook-ups, world television satellite and cable broadcasts, and other technical advances. This has allowed companies greatly to expand their geographical market coverage, purchasing and **manufacturing.** Many companies are trying to create a global structure to move ideas swiftly around the world. The picture is one of a vastly more complex marketing environment for both companies and consumers.

Today, almost every company, large or small, is touched in some way by global competition. European and US firms, for example, are being challenged at home by the skilful marketing of Japanese and other Asian multinationals. Companies like Toyota, Honda, Fujitsu, Sony and Samsung have often outperformed their western competitors in overseas markets. Similarly, western companies in a wide range of industries have found new opportunities abroad. Glaxo, Asea Brown Boveri, Coca-Cola, IKEA, Toys '#' Us, Club Mediterranean and many others have developed global operations, making and selling their products worldwide (see Marketing Highlight 1.3). Many companies are moving aggressively to take advantage of international marketing opportunities.

Today, companies are not only trying to sell more of their locally produced goods in international markets; they are also buying or making more components



Many *US companies are finding new global opportunities. Looking/or growtii, MTV* cries to *repeat its phenomenal* American success *abroad, here in Hungary.*

Marketing Highlight 1.3

Taking **Advantage of** Global **Opportunities**

The following sire just a few of the countless examples oi' western companies taking advantage of international marketing opportunities:

IKEA, the Swedish home furnishings retailer, grew from one store in 1958 to more than 130 stores, stretched over 28 countries, by the lale 1990s. IKEA's European expansion has hit the fortunes of traditional furniture retailers and manufacturers in supposedly staid furniture markets. Some have not survived the onslaught. [The UK's Habitat] was later acquired by IKEA. IKEA has successfully spread into the North American, Far Eastern and Australian markets. It practises its four-pronged philosophy - attention to product quality, value (low prices and 'more for your money'), innovative style and service - which it has successfully transferred to markets worldwide. Over the years, IKEA has built, and capitalized on, its 'affordable Swedish style' mass market positioning. IKEA's international expansion has raised its fortunes in what competition claims to be a traditionally chill and fragmented market. IKEA has proven that, with the right marketing approach, fortunes ean be grown even in staid, old markets.

Toys 'fl' Us spent several years slogging through the swamps of Japanese bureaucracy before it was allowed to open the very first large US discount store in Japan, the world's no. 2 toy market behind the United States. The entry of this foreign giant has Japanese toy makers and retailers edgy. The typical small Japanese toy store stocks only 1.000 to 2,000 items, whereas Toys 'JT Us stores carry us many as 15.000. And the discounter will probably offer toys at prices 10-15 per cent below those of competitors. The opening of the first Japanese store was 'astonishing', attracting more than 60,000 visitors in the first three days. The retailer appears to be benefiting from profound social change in Japan. According to one source, 'Japan's absentee, workaholic salaryman father is increasingly becoming a relic, and his successor is taking life easier, spending more time with his family. Japanese families now spend more time together ... On Sunday they ... go out to lunch and then browse at a big store like Toys 'JT Us ... Toys '.fl' Us has made shopping a form of leisure in Japan.' Japanese retailers will have their hands full. Toys 'JI' Us began with just five European stores in 1985 but now has over 80 and growing. European sales, now over $800 million, are growing at triple the rate of total company sales.

After ten years of relentless growth in America, Music Television's (MTV) home market has become saturated. However, the US music video network is exploding abroad. For example, it's a monster hit in Europe. Set up in 1990. MTV Europe now reaches 27 countries and 59 million homes, almost a million more than US MTV. The network is aggressively pan-European - its programming and advertising are the same throughout Europe and they are all in English. It has almost single-handedly created a Euro-language of simplified English. MTV meets the common concerns of teenagers worldwide, broadcasting news and socially conscious programming, such as features on the plight of European immigrants and notes on global warming. MTV Europe has convinced advertisers that a true 'Euroconsumer' exists. It delivers advertising from companies such as Levi Strauss, Procter & Gamble, Apple Computer and Pepsi-Cola to a huge international audience. The company also operates MTV Asia, MTV Latino and MTV Japan. In all, MTV reaches more than 240 million homes in 63 territories around the world.

SOURCES: For these and other examples, sec J. Reynolds, 'JKEA: a competitive company with style', *Retail and Distribution Management,* 16, 3 (1988); Helen Jones, 'IKEA's global strategy is a winning formula',Marketing *Week* (15 March 1997), p. 22; 'MTV: nick on', *The Economist* (3 August 1991), p. 66; 'Teens: the most gloha! market of all', Fortune (16 May 1994), pp. 90-7; Robert Neff, 'Guess who's selling Barbies in Japan now?', *Business Week* (9 December 1991), pp. 72-6; Patrick Outer, 'Toys '*fl* "Us making Europe its playpen', Business *Week* (20 January 1992), pp. 88-91; Julie Sliiir Hill, 'Toys '>!' Us seeks global growth', *Advertising Age* (30 March 1992), p. 33; Kevin Cote, 'Toys' a' Us grows in Europe', *Advertising Age (21* April 1992), pp. 1-16.

and obtaining supplies abroad. Increasingly, international firms have to co-ordinate functional operations across borders and to increase efficiency. Consequently, many domestically purchased goods and services are 'hybrids', with design, material purchases, manufacturing and marketing taking place in several countries. British consumers who decide to 'buy British' might reasonably decide to avoid Sony televisions and purchase Amstrad's. Imagine their surprise when they learn that the Amstrad TV was actually made from parts and components imported from the Far East, whereas the Sony product was assembled in the United Kingdom from British-made parts.

Luxury cars are another case tn point. Japanese luxury car makers such as Honda (the Acura) and Toyota (the Lexus) have moved some production to America. The German Mercedes is building sport-utility vehicles at its American assembly plant in Alabama. Rival, BMW's factory in South Carolina, already makes several versions of the 3-series as well as the 23 coupe for export to dozens of markets around the world - including Germany. Buyers, who want high quality and low price, are now prepared to accept American-built luxury ears.[23]

Thus managers in countries around the world are asking: Just what is global marketing? How does it differ from domestic marketing? How do global competitors and forces affect oxir business? To what extent should we 'go global'? The technological and marketing resources needed to conquer world markets in sectors such as telecommunications, airlines, ears and media, are forcing companies to seek partners. Many companies are forming strategic alliances with foreign companies, even competitors, who serve as suppliers or marketing partners. The past few years have produced some surprising alliances between competitors such as Mazda and Ford, France Telecom, Deutsche Telecom and Sprint, General Electric and Matsushita, Philips and Siemens, and Daimler Benz and United Technologies of the United States. And Microsoft and Dow Jones have teamed up to develop software for global financial markets. Winning companies in the decade ahead may well be those that have bxiilt the best global partnerships and networks.-[4] We will examine global marketing management issues in greater detail in Chapter 5.

The Changing World Economy

A sluggish world economy has resulted in more difficult times for both consumers and marketers. Around the world, people's needs are greater than ever, but in many areas, people lack the means to pay for needed goods. Markets, after all, consist of people with needs *and* purchasing power. In many cases, the latter is currently lacking. In the developed western and Asian economies, although wages have risen, real buying power has declined, especially for the less skilled members of the workforce. Many households have managed to maintain their buying power only because both spouses work. However, many workers have lost their jobs as manufacturers have automated to improve productivity or 'downsized' to cut costs.

Current economic conditions create both problems and opportunities for marketers. Some companies are facing declining demand and see few opportunities for growth. Others, however, are developing new solutions to changing consumer problems. Stronger businesses have recognized and taken advantage of recent developments in **communications** and related technologies. These developments have raised customers' expectations of product quality, performance and durability. They no longer accept or tolerate shoddy products. Power and control have also shifted from brand manufacturers to channel members, which have become as sophisticated at marketing and exploiting technology as producers themselves. Many are finding ways to offer consumers 'more for less',

like Sweden's IKEA and America's Toys 'JT Us. Heavy discounters are emerging to offer consumers quality merchandise at everyday low prices. These days, customers want value and more value. Increasingly, marketers must deliver offerings that delight, not merely satisfy, customers, Toyota has succeeded in doing that: its highly acclaimed Lexus luxury line offers consumers all the technology (gadgetry) and comfort they can ever dream of, and, at about £44,000, is considered exceptionally good value tor money, compared to rival offerings in its class.

The Call for More **Ethics** and Social Responsibility

A third factor in today's marketing environment is the increased call for companies to take responsibility for the social and environmental impact of their actions. Corporate ethics has become a hot topic in almost every business arena, from the corporate boardroom to the business school classroom. And few companies can ignore the renewed and very demanding environmental movement.

The ethics and environmental movements will place even stricter demands on companies in the future. In the former Eastern bloc and many Asian countries, air, water and soil pollution has added to our environmental concerns. These and other governments across the world must consider how to handle such problems as the destruction of rain forests, global warming, endangered species and other environmental threats. The pressure is on businesses to 'ciean up' our environment. Clearly, in the future, companies will he held to an increasingly high standard of environmental responsibility in their marketing and manufacturing activities.[25]

More specifically, in the EU, the continuing trend towards tougher environmental rules should drive non-conforniers out of business, while others who are committed to 'cleaning up' or 'greening' their practices and operations will emerge the stronger. .Specialist industries for environmental goods and services (e.g. paper, bottle and tyre recyclers) have expanded quickly in recent years. As they say, 'there is money in Europe's muck'.[21']

In Chapter 2 we will take a closer look at marketing ethics and social responsibility.

The New Marketing Landscape

The past deeade taught business firms everywhere a humbling lesson. Domestic companies learned that they can no longer ignore global markets and competitors. Successful firms in mature industries learned that they cannot overlook emerging markets, technologies and management approaches. Companies of every sort learned that they cannot remain inwardly focused, ignoring the needs of their customers.

Prominent western multinationals of the 1970s which floundered at marketing, including Philips, Volvo, General Motors and RCA, are all struggling to revive their fortunes today. They failed to understand their changing marketplace, their customers and the need to provide value. Today, General Motors is still trying to figure out why so many consumers around the world have switched to Japanese and European cars. In the consumer electronics industry, Philips has lost its way, losing share to Japanese competitors that have been more successful in turning expensive technologies into mass consumer products. Volvo, which has long capitalized on its safety positioning, has, of late, lost this unique selling point to other car manufacturers, which have turned the safety benefit into a universal feature: many large European and Japanese ear producers now offer, as standard features, driver and passenger airbags, anti-lock braking system and other safety

devices. RCA. inventor of so many new products, never quite mastered the art of marketing and now puts its name on products largely imported from Asia.

As we move into the twenty-first century, companies must become customer-oriented and market driven in all that they do. It is not enough to be product or technology driven - too many companies still design their products without customer input, only to find them rejected in the marketplace. It is not enough to be good at winning" new customers - too many companies forget about customers after the sale, only to lose their future business. Not surprisingly, we are now seeing a flood of books with titles such as *The Customer Driven Company, Customers for Life, Turning Lost Customers Into Gold, Customer Bonding, Sustaining Knock Your Socks Off Service* and The *Loyalty Effect.*[21] These books emphasize that the key to success on the rapidly changing marketing landscape will be a strong focus on the marketplace and a total marketing commitment to providing value to customers.

Sum man?

Today's successful companies share a strong foeus and a heavy commitment to marketing. Modern marketing seeks to attract new customers by promising superior value, and to keep current customers by delivering satisfaction. Sound marketing is critical to the success of all organizations, whether large or small, **fear-profit** or non-profit, domestic or global.

Many people think of marketing as only selling or advertising. But marketing combines many activities - marketing research, product development, distribution, pricing, advertising, personal selling and others - designed to sense, serve and satisfy consumer needs while meeting the organization's goals. Marketing operates within a dynamic global environment. Rapid changes can quickly make yesterday's winning strategics obsolete. In the twenty-first century, marketers will face many new challenges and opportunities. To be successful, companies will have to be strongly market focused.

We define marketing as *a social and managerial process by which individuals and groups obtain what they need and want through creating and exchanging products and value with others.* The core concepts of marketing are *needs, wants* and *demands; products* and *services; value, satisfaction* and *quality; exchange, transactions* and *relationships;* and *markets.* Wants are the form assumed by human needs when shaped by culture and individual personality. When backed by buying power, wants become demands. People satisfy their needs, wants and demands with products and services. A product is anything that ean be offered to a market to satisfy a need, want or demand. Products also include services and other entities such as persons, places, organizations, activities and ideas.

In deciding which products and services to buy, consumers rely on their perception of relative value. *Customer value* is the difference between the values the customer gains from owning and using a product and the costs of obtaining and using the product. *Customer satisfaction* depends on a product's perceived performance in delivering value relative to a buyer's expectations. Customer satisfaction is closely linked to *quality,* leading many companies to adopt *toted quality management (TQM)* practices. Marketing occurs when people satisfy their needs, wants and demands through exchange. Beyond creating short-term exchanges, marketers need to build long-term relationships with valued customers, distributors, dealers and suppliers.

Marketing management is the analysis, planning, implementation and control of programmes designed to create, build and maintain beneficial exchanges with

target buyers for the purpose of achieving organizational objectives. It **involves** more than simply finding enough customers for the company's current output. Marketing is at times also concerned with changing or even reducing demand. Managing demand means managing customers. Beyond designing strategies to *attract* new customers and create *transactions* with them, today's companies are focusing on *retaining* current customers and building lasting relationships through offering superior customer value and satisfaction.

Marketing management can be guided by five different philosophies. The *production concept* holds that consumers favour products that are available and highly affordable; management's task is to improve production efficiency and bring down prices. The *product concept* holds that consumers favour products that offer the most quality, performance and innovative features; thus, little promotional effort is required. The *setting concept* holds that consumers will not buy enough of the organization's products unless it undertakes a large-scale selling and promotion effort. The *marketing concept* holds that achieving organizational goals depends on determining the needs and wants of target markets and delivering the desired satisfactions more effectively and efficiently than competitors do. The *societal marketing* concept holds that the company should determine the needs, wants and interests of target markets. Generating customer satisfaction *and* long-run societal well-being are the keys to achieving both the company's goals and its responsibilities.

We also analyzed the major challenges facing marketers heading into the twenty-first century. Companies are wrestling with changing customer values and orientations, a sluggish world economy, the growth of non-profit marketing; die information technology boom, including the Internet; rapid globalization, including increased global competition; and a host of other economic, political and social challenges. These challenges are intensified by a demand that marketers conduct all of their business with an emphasis on *more ethics* and *social responsibility.* Taken together, these changes define *a new marketing landscape.* Companies that succeed in this environment will have a strong focus on the changing marketplace and a total commitment to using the tools of marketing to provide real value to customers.

Key Terms

Customer satisfaction 12
Customer value 11
Demands 10
Demarketing 16
Exchange .12
Human need 10
Human want 10
Internet 26
Market 14
Marketing 10
Marketing concept 19
Marketing management 16
Product 11
Product concept 18
Production concept 17
Relationship marketing 14
Selling concept 18
Service 11
Societal marketing concept 22
Total ciuality management 12
Transaction 13

Discussing the Issues

1, Discuss why you should study marketing.

2. As the Preview Case implies, the marketing efforts of organizations seek to fulfil consumer needs. How genuine are the needs targeted by Nike's marketing efforts? Critically evaluate the role that marketing plays in satisfying human desires.

3. Many people dislike or fear certain products and would not 'demand[1] them at any price. How might a health-care marketer manage the *negative* demand for such products as colon-cancer screenings?
4. What is the single biggest difference between the marketing concept and the production, product and selling concepts? Winch concepts are easiest to apply in the short run? Which concept can offer the best long-term success?
5. Using examples covered in the chapter - e.g., Nike (Preview Case), McDonald's (Marketing Highlight 1.2) and IKEA, MTV and Toys 'R' Us (Marketing Highlight 1.3) - discuss the key challenges facing companies as they approach the twenty-first century. What actions might they take to ensure they continue to survive and thrive in the new marketing landscape?
6. According to economist Milton Friedman, Tew trends could so thoroughly undermine die very foundations of our free society as the acceptance by corporate officials of a social responsibility other than to make as much money for their stockholders as possible.' Do you agree or disagree with Friedman's statement? What arc some drawbacks of the societal marketing concept?

Applying the Concepts

1. Go to McDonald's and order a meal. Note the questions you arc asked, and observe how special orders are handled. Next go to a restaurant on your college or university campus and order a meal. Kote the questions you are asked here, and observe whether special orders are handled the same way as they are at McDonald's.
   - Did you observe any significant differences in how orders are handled?
   - Consider the differences yon saw. Do you think the restaurants have different marketing management philosophies? Which is closest to the marketing concept? Is one closer to the selling or production concept?
   - What are the advantages of closely following the marketing concept? Are there any disadvantages?
2. Take a trip to a shopping mall. Find the directory sign. List five major categories of store, such as department stores, shoe stores, bookstores, women's clothing shops and restaurants. List the competing stores in each category, walk past them and quickly observe their mcruhandise and style. Look at the public spaces of the mall, and note how they are decorated. Watch the shoppers in the mail.
   - Are the competing stores really unique, or could one pretty much substitute for another? What does this say about the overall goals that the mall is fulfilling?'
   - Consider the attitudes of the shoppers you saw. Did some apparently find shopping a pleasure, while others found it a bother?
   - A major goal for marketing is to maximize consumer satisfaction. Discuss the extent to which the mall serves this goal.

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Case 1

Amplrilrion: Your Ultimate Host in Greece

Atkis S. Magdalinos

AROUND THE END OF OCTOBER 1993, Constantinos Mitsiou, owner and manager of the Greek Amphitrion group of companies, was wondering it' he should launch a special tour for teenagers. What he had in mind was a tour lasting 14 days that would incorporate most of the natural beauty spots of Greece, as well as numerous historic and archaeological sites, lie had already concluded a tentative agreement with a couple of professors who would act as guides and worked out a preliminary itinerary, but now he was not sure if he should continue with the idea.

Ainpliitrion, which started as a travel agency in 1957, was now a large travel and shipping business - 'your ultimate hosts in Greece'. The head office of Amphitrion is in Constitution Square, a prestigious business area in the centre of Athens. It also has branches in Tokyo, Washington, DC, and Toronto as well as other Greek offices in Athens, Crete and Piraeus, The largest part of the touring business was for executives and employees of businesses who bought their tickets from the agency branch of the business. These clients also bought family holidays and travel. In 1993 the biggest part of the clientele was middle and senior executives and, sometimes, their secretaries and assistants. Only some 10 per cent of sales came from 'drop-ins', people who casually dropped in at one of Amphitrion's travel offices.

Mr Mitsiou had first started thinking about his teenager tour after a meeting with other agents at an International Convention, in Milan, in September 1993. He had had a discussion with a travel agent from Rome, who told him about a similar exercise he had organized successfully during the last holiday season. He was already thinking of repeating the tour in Greece. He also told Mr Mitsiou that both parents and teenagers looked forward to such tours, since it allowed them to have separate holidays. The best time for the tours was between July and August when schools were on holiday. Parents accepted the idea of the tour if the agent could guarantee proper supervision and the calibre of the people acting as guides.

When Mr Mitsiou came back to Athens he repeated the idea to his friends Joan and George Lykidis, and asked them whether they would like to act as guides for the tour. Mr Lykidis was the headteachcr of one of Athens' largest schools and a professor of history. Roth Mr and Mrs Lykidis were enthusiastic about the idea and were eager to take it on.

Mr Mitsiou did not know if anyone else in Greece had started such a tour. However, he knew that for some years a professor at a well-known school had organized tours of Europe for students from private schools. The activity had developed into a profitable summer business. As far as Mr Mitsiou knew, the tours were always successful and sold out each year. The teacher used no special advertising for his tours, getting most of his business

from former students who had been on the tour themselves and who now sent their children.

The tours Mr Mitsiou had in mind would focus on Greeee, including its local colour as well as the important historic and archaeological sites around the country. Characteristically, Mr Mitsiou said the nature of the tour had occurred to him after reading letters from parents and professors in the daily press. These complained about the theoretical way Greek history was taught at school. To Mr Mitsiou, it was obvious from the letters that parents and students wanted a tour visiting the sites they had studied so drily in their history classes. Parents definitely looked forward to giving their children a well-organized tour, in which they would visit all these places and in which, with proper guidance, the entire history of their ancestry would be revealed to them.

Mr Mitsiou also knew very well that teenagers would not like it if the whole of the itinerary comprised only visits to museums, and to historic and archaeological sites. He would.therefore give them a chance to enjoy the beautiful seashores and beaches; to go into towns and villages; and to have fun at tavenias and discos and enjoy some dancing and entertainment.

After considerable thought, he developed the following itinerary:

Day 1 Departure from Athens, Thermopylae, Tempi, Mount Olympus, Thessaloniki overnight.

Day 2 Morning free. Afternoon visit Eptapyrgio, Old City, St Demetrious Church, International Fairgrounds, night at a disco, stay overnight at Eptapyrgio.

Day 3 Depart for Philippi, visit sites of interest at Kavala, stay overnight on Thasos Island.

Day 4 Swimming at Golden Beach, Makrynammos, visit Necropolis Museum, return to Kavala, stay overnight.

Day 5 Depart for Polygyros, Agion Oros, swimming at Chalkidiki Beach, overnight in Thessaloniki, go to a disco.

Day 6 Leave for ancient Pella, Vergina, Tomb of Philippos, Grcvena, Metsovo, stay overnight.

Day 7 loannina, visit Vella Monastery, Ali Pasha Island in loannina lake, old town, stay overnight.

Day 8 Dodoni, Arta, Agrinio, Missolonghi, visit sites, Aetolikon, the lagoon, fishing ponds at Tholi, overnight in Missolonghi.

Day 9 Depart for Patras, visit sites, leave for Kyllini, swimming, stay overnight.

Day 10 Leave for Olympia. visit archaeological grounds, overnight in Vityna.

Day 11 Leave for Tripolis, Sparta, visit the museum, Mystras, Gythio, Diros caves, Gerolimena for swimming, overnight in Areopolis.

Day 12 Departure for Kalamata, Pylos, Mcthoni, swimming, return to Kalamata, afternoon free, disco, stay overnight.

Day 13 Leave for Tripolis, Nafplio, Tolo, swimming, Tyrins, Argos, Mycenae, Nemea, overnight in Korinth.

Day 14 Ancient Korinth, Sykion, Kiato, Nerantza for swimming, return to Athens.

Mr Mitsiou knew that tours of this type could be cancelled at the last moment, which would mean that money would have to be refunded. If that happened, the total

spending on the promotion of the tour would amount to a IONS of about Dr266,000. In addition, money had to be paid two months in advance lo secure good rooms, especially at places with only one hotel, and this would be a significant sum that would have to be written off it' the tour did not go ahead. By Mr Mitsicm's calculation, advertising and other expenses would bring the lost; to about Drl,000,000 if the whole tour were cancelled.

With a group of 40 participants on tour, his total cost came to Dr2,260,000. From this he expected to elear 7 per cent profit. If he had more people on the tour, the profits would be greater; but George Lykidis had already said that more than 40 teenagers would be impossible to supervise properly.

It was important not to cancel the tour in the first year onee it had been advertised. Word of mouth was the best way of attracting tour members, particularly as a result of previous members telling their friends. So he decided he would go ahead with as few as 20 participants, even though that meant he would make a loss. By charging more, he could make money with only 20 participants, but he did not think that he could charge more than Dr60,450 per person in the first year. When he had organized tours in the past, he had used subagents who required a 5 per cent commission. In this project, however, his margins were so small that he would not use subagents.

Soon after he had finished working out the plans for the tour. Mr Mitsiou met a friend, a very renowned lawyer, who had two sons in their teens. The lawyer said that he would never let his sons go on such a tour. He added that such tours treated teenagers like sheep. Anyhow teenagers had no interest in history, no matter what newspapers said to the contrary. His idea was to give his boys some money and a couple of tickets, and to allow them to travel for as long as the money lasted. For that age group, guides were not important, and it was best to give such teenagers the chance to prove that they were responsible and could travel on their own. This worried Mr Mitsiou, since he always trusted his friend's opinions. He started to reconsider his planned tour and to think of other ways to make the tour look more attractive.

QUESTIONS

1. Has Mr Mitsiou taken a marketing-oriented approach to developing his teenage tour idea? What elements of marketing orientation, if any, are missing?
2. Is the teenage tour idea financially attractive? Does it fit the strengths of the Amphitrion Group? Is it a market that the company naturally understands?
3. Would the tour have been attractive to you as a teenager? Would this Greek tour be attractive to teenagers in your country?
4. Would you have found a similar tour of your own country attractive? Would your parents find it attractive? Who is the customer in this case and what do they want?
5. Is running a tour the only way to see if it would be successful or not? How else do you think its appeal could be tested?
6. How could the tour be changed to be more appealing and less risky?

2

Marketing and Society:

Social Responsibility and Marketing Ethics

CHAPTER OBJECTIVES

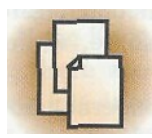
After reading this chapter, you should be able to:

List and respond to the social criticisms of marketing.

Define *consumerism* and *environmentalis-m* and explain how they affect marketing strategies.

Describe the principles of socially responsible marketing.

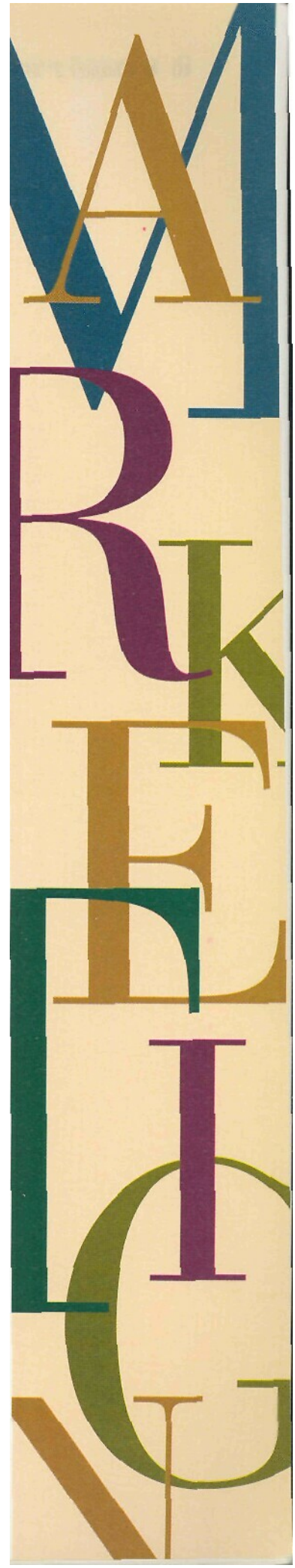
Explain the role of ethics In marketing.



Preview Case

Brown & Williamson Tobacco: 'Keeping Smokers **Addicted**'

IT HAS LONG BEEN KNOWN that tobacco companies control nicotine levels in their cigarettes. In the 1940s, nicotine and tar levels in cigarettes were more than three times today's levels. **Manufacturers** have gradually reduced them through refinements in the processing technique to satisfy demand for smoother and lighter cigarettes. A new battle started between the US Food and Drug Administration (FDA) and tobacco companies in June 1994. At the centre of the debate was damning evidence presented to Congress which suggested that US tobacco companies had been deliberately manipulating the amount of nicotine in cigarettes to keep the nation's 46 million smokers addicted.



On 21 June 1994, a House of Representatives subcommittee heard allegations that Brown & Williamson (B & W) Tobacco, a US subsidiary of Britain's BAT Industries, had secretly developed a genetically engineered tobacco ealled Y-1 that contained more than twice the amount of nicotine found in normal tobacco plants. Mr David Kessler, head of the US FDA, informed the committee that B & W had earlier denied breeding tobacco plants for high or low nicotine content. Yet the company had several million pounds of Y-1 tobacco stored in US warehouses and had been using it in five local brands of cigarettes.

Kessler suggested that US tobacco manufacturers had deliberately 'spiked' their products to keep smokers addicted. It is difficult to prove this. However, he said that it is sufficient to show that cigarette companies have the ability to control nicotine levels tn their products, allowing them to remain at addictive levels. Such evidence could he used to implicate B & W in the Y-1 row to push his case for bringing tobacco under his agency's control. He has previously threatened to regulate cigarettes as drugs if he could show that manufacturers intend consumers to buy them to satisfy an addiction. The discovery of the Y-1 high-nicotine tobacco proved beyond doubt that tobacco firms were manipulating and controlling nicotine concentration in their products.

B & W defended the allegations. First, it accused Kessler of blowing the issue out of proportion. Second, it stressed the fact that Y-1 is nothing secret and just one of a variety of local and foreign tobaccos it used to give the unique 'recipe' of ingredients that went into each brand. 'Y-1 was a blending tool for flavour', B &\V said.

Tobacco companies argue that they cannot eliminate nicotine altogether from their products as it is an essential contributor to cigarette flavour. Smokers no longer enjoy cigarettes when the nicotine level falls below a certain point. So, it is important to adjust the level of nicotine and other flavour-enhancers to provide what cigarettes consumers like. Mr Walker Mcrriman, vice-president of the Tobacco Institute, said that 'consumer preference' was the specific reason for having any particular level of nicotine and tar in any particular cigarette. Low-nicotine brands have commanded very low market share, while no-nicotine brands had failed through lack of demand.

In reality, Kessler is more concerned now with two issues: whether cigarettes are addictive, and if manufacturers intend them to be addictive. If so, on either issue, the FDA may be able to bring them under its jurisdiction as a drug. Kessler can then force the tobacco industry gradually to reduce nicotine levels in their products and so wean smokers away from the habit. The industry position is that cigarettes are not a drug, as defined in the 1938 Federal Food, Drug and Cosmetic Act, because they 'do not intend to affect the structure or any function of the body'. Furthermore, manufacturers argue that smoking cannot be addictive because 50 per cent or more of American citizens today who have ever smoked have quit - over 90 per cent of them without professional help. Critics of Kessler's policy say that there is a risk that smokers would smoke even more cigarettes to compensate for the loss of nicotine intake, which raises smokers' exposure to another serious health risk - the carcinogenic ingredients of cigarettes. Besides, this policy would boost industry profits.

One debate is whether tobacco companies like B & W are knowingly manipulating nicotine levels in their products with intent to cause addiction. If so, such socially irresponsible behaviour arguably must be controlled. On past record, it will take a long time to reach the point at

which the FDA will bring the tobacco industry under its control. But things are stirring up fast. The race is already on to sue America's tobacco giants. In February 1995, a New Orleans court ruled that every American ever addicted to nicotine — or the relations of any nicotine-depcndent-but-now-dead American - could sue the tobacco companies. Four American states also began to sue for the cost of treating smokers!

These events in the United States trivialize the tobacco advertising debate in Europe. The emergence of medical evidence suggesting that smoking is a health hazard has triggered reactions from anti-smoking groups, who argue that smoking should be at least discouraged, if not banned outright. Over the 1980s, lobbying by anti-smoking campaigners throughout Europe led to enforcement of tighter restrictions, notably on tobacco advertising. Those who rage against the evil of cigarette advertising assume that it is creating droves of new smokers. Tobacco firms argue that the assumption is doubtful, claiming that there is no evidence that advertising has much effect on total consumption. It is true that, according to one study, advertising bans in Norway, Finland, Canada and New Zealand helped to reduce cigarette consumption. But studies in other countries, such as Italy and Sweden, have shown that bans were followed by increases in smoking. Ironically, some argue that a ban would have one drawback: it would end the health warnings that now accompany tobacco advertising.

Current restrictions are already tight. Cigarette companies are prohibited from advertising on television in many European markets. To stave off more draconian legislation, they have agreed: to stop advertising in the cinema or on posters near schools; to reduce advertising on shop fronts; to stop using celebrities in their advertising; and to avoid any hint that smoking brings social or sexual success. Yet, tobacco adverts are not quite dead! Advertisers often resort to the use of cryptic pictures, like red motorcycles - the clue that told consumers to rush out and buy 'Marlboro' (red is the Marlboro brand colour).

In search of new customers, cigarette manufacturers are targeting females. In France, Spain, C.ermany and Britain, between a quarter and a third of smokers are women. In Sweden, they form a majority of smokers. In some cotmtries, like India and Hong Kong, women-only brands have been launched. In the Baltic states, there are massive advertising campaigns tempting women and there is a big increase in the number of women smoking. Worse, tobacco firms are preying on children. Their aggressive campaigns in the less developed Far Eastern countries, with fewer consumer protection laws, are also cause for concern.[1]

QUESTIONS

You should attempt these questions only after completing your reading of this chapter.

1. Is advertising of hazardous products ethical? Tobacco firms claim that they advertise not to expand demiind for cigarettes, but merely to maintain their market share against competitors' brands. Is this a bogus or friendly argument?
2. Should tobacco firms take greater responsibility for communicating the health hazards of smoking, and discouraging the habit?
3. Can society expect the industry to regulate its own actions and practise socially responsible marketing?
4. Can customers and society, at large, be left to develop their own sense

of personal responsibility - to avoid harmful products - even if firms don't? Discuss.

5. Should legislators be the ultimate force that protects innocent consumers from unsavoury marketing?
6. In the interest of consumer safety and well-being, should tobacco firms circumvent current rules?

Tntrodaction

Responsible marketers discover what consumers want and respond with the right products, priced to give good value to buyers and profit to the producer. The *marketing concept* is a philosophy of customer service and mutual gain. Its practice leads the economy by an invisible hand to satisfy the many and changing needs of millions of consumers. But does social responsibility and morality have any role to play? Or is it incompatible with commercial survival in a competitive global market place?

Those are the sort of questions that used to be asked only in classrooms and communes. But in an era when the consumer is wiser to much more of a company's practice, and when there are increasingly wide concerns about environmental issues, animal testing and human rights, the need for social responsibility and sound ethics in marketing has become crucial if customers' demands are to be fulfilled. How companies behave in the broadest sense is beginning to have an impact on how people; view their products and services. Walkers Snack Foods successfully avoided serious damage to its brand value following die discovery of glass fragments in a packet of crisps last November. Although it was discovered that a broken lens on the production line may have contaminated no more than five or six packets, the company immediately withdrew the entire offending line - totalling 9 million packets of crisps. Press statements were drafted and within 24 hours the company had a consumer helpline running. As we saw in Chapter 1, another example of a socially responsible act is Johnson & Johnson's very speedy recall of contaminated Tylenol capsules from store shelves to prevent further possibilities of consumer injury. The 'Tylenol scare' was a serious public issue and caused great consumer concern in markets where the drug was sold. However, in taking responsible action, the brand value remained undamaged in the long run and sales revived when the problem was resolved.

However, not all marketers follow the marketing concept. In fact, some companies use questionable marketing practices, and some marketing actions that seem innocent in themselves strongly affect the larger society. Consider, again, the sale of sensitive products such as cigarettes. Ordinarily, companies should be free to sell cigarettes, and smokers should be free to buy them. Rut this transaction affects the public interest. First, the smoker may be shortening his or her own life. Second, smoking places a burden on the smoker's family and on society at large. Third, other people around the smoker may have to inhale the smoke and may suffer discomfort and harm. This is not to say that cigarettes should be banned, although the anti-smoking lobbyists would welcome that. Rather, it shows that private transactions may involve larger questions of public policy. In practice, the answers are by no means always clear cut. It may be ethical for tobacco firms to stop peddling cigarettes altogether, but this, while seen by absolute moralists as 'the right thing' to do, will lead to companies'

demise, job losses and the repercussions of increased unemployment on the wider community.

Marketers face difficult decisions when choosing to serve customers profitably, on the one hand, and seeking to maintain a close n't between consumers' wants or desires and societal welfare, on the other. In this chapter, we discuss marketing in the context of society, the need for integrity, social responsibility and sound ethics, and the dilemmas that marketing people face. We begin with a look at the impact of private marketing practices on individual consumers and society as a whole, and examine the social criticisms *of* marketing. Next we discuss consumerism, environmentalism and regulation, and the way they affect marketing strategies. We address two questions: What steps have private citizens taken to curb marketing ills? What steps have legislators and government agencies taken to curb marketing ills? This leads to an overview of responsible or enlightened marketing and marketing ethics. Finally, we conclude with a set of principles for public policy towards marketing: consumer and producer freedom, avoiding harm, meeting basic needs, economic efficiency, innovation, and consumer education, information and protection.

Social Criticisms of Marketing

Marketing receives much criticism. Some of this criticism is justified; much is not.[2] Social critics claim that certain marketing practices hurt individual consumers, society as a whole and other business firms.

Marketing'sImpactonIndividualConsumers

Consumers have many concerns about how well marketing and businesses, as a whole, serve their interests. Consumer advocates, government agencies and other critics have accused marketing of harming consumers **through** high prices, deceptive practices, high-pressure selling, shoddy or unsafe products, planned obsolescence and poor service to disadvantiged consumers.

• *High Prices*

Many critics charge that marketing practices raise the cost of goods and cause prices to be higher than they would be if clever marketing were not applied. They point to three factors: *high* costs *of distribution, high advenctsing and* promotion costs, and *excessive mark-ups.*

IIIGII COSTS OF **DISTRIBUTION.** A long-standing charge is that greedy intermediaries mark up prices beyond the value of their services. Critics charge either that there are too many intermediaries, or that intermediaries are inefficient and poorly run, provide unnecessary or duplicate services, and practise poor management and planning. As a result, distribution costs too much and consumers pay for these excessive costs in the form of higher prices.

How do retailers answer these charges? They argue, first, that intermediaries do work which would otherwise have to be done by manufacturers or consumers. Second, the rising mark-up reflects improved services that consumers themselves want - more convenience, larger stores and more assortment, longer store opening hours, return privileges and others. Third, the costs of operating stores

keep rising, forcing retailers to raise their prices. Fourth, retail competition is so intense that margins are actually quite low: for example, after taxes, supermarket chains are typically left with barely 1 per cent profit on their sales. If some resellers try to charge too much relative to the value they add. other resellers will step in with lower prices. Low-price stores and other discounters pressure their competitors to operate efficiently and keep their priees down.

HIGH ADVERTISING AND PROMOTION COSTS. Modern marketing is also accused of pushing up priees because of heavy advertising and sales promotion. For example, a dozen tablets of a heavily promoted brand of aspirin sell for the same price as 100 tablets of less promoted brands. Differentiated products - cosmetics, detergents, toiletries - include promotion and packaging costs that can amount to 40 per cent or more of the manufacturer's price to thy retailer. (Mtics charge that much of the packaging and promotion adds only psychological value to the product rather than real functional value. Retailers use additional promotion - advertising, displays and competitions - that add even more to retail prices.

Marketers answer these charges in several ways. First, consumers ^ant more than the merely functional qualities of products. They also want psychological benefits - they want to feel wealthy, beautiful or special. Consumers can usually btiy functional versions of products at lower prices, hut are often willing to pay more for products that also provide desired psychological benefits. Second, branding gives buyers confidence. A brand name implies a certain quality and consumers are willing to pay for well-known brands even if they cost a little more. Third, heavy advertising is needed to inform millions of potential buyers of the merits of a brand. If consumers want to know what is available on the market, they must expect manufacturers to spend large sums of money on advertising. Fourth, heavy advertising and promotion may be necessary for a firm to match competitors' efforts. The business would lose 'share of mind' if it did not match competitive spending. At the same time, companies ;ire cost conscious about promotion and try to spend their money wisely. Finally, heavy sales promotion is needed from time to time because goods are produced ahead of demand in a mass-production economy. Special incentives have to be offered in order to sell inventories.

EXCESSIVE MARK-UPS. Critics also charge that some companies mark up goods excessively. They point to the drug industry, where a pill costing 5p to make may cost the consumer 40p to buy. Or to the pricing tactics of perfume manufacturers, who take advantage of customers' ignorance of the true worth of a 50 gram bottle of Joy perfume, while preying on their desire to fulfil emotional needs.

Marketers argue that most businesses try to deal fairly with consumers because they want repeat business. Most consumer abuses are unintentional. When shady marketers do take advantage of consumers, they should be reported to industry watchdogs and to other consumer-interest or consumer-protection groups. Marketers also stress that consumers often don't understand the reason for high mark-ups. For example, pharmaceutical mark-ups must cover the costs of purchasing, promoting and distributing existing medicines, plus the high research and development costs of finding new medicines.

• *Deceptive Practices*

Marketers are sometimes accused of deceptive practices that lead consumers to believe they will get more value than they actually do. Deceptive marketing practices fall into three groups: deceptive *pricing, promotion* and *packaging*. Deceptive pricing includes practices such as falsely advertising 'factory' or 'whole-



The ASA advertises its services to *those* its seeks *to protect - the consumer.*

sale' prices or a large price reduction from a phoney high retail list price. Deceptive promotion includes practices such as overstating the product's features or performance, luring the customer to the store for a bargain that is out of stock, or running rigged contests. Deceptive packaging includes exaggerating package contents through subtle design, not filling the package to the top, using misleading labelling, or describing size in misleading terms.

Deceptive practices have led to legislation and other consumer-protection actions. Positive steps have already been taken, for example, with regard to European directives aimed at the cosmetic industry. Council Directive 93/35/EEC of 14 June 1993 introduced far-reaching changes to cosmetic laws. The legislation **controls** the constituents of cosmetic products and their associated instructions and warnings about use, and specifies requirements relating to the marketing of cosmetic products, which cover product claims, labelling, information on packaging and details about die product's intended function. Where a product claims to remove 'unsightly cellulitc' or make the user look '20 years younger', proofs must be documented and made available to the enforcement authorities. These laws also require clear details specifj'ing where animal testing has been carried out on both the finished product and/or its ingredients. The EU has recognized increased public resistance to animal testing and has proposed a limited ban on animal testing for cosmetic ingredients from 1 January 1998. Similar directives are found to regulate industry practices in the United States. The Federal Trade Commission (FTC), which has the power to regulate 'unfair or deceptive acts or practices', has published several guidelines listing deceptive practices. The toughest problem is defining what is 'deceptive'. For example, some years ago, Shell Oil advertised that Super Shell petrol with platformate gave more mileage than did the same fuel without platformate. Now this was true, but what Shell did not say is that almost *all* petrol includes platformate. Its defence was that it had never claimed that platformate was found only in Shell petroleum fuel. But even though the message was literally true, the FTC felt that the ad's *intent* was to deceive.

Marketers argue that most companies avoid deceptive practices because such practices harm their business in the long run. Tf consumers do not get what they expect, they will switch to more reliable products. In addition,

Marketing Highlight 2.1

We Have Ways of Making You Buy!

Britain's life assurance industry was severely criticized for mis-selling, offering poor value to customers who surrender their policies early, and exploiting customers' ignorance - in short, for breaking the rules!

In the early 1990s LAUTRO, the body that regulated the selling of life insurance, fined at least a dozen life assurance companies a total of nearly Slmillion for failing to ensure that potential customers were fully informed about different policies. Those singled out included Scottish Widows, Guardian Royal Exchange, General Accident, Commercial Union and Norwich Union,

In June 1994, the Office of Fair Trading (OFT), a government watchdog, published its report on 60 of the United Kingdom's largest life insurers. It criticized firms for poor 'surrender values' many household names, the symbols of probity and financial solidity, were short-changing customers who cashed in long-term policies early. London & Manchester, London Life, MGM, Refuge, Royal Life, Tunbridge Wells, Abbey Life, Allied Dunbar, Confederation Life, Cornhill Insurance, Irish Life. Midland Life and Reliance Mutual were all found to offer atiro surrender value at the end of the first year for two types of policy investigated by the OFT. So, if a customer cancelled a £100 a month, ten-year savings plan after only one year, she got no money back from the insurer. There were also wide disparities in the surrender values of life insurance policies, although such information was seldom disclosed to buyers.

What is all the fuss about, though? Why should companies he penalized because their investors want to cash in earlier on long-term savings plans? Regulators believe that life insurers had exploited customers' ignorance and vulnerability, selling them products that generated big profits for the sellers, but were unsuited to the buyer. In many cases, insurers were accused of filling the pockets of salespeople, senior managers and, in the case of limited companies, the shareholders, by extracting fat commission from high-pressure selling schemes that customers did not really want or need. Sales 'tricks' were not unusual in the industry. For example, some salespeople sent letters to married women, talking about their company and appending a blank form with a piece of paper telling the woman: This is what you get when your husband dies,'

Although the surrender values offered by the insurers in later years were reasonable, the Securities and Investments Board suggested that one-quarter to one-third of all policies were cashed in during the first two years alone. A number of companies actually profited from early lapse rates, and many people holding policies with companies which have relatively high lapse rates were actually worse off than if they had no policy at all. Lapses are insurers' profits!

The insurance companies' response is that customers have the product **literature** to help them assess their policies. The OFT argues that the idea that customers could understand readily the surrender values of their policies simply by reading the product literature is quite false. 'These things are not only obscure to the average consumer but to the informed consumer as well,' says John Mills, head of the OFT's consumer policy division.

So, what fuels this pervasive practice in the industry? One answer is that not nearly as many people would have bought life insurance if the products had not. been actively sold to them. Another is that few consumers have the expertise to compare the costs and benefits of different policies, What consumers buy is all about how quickly the sales rep gets to them and how persuasive he or she is.

Although many independent financial advisers ensure that clients get good value for money from respectable insurers, there are many others who are forced to sell poor-quality products, because they are trapped in a commission structure that requires them to sell or starve.

One insurance sales representative says: 'You would see that some prospective clients might

have to struggle to pay the premiums, hut because your livelihood depended on it, you would play on their emotions to try to sell them something.' Another salesperson commented: 'We were licensed to give best advice, but it wasn't. A superior product offered by another company would not be mentioned.' Salespeople argue that they were often put under increasing pressure and encouraged by a range of incentives, some of them fairly obvious, such as bottles of whisky and holidays in the **Bahamas.** There were bizarre punishments for those that did badly: at one branch of a big insurer, the worst performer over the previous month would be told to walk around the building for a day dressed in ladies' underwear.

Regulators and watchdogs now address two key issues: what customers are told about products and the people selling them; and self-regulation versus government (statutory) regulation. The OFT introduced disclosure rules in January 1995. Salespeople must now inform the consumer how much commission they take for selling a given policy and need to spend hours with customers filling in forms with personal details. Predictably, independent financial advisers protest that disclosure will force many of them out of business. After years of deliberately confusing consumers with jargon, blinding them with technical language and pressurizing to do the deal, the industry has lost the public's trust. Bad publicity on mis-selling has also affected industry-wide sales. To compound the industry's problems, new entrants, including Direct Line, Marks & Spencer and Virgin Direct, began to sell life insurance and pension products over the phone from the raid-1990s. Not only are these helping to drive prices down, but their image as the new 'clean' competitors from outside the industry, which truly apply 'customer first' marketing philosophy, is helping to wake die industry up. They are doing the traditional insurance companies no end of good.

The moral of the story is clear. Using trickery or vigorous sales approaches to pressure customers unfairly into buying financial products (or any product or service) that they either do not need or would do better to buy elsewhere, docs not make sound marketing sense. Consumers become disenchanted or disillusioned or withdraw consumption altogether. High-pressure selling usually backfires on the aggressive sellers. You cannot sell something nobody wants, no matter how you push it!

SOURCES: Alison Smith. 'Standard Life's surrender bonus', *Fini-mcicd Times (21* November 1994), p. 22; Alison Smith, 'OFT names insurers offering zero first year surrender value[1], *Financial* Times (9-10 .July 1994). p. 1; Alison Smith, 'Biiek from the brink', *Financial Times* (2,1 June 1994), p. 16; Norms Cohen, 'Life insurers criticised for poor surrender values', 'Your lapses are their profits'. *Financial TiiiKS* (18-19.Tune 1994), pp. I. Ill; Peter Marsh, 'We have ways of making you buy', *Fimtnuial Times* (14 June 1994), p. 18; Peter Marsh, 'When he dies, my dear, all this will *bti* yours', *Financial* Times (11-12 Junu 1994J, pp. I, XII; 'All life's troubles', *The* JSconomist (17 July 1993), pp. 76-7; Kean Brierley, 'A matter of life and death'. *Marketing Week* (28 June 1995); Andrew Duffy, "Great British pensions disaster', *Business Age* (5 July 1995), pp. 40-3; Alan Mitchell, 'Swimming with the sharks', Marketing Business (September 1997), pp 26-30.

consumers usually protect themselves from deception. Most consumers recognize a marketer's selling intent and are carelul when they huy, sometimes to the point of not believing completely true product claims. Theodore Levitt claims that some advertising puffery is bound to occur - and that it may even he desirable:

> There is hardly a company that would not go down in ruin if it refused to provide fluff, because nohody will huy pure **functionality** ... Worse, it denies ... man's honest needs and values ... Without distortion, embellishment and elaboration, life would he drab, dull, anguished and at its existential worst .. .-[1]

High-Pressure Selling

Salespeople are sometimes accused of high-pressure selling that persuades people to buy goods they had no thought of buying. It is often said that cars, financial services, property and home improvement plans are sold, not *bought.* Salespeople are trained to deliver smooth, canned talks to entice purchase. They sell hard because commissions and sales contests promise big prizes to those who sell the most.

Marketers know that buyers can often be talked into buying unwanted or unneeded things. A key question is whether industry self-regulatory or trading standards bodies, consumer-protection laws and consumer-interest groups are sufficiently effective in checking and curbing unsavoury sales practices. In this modem era, it is encouraging to note that one or more of these ean work to the advantage of consumers. Or, where malpractices are pervasive, regulators will catch out wrongdoers, who will invariably pay the penalties for irresponsible marketing. This is evident in the ease of the mis-selling of pensions and life assurance policies in the UK market (see Marketing Highlight 2.1),

- ### *Shoddy or Unsafe Products*

Another criticism is that products lack the quality they should have. One complaint is that products are not made well. Such complaints have been lodged against products and services ranging from home appliances, cars and clothing to home and car repair services.

A second complaint is that some products deliver little benefit. In an attempt to persuade customers to buy their brand rather than any other, manufacturers sometimes make claims that are not fully substantiated. In the United Kingdom, for example, the Independent Television Commission (ITC) introduced new rules covering the advertising of medicines and treatments, health claims, and nutrition and dietary supplements, including slimming products. The move, which follows the publication of new advertising rules by the Advertising Standards Authority, brings the ITC in line with public and private sector opinion, and recent European Union legislation governing the advertising and sales of these products. Health claims for food, for example, must now be fully substantiated. Creative ads must guard against encouraging overindulgence in products such as confectionery, so advertisers must pay attention to health implications.[4]

In markets where many brands are promising a wide array of product benefits, consumers are often left confused. In fact, consumers often end up paying more for product benefits that do not exist (see Marketing Highlight 2.2}.

A third complaint concerns product safety. Product safety has been a problem for several reasons, including manufacturer indifference, increased production complexity, poorly trained labour and poor quality control. Consider the following cases of costly and image-damaging crises brought upon vehicle manufacturers:

> In 1990, consumer activists declared the Daihatsu Sportrak as 'potentially unstable' and Suzuki was urged to recall tens of thousands of similar cars. This problem pales by comparison with that faced by the Ford Pinto, which became the symbol of automotive disaster when several people died during the 1970s in fuel tank fires allegedly linked to a design fault,. More recently, Chrysler issued one of the largest product recall notices in the history of the motoring industry, calling back 900,000 vehicles, ranging from pick-ups to a selection of 'people carriers' including the

Marketing Highlight

'Shopper's Friend' Brand Benefit Claims

The Consumers' Association (GA) in the United Kingdom, an independent, self-appointed organization, seeks to police the goods and services offered by eonsumer-produets manufacturers and business sectors, and aims to improve the quality of people's purchasing decisions, ft carries out independent research and tests on all sorts of consumer goods and services, ranging from soap powders, kettles and motor cars to free-range turkeys, holidays and insurance policies, and then rates these based on 'value for money' and effectiveness criteria. Its public face, *WJiich?* magazine, is an important channel used to provide consumers with a counterpoint to the persuasive marketing of consumer goods and services. *Wliifh?* fo'rms the 'mouthpiece' of the Association, playing the role of 'shopper's friend' by offering unbiased views on brand features, quality and/or performance, and advice on 'best buy' and 'good value' purchases. Generally, the criteria for any investigation are: How many people will it affect? How important an issue is it? Can the CA do anything about it?

Here is an example of a toothpaste test reported in one issue of the CA's *Which?* magazine. The test sought to substantiate the oral health, including medicinal (e.g. relief from the pain of sensitive teeth), claims made in toothpaste advertising. The report lists the main claims made for toothpastes and picks out the brands th;it the test team believes can substantiate their claims and those which cannot.

Three main types of 'claim' are: (1) prevention of gum disease/anti-plaque property, (2) protection of sensitive teeth; and {3} tartar control. To substantiate claims, the test team turns to (a) evidence from clinical trials and (b) evidence of 'availability of actives': that is, that the effective ingredient has not been inactivated by any of the other chemicals in the toothpaste. Unsubstantiated claims are ones where the manufacturer did not provide the test team with evidence either of suitable clinical trials on the particular toothpaste or of'availability of actives'. This means not that the toothpaste is ineffective, but that the test panel has not seen enough proof that the manufacturer can substantiate its dental health claim(s).

Table 1 shows results for the manufacturers' and own-label brands of toothpaste tested.

The CA asserts that no manufacturer should make claims for its products, on packaging or in advertising, unless they can be substantiated by evidence of a reasonable standard. It draws attention to recommended toothpaste brands, but highlights the fact that many expensive toothpastes marked for sensitive teeth do not contain fluoride, so will not offer protection against decay.

Consumer-interest bodies like the CA help to improve buyers' decisions by offering impartial information and guidance on all kinds of purchasing decision. The CA uses expert panels and professionals, together with its own teams of testers and ^valuators, to conduct product evaluations. Testing criteria for products and services are always described in full. Where appropriate, accreditation bodies' results are also consulted and compared with its own test results. Not surprisingly, the CA has made many enemies of manufacturers and businesses that fail to deliver good value to customers. Aggrieved companies often raise questions about the CA's impartiality andaccountability.

Manufacturers that achieve poor product ratings are invariably given the option to challenge the test results. Many use these findings to direct product-improvement efforts and make positive changes in their products. The CA's printed mission is to 'empower people to make informed consumer decisions'and improve the quality ofgoods and services. If these goals are truly achieved, then the role of consumer bodies that have the consumer at heart is more important now - in the era of consumerism — than ever before. Brand owners beware! Friend or foe, 'shopper's friend', vigilant as ever, is here to stay.

SOURCES: Consumers' Association, Toothpaste', *Which?* (July 1992), pp. 372-5; Tom O'Sullivan, 'Shopper's friend counters enemies',*Marketing Week* {10 February 199S), pp. 22-3.

TABLE 1 CLAIM VERSUS PERFORMANCE OF TOOTHPASTE

	IS CLAIM SUBSTANTIATED BY TOOTHPASTE PERFORMANCE?	
CLAIMS MADE	YES	No
Prevention of gum disease	Colgate Gum Protection Formula Mentadent P	Aqua Fresh Triple Protection Asda Anti-Plaque Boots Anti-Plaque Boots Total Care Co-op Anti-Plaque Gateway Fresh Breath Anti-Plaque Gihbs SR Macleans Anti-Plaque Oral B Zendium Tesco Dental Care Minty Blue Gel Waitrose Plaque-Control Superdrug Oral Health Gum Health Formula
Protection of sensitive teeth	Asda Sensitive Boots Formula Gateway Fresh Breath Formula Macleans Sensitive MerttadentS Safeway Sensitive Sainsbury's Oral Health Sensitive Teeth Tesco Sensitive Teeth Formula Sensodyne Original and Mint Sensodyne F Waitrose Sensitive	Boots Formula F
Tartar control	Colgate Tartar Control Formula Crest Tartar Control Crest Ultra Protection Mentadent P Sainsbury's Oral Health Tartar Control Tesco Dental Care Anti-Tartar	Safeway Tartar Control Suptrdrug Oral Health Tartar Control

Voyager, Wrangler and Jeep Cherokee models, for a variety of reasons in seven different recalls. One of the biggest recalls in 1997, according to figures from the British vehicle inspectorate, was one undertaken by V\V, asking 150.000 Golf and Vcnto saloon owners to have their car checked for wiring faults. In 1996, VW also recalled 350,000 of its models world-wide becau.se of a potentially faulty electric cable, as well as some 950,000 Golfs, Jettas, Passats and Corrados because of problems, including a cooling system fault, which could potentially damage engines and injure passengers. Early in 1997, Vauxhall called in more than 39,000 Veetras to check loose fuel pipes. Even Rolls-Royce was forced to check some of its Bentley Continental T sports coupes (at £220,000 apiece) because of concerns tha.t airbags were firing unexpectedly.[1]

For years now, consumer protection groups or associations in many countries have regularly tested products for safety, and have reported hazards found in tested products, such as electrical dangers in appliances, and injury risks from lawn mowers and faulty car design. The testing and reporting activities of these organizations have helped consumers make better buying decisions and have encouraged businesses to eliminate product flaws. Marketers may sometimes face dilemmas when seeking to balance consumer needs and ethical eonsiderations. For example, no amount of test results can guarantee product safety in cars if consumers value speed and power more than safety features. Buyers might choose a less expensive chain saw without a safety guard, although society or a government regulatory agency might deem it irresponsible and unethical for the manufacturer to sell it.

However, most responsible manufacturers *want* to produce quality goods. The way a company deals with product quality and safety problems can damage or help its reputation. Companies selling poor-quality or unsafe products risk damaging conflicts with consumer groups. Moreover, unsafe products can result in product liability suits and iarge awards for damages. Consumers who are unhappy with a firm's products may avoid its other products and talk other consumers into doing the same. More fundamentally, today's marketers know that self-imposed, high ethical standards, which accompany customer-driven quality, result in customer satisfaction, which in turn creates profitable customer relationships.

• *Planned Obsolescence*'

Planned obsolescence *A strategy qfcausing products to become obsolete before they actually need replacement*

Critics have charged that some producers follow a programme of planned obsolescence. causing their products to become obsolete before they need replacement. In many cases, producers have been accused of continually changing consumer concepts of acceptable styles in order to encourage more and earlier buying. An obvious example is constantly changing clothing fashions. Producers have also been accused of holding back attractive functional features, then introducing them later to make older models obsolete. Critics claim that this practice is frequently found in the consumer electronics and computer industry. The Japanese camera, watch and consumer electronics companies frustrate consumers because rapid and frequent model replacement has created difficulties in obtaining spare parts for old models; dealers refuse to repair outdated models and planned obsolescence rapidly erodes basic product values. Finally, producers have been accused of using materials and components that will break, wear, rust or rot sooner than they should. For example, many drapery manufacturers are using a higher percentage of rayon in their curtains. They argue that rayon reduces the price of the curtains and has better holding power. Critics claim that using more rayon causes the curtains to fall apart sooner. European consumers have also found, to their annoyance, how rapidly certain European brands of toasters rust - for an appliance that rarely gets into contact with water, this is an amazing technological feat!

Marketers respond that consumers *like* style changes; they get tired of the old goods and want a new look in fashion or a new design in cars. No one has to buy the new look, and if too few people like it. it will simply fail. Companies frequently withhold new features when they are not fully tested, when they add more cost to the product than consumers are willing to pay, and for other good reasons. But they do so at the risk that a competitor will introduce the new feature and steal the market. Moreover, companies often put in new materials to lower their costs and prices. They do not design their products to break down earlier, because they do not want to lose their customers to other brands. Thus, much so-called

planned obsolescence is the working of the competitive and technological forces in a free society - forces that lead to ever-improving goods and services.

• *Poor Service to Disadvantaged Consumers*

Finally, marketing has been accused of poorly serving disadvantaged consumers. Critics claim that the urban poor often have to shop in smaller stores that carry interior goods and charge higher prices. Marketing's eye on profits also means that disadvantaged consumers are not viable segments to target. The high-income consumer is the preferred target.

Clearly, better marketing systems must be built in low-income areas - one hope is to get large retailers to open outlets in low-income areas. Moreover low-income people clearly need consumer protection. Consumer-protection agencies should take action against suppliers who advertise false values, sell old merchandise as new, or charge too much for credit. Offenders who deliver poor value should be expected to compensate customers, as in the case of many UK pensions providers, who were required to meet mis-selling compensation targets following the disclosure of malpractices by an Office of Fair Trading (OFT) investigation.

We now turn to social critics' assessment of how marketing affects society as a whole.

Marketing's Impact on Society as a Whole

The marketing system as we - in Europe and other developed economies outside North America — are experiencing it, has been accused of adding to several 'evils' in our society at large. Advertising has been a special target. It has been blamed for creating false wants, nurturing greedy aspirations and inculcating too much materialism in our society.

• *False Wants and Too Much Materialism*

Critics have charged that, in advanced nations such as the USA, the marketing system urges too much interest in material possessions. People arc judged by what they *own* rather than by what they ore. To be considered successful, people must own a smart-looking house or apartment in a prime residential site, expensive cars and the latest designer label clothes and consumer electronics.

> Consider, for example, the training-shoe market. These days, training shoes have gone the same way as cameras, watches and mobile phones: functionality is useless without 'teclino-supremacy' and high style. Take Nike's Air Max Tailwind which features: 'flexi-laces' which stretch to give foot comfort; 'interactive eyestay' for one-movement tightening and adjusting; 'mesh upper' made of lightweight synthetic leather for cooler feet; 'plastic air pockets' filled with sulphur hexailuoride for added cushioning; 'flexible grooves' in the arch of the shoe to allow natural foot movements and give support and 'waffle soles' with grooved treads for traction and support! So sophisticated has it become that it is no longer even enough to say that you have a pair of Nikcs. Its famous tick logo is now more globally visible than the crucifix, so your Nikes had better be a very rare variety and/or very expensive if you expect to seriously impress, Alternatively, you could *go* for a limited edition Adidas or something slightly underground like DC skate shoes,[6]

Is there a similar enchantment with money in Europe? Asia? The rest of the world? It is neither feasible nor appropriate for this chapter to indulge readers in an extensive debate on cross-cultural similarities and dissimilarities in materialistic tendencies and behaviour, and whether marketing is the root cause of these desires. Rather, we acknowledge the phenomenon of the 'yuppie generation' that emerged in the 1980s, symbolizing a new materialistic culture that looked certain to stay. In the 1990s, although many social scientists noted a reaction against the opulence and waste of the 1980s and a return to more basic values and social commitment, our infatuation with material things continues. For example, when asked in a recent poll what they value most in their lives, subjects listed enjoyable work (86 per cent), happy children (84 per cent), a good marriage (69 per cent) and contributions to society (66 per cent). However, when asked what most symbolizes success, 85 per cent said money and the things it will buy.[7]

Critics view this interest in material things not as a natural state of mind, but rather as a matter of false wants created by marketing. Businesses stimulate people's desires for goods through the force of advertising, and advertisers use the mass media to create materialistic models of the good life. People work harder to earn the necessary money. Their purchases increase the output of the nation's industry, and industry, in turn, uses the advertising media to stimulate more desire for its industrial output. Thus marketing is seen as creating false wants that benefit industry more than they benefit consumers.

However, these criticisms overstate the power of business to create needs. People have strong defences against advertising and other marketing tools. Marketers are most effective when they appeal to existing wants rather than when they attempt to create new ones. Furthermore, people seek information when making important purchases and often do not rely on single sources. Consumers ultimately display rational buying behaviour: even minor purchases that may be affected by advertising messages lead to repeat purchases only if the product performs as promised. Finally, the high failure rate of new products shows that companies are not always able to control demand.

On a deeper level, our wants and values are influenced not only by marketers, but also by family, peer groups, religion, ethnic background and education. If societies are highly materialistic, these values arose out of basic socialization processes that go much deeper than business and mass media could produce alone. The importance of wealth and material possessions to the overseas Chinese, for example, is explained more by cultural and socialization factors than by sustained exposure to western advertising influences.

• *Too Few Social Goods*

Business has been accused of overselling private goods at the expense of public goods. As private goods increase, they require more public services that are usually not forthcoming. For example, an increase in car ownership (private good) requires more roads, traffic control, parking spaces and police services (public goods). The overselling of private goods results in 'social costs'. For cars, the social costs include excessive traffic congestion, air pollution, and deaths and injuries from car accidents.

A way must be found to restore a balance between private arid public goods. One option is to make producers bear the full social costs of their operations. For example, the government could require car manufacturers to build cars with additional safety features and better pollution-control systems. Car makers would then raise their prices to cover extra costs. If buyers found the price of some cars too high, however, the producers of these cars would disappear, and demand would move to those producers that could support both the private and social costs.

• *Cultural Pollution*

Critics charge the marketing system with creating *cultural pollution.* Our senses are being assaulted constantly by advertising. Commercials interrupt serious programmes; pages of ads obscure printed matter; billboards mar beautiful scenery. These interruptions continuously pollute people's minds with messages of materialism, sex, power or status. Although most people do not find advertising overly annoying (some even think it is the best part of television programming), some critics call for sweeping changes.

Marketers answer die charges of 'commercial noise' with the following arguments. First, they hope that their ads reach primarily the target audience. But because of mass-communication channels, some ads are bound to reach people who have no interest in the product and are therefore bored or annoyed. People who buy magazines slanted towards their interests - such as *Vogue* or *Fortune* - rarely complain about the ads because the magazines advertise products of interest. Second, ads make much of television and radio free, and keep down the costs of magazines and newspapers. Most people think commercials are a small price to pay t'or these benefits.

• *Too Much Political Power*

Another criticism is that business wields too much political power. 'Oil', 'tobacco', •pharmaeeudeals', 'financial services' and 'alcohol' have the support of important politicians and civil servants, who look after an industry's interests against the public interest. Advertisers are accused of holding too much power over the mass media, limiting their freedom to report independently and objectively.

The setting up of citizens' charters and greater concern for consumer rights and protection in the 1990s will see improvements, not regression, in business accountability. Fortunately, many powerful business interests once thought to be untouchable have been tamed in the public interest. For example, in the United States, Ralph Nader, consumerism campaigner, caused legislation that forced the car industry to build more safety into its cars, and the Surgeon General's Report resulted in cigarette companies putting health warnings on their packages. Moreover, because the media receive advertising revenues from many different advertisers, it is easier to resist the influence of one or a few of them. Too much business power tends to result in eounterforces that check and offset these powerful interests.

Let us now take a look at the criticisms that business critics have levelled at companies' marketing practices.

Marketing's Impact on Other Businesses

Critics also charge that companies' marketing practices can harm other companies and reduce competition. Three problems sire involved: acquisition of competitors, marketing practices that create barriers to entry, and unfair competitive marketing practices.

Critics claim that firms are harmed and competition reduced when companies expand by acquiring competitors rather than by developing their own new products. In the car industry alone there has been a spate of acquisitions over the past decade: General Motors bought the British sports-ear maker, Lotus; Ford acquired 75 per cent of Britain's Aston Martin, which makes hand-built, high-

performance cars, and Jaguar; Fiat absorbed Ferrari; BMW has taken over the Rover Group; Volkswagen controls Skoda." These and many large international acquisitions in other industries, such as food, telecommunications and pharmaceuticals, have caused concern that more arid more competitors will he absorbed and that competition will be reduced.

Acquisition is a complex subject. Acquisitions can sometimes be good for society. The acquiring company may gain economies of scale that lead to lower costs and lower prices. A well-managed company may take over a poorly managed company and improve its efficiency. An industry that was not very competitive might become more competitive after the acquisition. But acquisitions can also be harmful and arc therefore closely regulated by the government.

Critics have also claimed that marketing practices bar new companies from entering an industry. The use of patents and heavy promotion spending can tie up suppliers or dealers to keep out or drive out competitors. People concerned with anti-trust regulation recognize that some barriers are the natural result of the economic advantages of doing business on a large scale. Other barriers could be challenged by existing and new laws. For example, some critics have proposed a progressive tax on advertising spending to reduce the role of selling costs as a substantial barrier to entry.

Finally, some firms have in fact used unfair competitive marketing practices with the intention of hurting or destroying other firms. They may set their prices below costs, threaten to cut off business with suppliers, or discourage the buying of a competitor's products. Various laws work to prevent such predatory competition. It is difficult, however, to prove that the intent or action was really predatory. When Laker Airlines first attacked British Airways' most profitable routes, the latter delayed its counterattack. Laker began to borrow huge sums of money to expand its fleet. It was laden with vast debt and interest obligations on its huge dollar loans when the American dollar appreciated against other currencies. British Airways then aggressively cut prices on Laker's most lucrative routes, restoring these to normal levels only after driving Laker into bankruptcy and out of the competitive arena altogether.[1] The question is whether this was unfair competition or the healthy competition of a more efficient carrier against the less efficient,

Citizen aiicl Public Actions to Regulate Marketing

Because some people view business as the cause of many economic and social ills, grass-roots movements have arisen from time to time to keep business in line. The two main movements have been consumerism and environmentalist!!.

Consumerism

Western business firms have been the targets of organized consumer movements on three occasions. Consumerism has its origins in the United States. The first consumer movement took place in the early 190(>s. It was fuelled by rising prices, Upton Sinclair's writings on conditions in the meat industry, and scandals in the drug industry. The second consumer movement, in the mid-1930s, was sparked by an upturn in consumer prices during the Great Depression and another drug scandal.

The third movement began in the 1960s, Consumers had become better educated, products had become more complex and hazardous, and people were

unhappy with American institutions. Ralph Nader appeared on the scene in the 1960s to force many issues, and other well-known writers accused big business of wasteful and unethical practices. President John F. Kennedy declared that consumers have the right to safety and to be informed, to choose and to be heard. American Congress investigated certain industries and proposed consumer-protection legislation. Since then, many consumer groups have been organized and several consumer laws have been passed. The consumer movement has spread internationally and has become very strong in Europe.[10]

consumerism .An *organised movement nfaiti&ens and government agencies to improve the rights and p<n$er of buyers in relation to sellers.*

But what is the consumer movement? Consumerism is an organized movement of citizens and government agencies to improve the rights and power of buyers in relation to sellers. Traditional sellers' rights include the following:

- The right to introduce any product in any size and style, provided it is not hazardous to personal health or safety; or, if it is, to include proper warnings and controls.
- The right to charge any price for the product, provided no discrimination exists among similar kinds of buyer.
- The right to spend any amount to promote the product, provided it is not defined as unfair competition.
- The right to use any product message, provided it is not misleading or dishonest in content or execution.
- The right to use any buying incentive schemes, provided they are not unfair or misleading.

Traditional buyers' rights include the following:

- The right not to buy a product that is offered for sale.
- The right to expect the product to be safe.
- The right to expect the product to perform as claimed.

Comparing these rights, many believe that the balance of power lies on the sellers' side. True, the buyer can refuse to buy. But critics feel that the buyer has too little information, education and protection to make wise decisions when facing sophisticated sellers. Consumer advocates call for the following additional consumer rights:

- The right to be well informed about important aspects of die product.
- The right to be protected against questionable products and marketing practices.
- The right to influence products and marketing practices in ways that will improve the 'quality of life'.

Each proposed right has led to more specific proposals by consumerists. The right to be informed includes the right to know the truy interest on a loan (truth in lending), the true cost per unit of a brand (unit pricing), the ingredients in a product (ingredient labelling), the nutrition in foods (nutritional labelling), product freshness (open dating) and the true benefits of a product (truth in advertising). Proposals related to consumer protection include strengthening consumer rights in cases of business fraud, requiring greater product safety and giving more power to government agencies. Proposals relating to quality of life include controlling the ingredients that go into certain products (detergents) and packaging (soft-drink containers), reducing the level of advertising 'noise' and

putting consumer representatives tin company boards to protect consumer interests.

Consumers have not only the *right* but also the *responsibility* to protect themselves instead of leaving this function to someone else. Consumers who believe chat they got a bad deal have several remedies available, including: writing to the company heads or to the media; contacting government or private consumer-interest/protection initiatives or agencies; and going to small-claims courts.

Eriviromrieiitalism

Whereas txmsumeriscs consider whether the marketing system is efficiently serving consumer wants, environmentalists are concerned with marketing's effects on the environment and the costs of serving consumer needs and wants. They are concerned with damage to the ecosystem caused by strip mining, forest depletion, acid rain, loss of the atmosphere's ozone layer, toxic wastes and litter. They are also concerned with the loss of recreational areas and with the increase in health problems caused by bad air, polluted water and chemically treated food. These concerns arc the basis for environinentalism - an organized movement of concerned citizens and government agencies to protect and improve people's living environment.

environments1isni
An organised movement of concerned eitizens and government agencies to protect and improve people's living environment.

Environmentalists are not against marketing and consumption; they simply want people and organizations to operate with more care for the environment, not to maximize consumption, consumer choice or consumer satisfaction, but rather to maximize life quality. 'Life quality' means not only the quantity and quality of consumer goods and services, but also the quality of the environment. Environmentalists want environmental costs to be included in both producer and consumer decision making.

Environmentalism has hit some industries hard. Heavy industry, public utilities, and chemical and steel companies have to spend heavily on clean-up technology, waste management and other pollution-control equipment. The car industry has had to introduce expensive emission controls in cars. In some countries, governments have introduced tough regulations on car makers to deal with environmental problems, as in the case of Germany, where the Environment Ministry has threatened the car industry that it would force through laws to create a car recycling system."The packaging industry has had to find ways to reduce waste and energy consumption (see Marketing Highlight 2.3). The petroleum industry has had to create new low-lead and unleaded petrols. These industries often resent environmental regulations, especially when they are imposed too rapidly to allow companies to make proper adjustments. These companies have absorbed large costs that they pass on to buyers.

In the twenty-first century, environmentalism will create special challenges for global markets. As international trade barriers come down and global markets expand, environmental issues will continue to have an ever greater impact on international trade. Countries in North America, western Europe and other developed regions are developing stringent environmental standards. In the United States, for example, more regulation is on the way. A side accord to the North American Free Trade Agreement (NAFTA) sets up a commission for resolving environmental matters.

A raft of directives on environment issues is continuing to make its way through the European Commission, with the European Union's Eco-Management and Audit Regulation providing guidelines for environmental self-regulation. Marketers' lives will become more complicated. They must raise prices to cover

environmental costs, knowing that the product will be harder to sell. Yet environmental issues have become so important in our society that there is no turning back to the time when few managers worried about the effects of product and marketing decisions on environmental quality.[12]

However, environmental policies still vary widely from country to country, and uniform worldwide standards are not expected for another 15 years or more.[13] Although countries such as Denmark, Germany, Japan and the United States have fully developed environmental policies and high public expectations, major countries such as China. India, Brazil and Russia are in only the early stages of developing sueli policies. Moreover, environmental factors that motivate consumers in one country may have no impact on consumers in another. For example, PVC soft-drink bottles cannot be used in Switzerland or Germany. However, they are preferred in France, which has an extensive recycling process for them. Thus, international companies are finding it difficult to develop standard environmental practices that work around the world. Instead, they are creating general policies, and then translating these policies into tailored programmes that meet local regulations and expectations.

The 1990s have often been viewed as the'Earth Decade', in wineh protection of the natural environment has been the most important issue facing people around the world. Companies have responded with 'green marketing' - developing ecologically safer products, recyclable and biodegradable packaging, better pollution controls and more energy-efficient operations. It is essential to recognize that environmental marketing is part of overall environment management and should not be treated in isolation. Sound practice in 'green marketing' calls tor the following:

- A comprehensive assessment of the company's current environment performance.
- A genuine commitment to monitoring, auditing, reporting and measuring improvements in performance.
- Development of an achievable environment policy with clear goals and an action programme.
- Monitoring the evolution of the green agenda (don't become out of date as the laws are constantly changing).
- Investment in staff training and education, environmental science and technology.
- Consumer assistance and education programmes to increase consumers' environmental responsibility through information provision, product take-back services and helplines.
- Supplier education programmes,
- Building coalitions or bridges between the various interests.
- Contribution to environmental programmes.
- Greater adherence to marketing values: selling benefits, not products, and preservation of corporate, not just product, values.[1'1]

Public Actions to Regulate Marketing

Citizen concerns about marketing practices will usually lead to public attention and legislative proposals. New bills will be debated - many will be defeated, others will be modified and a few will become workable laws.

Figure 2.1 illustrates the principal legal issues facing marketing management. Individual country laws exist which affect marketing. The task is to translate these

Marketing Highlight 2.3

Package **Law Works!**

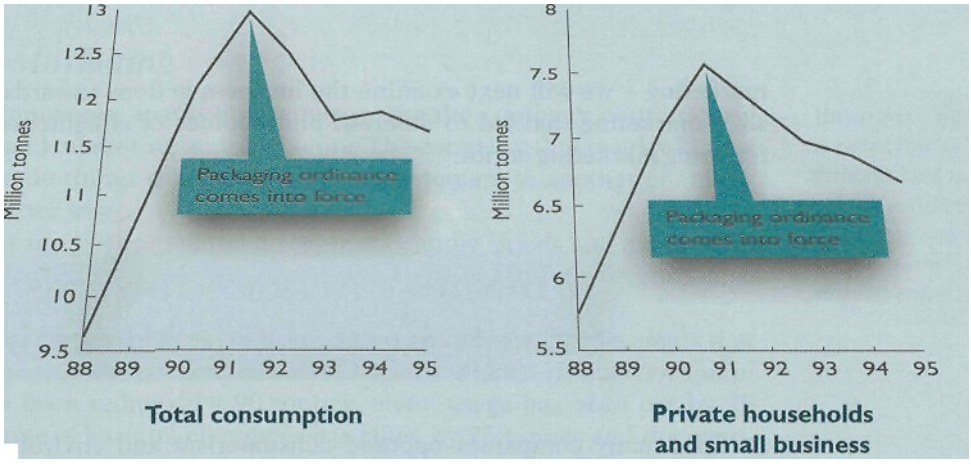
Packaging use by German industry and retailers has fallen by 1(1 per cent since a law was introduced forcing companies to collect it hack from consumers for recycling.

Consumption of paper, glass, aluminium, tin and plastic packaging had risen 26 per cent, to 13 million tonnes, in the three years before the 'packaging ordinance' was introduced in 1991. Within five years, total consumption was down to 11.7 million tonnes, more than half of which had been collected through the Grime *Punkt* licensing system.

Under Germany's packaging law, 60-70 per cent of each material must be recycled, except that which is incinerated, land-filled or returned for re-use. Between 1991 and 1995, packaging use by householders and small businesses fell by 900,00(1 tonnes to 6.7 million tonnes, or 12 per cent. More than 5 million tonnes (79 per cent) of this was dropped in *Griine Punkt* collection bags and containers, about 65 kg per person

Currently, over 82 per cent of all glass is successfully recycled, **compared** with 62 per cent in 1993; 90 per cent of paper and cardboard (1993: 55 per cent); 70 percent of aluminium (1993: 7 per cent); and 50-60 per cent of plastics, tin plate and other materials. 'The system would not have been so successful if things had been organized solely on a voluntary basis.' said Wolfram Brick, chairman of Duels Systems, the company that manages the *Griine Punkt* scheme. However, be added; 'Appropriate legal provisions are still missing in many sectors.' in an attempt to tighten up the system further, the German government brought in a new product recycling and waste management act on 7 October 1996. making companies responsible for all their products from the point of raw material supply, not just at disposal.

SOURCE: Tony Snape, 'Packing law yields returns', *Jlie European* (31 October-6 November 1996), p. 16.



Packaging consumption in Germany, I988-V5.

laws into the language that marketing executives understand as they make decisions about competitive relations, products, price, promotion and channels of distribution.

Having discussed citizen and public actions to regulate marketing, consumerism, environmentalism and regulation - and the way they affect

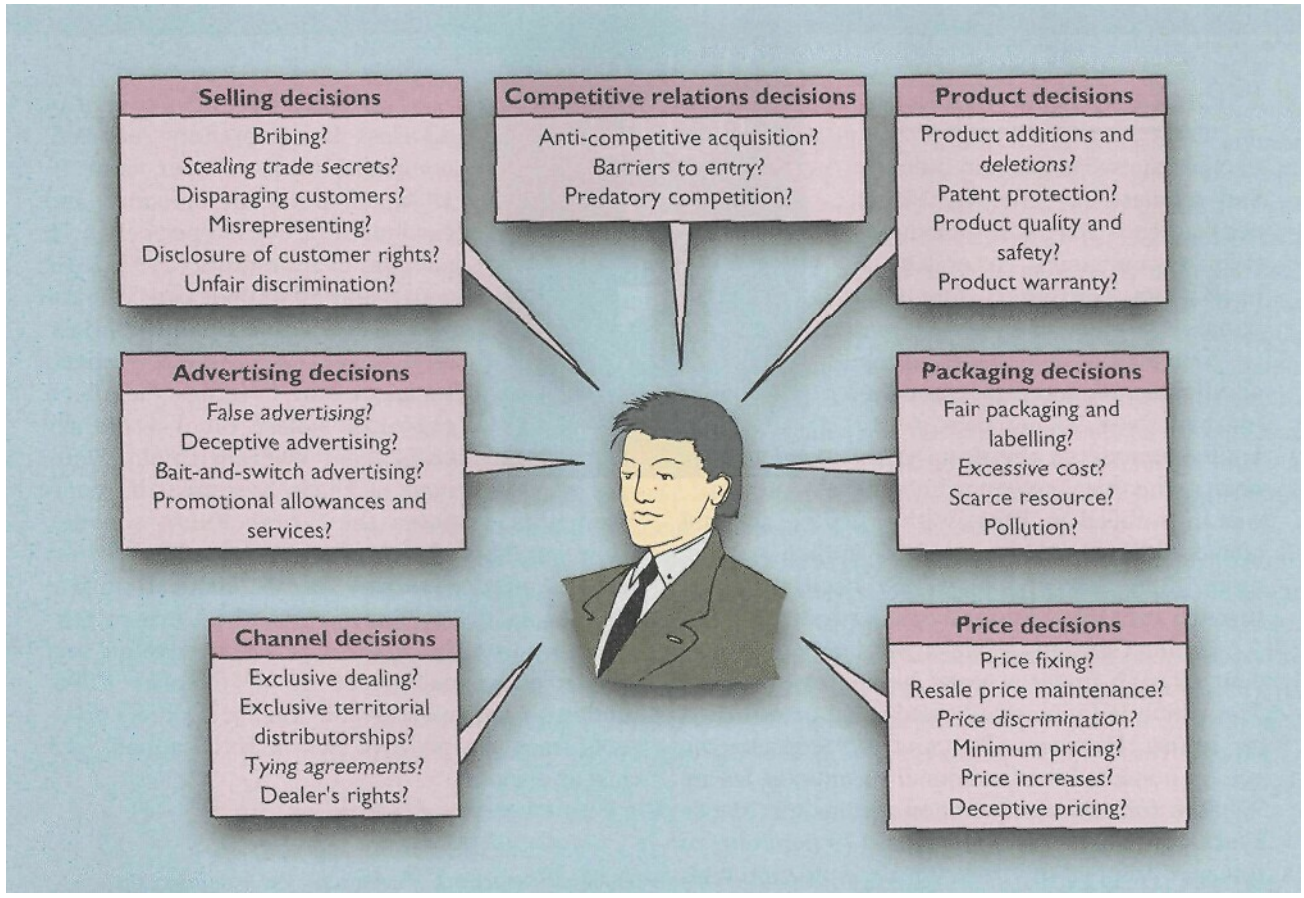


Figure 2.1 Legal issues facing marketing management

marketing - we will next examine the business actions towards socially responsible marketing that led to different philosophies of enlightened marketing and fostering marketing ethics.

Business Actions Towards Socially Responsible Marketing

At first, many companies opposed consumerism and environmentalism. They thought the criticisms were either unfair or unimportant. But by now, most companies have grown to accept the new consumer rights, at least in principle. They might oppose certain pieces of legislation as inappropriate ways to solve certain consumer problems, but they recognize the consumer's right to information and protection.

Many of these companies have responded positively to consumerism and environmentalism in order to serve consumer needs better. Responsible sellers would attract buyers, either forcing less responsible marketers out of business or forcing them to give up their unsavoury practices.

Enlightened Marketing

The philosophy of enlightened marketing holds that *a* company's marketing should support the best long-run performance of the marketing system. Enlightened marketing consists of five principles: consumer-oriented marketing, innovative marketing, value marketing, sense-of-mission marketing and societal marketing. Enlightened marketers also ensure that their marketing approach reflects corporate ethics.

enlightened marketing
A marketing philosophy holding tlvtt a company's marketing should support the best long-run performance of the marketing .system,- its five principles are consumer-oriented marketing, innovative marketing, value marketing, sense-of-missiim marketing and societal marketing.

• *Consumer- Oriented Marketing*

Consinner-oriented marketing means that the company views and organizes its marketing activities from the consumer's point of view. It should work hard to sense, serve and satisfy the needs of a defined group of customers. Consider the following example.

Richardson Sheffield, a British cutlery maker, fought off tough competition in a stagnant cutlery market in the UK in the 1980s, largely by making the customer happy. Its chairman, Mr Bryon Upton, claims that the most important ingredient in Richardson's recipe for success is the great stress the company puts on customer satisfaction and relationships. This is seen in its speed in responding to customer enquiries and requests (letters are answered the same day, telexes the same hour, and samples are provided within two days) through to its customer-led product development programmes. When a request for 'a kitchen knife that does not need to be sharpened' came from America's biggest retailer, Sears Roebuck, instead of saying, as did many competitors approached by Sears, 'We don't make it; nobody makes it; therefore it can't be made', Richardson pondered about the problem. It finally created both the knife and the machinery needed to automate grinding of the special serrated edge. iSimilar attention to customers' wishes has resulted in a broad product line, from a range of 30 top-of-the-line chefs blades to knives given away as petrol-station promotions.[IS]

u onsumer-1 inented marketing
A principle of enlightened marketing which holds tliat a company should view and organise its marketing activities from the consumers' point of view.

• *Innovative Marketing*

The principle of **innovative marketing** requires that the company continuously seek real product and marketing improvements. The company that overlooks new and better ways to do things will eventually lose customers to another company that has found a better way.

innovative **marketing**
A principle of enlightened marketing which requires thai a company seek real product and marketing i mprovements.

Ola Ivarsson is the environmental director at Scandic Hotels and his drive to transform the chain into an eeo-friendly business has started to revolutionize Europe's leisure industry.

Under Ivarsson's direction, Scandic Hotels has made design improvements that have drastically reduced the company's environmental impact. Annual consumption of plastic has been reduced by 90 tonnes, metal usage has been cut by 25 tonnes, the discharge of harmful chemicals has fallen by 25 tonnes and the quantity of unsorted waste produced by the chain has been reduced by 50 per cent. At the same time, Ivarsson's programme has boosted the chain's popularity, which has helped lift Scandic out of the difficulties it experienced in the early 1990s.

The centrepiece of this design revolution is the 'recyclable room' that Ivarsson created with the help of his team of in-house architects. They managed to make the room a remarkable 97 per cent recyclable, and since then Scandic has built 2,700 more worldwide.

Ivarsson explains, 'We identified our customers' most repetitive activities and found ways of making these less damaging to the environment.' Ivarsson found

that many of the best solutions were the least complicated. "The most creative ideas were deceptively simple', he says. 'For example, we used to provide soap in miniature bars and shampoo in 50 ml bottles. But most customers only use a tiny fraction of these quantities during their stay, so we decided to offer soap and shampoo using dispensers instead. It saves us more than 25 tonnes of soap and shampoo each year.'

Scandic's dispenser system and other innovations, such as the chain's use of natural, renewable materials (wood, wool and cotton), are beginning to catch on among European hoteliers, and the benefits of these materials have been both environmental and economic.

'But customers don't have to be less comfortable', Ivarsson says. 'Our recyclable rooms are at least as comfortable as the others, and they are always booked up first. It's not difficult to see why they're popular. If you look at all that wood, you get a lovely homey, hearty, welcoming feeling - it is beautiful.'[1]"

• *Value Marketing*

v;ilue marketing
. *A 'principle of enlightened marketing which holds that a company should put most of its resources into value-building marketing investments.*

According to the principle of value marketing, the company should put most of its resources into value-building marketing investments. Many things marketers do - one-shot sales promotions, minor packaging changes, advertising puffery - may raise sales in the short run. but add less -*value* than would actual improvements in the product's quality, features or convenience. Enlightened marketing calls for building long-run consumer loyalty, by continually improving the value that consumers receive from the firm's marketing offer.

The computer company Dell, which pioneered mail-order selling of personal computers in the late 1980s, is a good example of an innovative marketer. The company recognized that PC buyers were becoming more knowledgeable about computers and the software they wanted, and were confident about making a purchase decision without the need for salespeoples' advice and interference. They wanted fast delivery and reliable after-sales service and maintenance support. They did not require the intermediary. Dell bypassed traditional distribution channels used by-the competition and, in selling direct to customers, created a unique selling point (USP) based on its innovative distribution arrangements. The approach was so successful that many competitors followed suit. Today, Dell continues to maintain a direct relationship with consumers that enables the company to listen better, learn faster and become more agile in responding to their changing and differing needs.[17]

sense -of-mission marketing
A principle of enlightened marketing which holds that a company should define)'fii mission *in broad social terms rather than narrow product terms.*

• *Sense-of'Mission Marketing*

Sense-of-mission marketing means that the company should define its mission in broad *social* terms rather than narrow *product* terms. When a company defines a social mission, employees feel better about their work and have a clearer sense of direction. For example, defined in narrow product terms, the Go-operative Bank's mission might be to sell banking services, but the company has taken a firm decision to promote a broader mission - to be an ethical bank, refraining from doing business with those companies that engage in so-called unsavoury business practices, from companies that are involved in the fur trade to tobacco product manufacturers.

societal marketing
A principle of enlightened marketing inhich holds that a company should make marketing decisions by considering consumers' wants, the company's requirements, consumers' long-run intercuts and society's long-run interests.

• *Societal Marketing*

Following the principle of societal marketing, an enlightened company makes marketing decisions by considering consumers' wants and long-run interests, the

company's requirements and society's long-run interests. The company is aware that neglecting consumer and societal long-term interests is a disservice to consumers and society. A crucial problem is this. In many cases customer needs, customer wants and customer long-run interests are the same things, and customers are the best judges ot' what is good for them. However, customers do not invariably make decisions that are good for them. People want to eat fatty food, which is bad for their health; some people want to smoke cigarettes knowing that smoking can kill them and damage the environment for others; many enjoy drinking alcohol despite its ill effects. To control some of the potential evils of marketing there has to be access to the media for the counter argument — the counter argument against smoking, against fatty foods, against alcohol. There is also a need for regulation-self if not statutory—to cheek unsavoury demand.

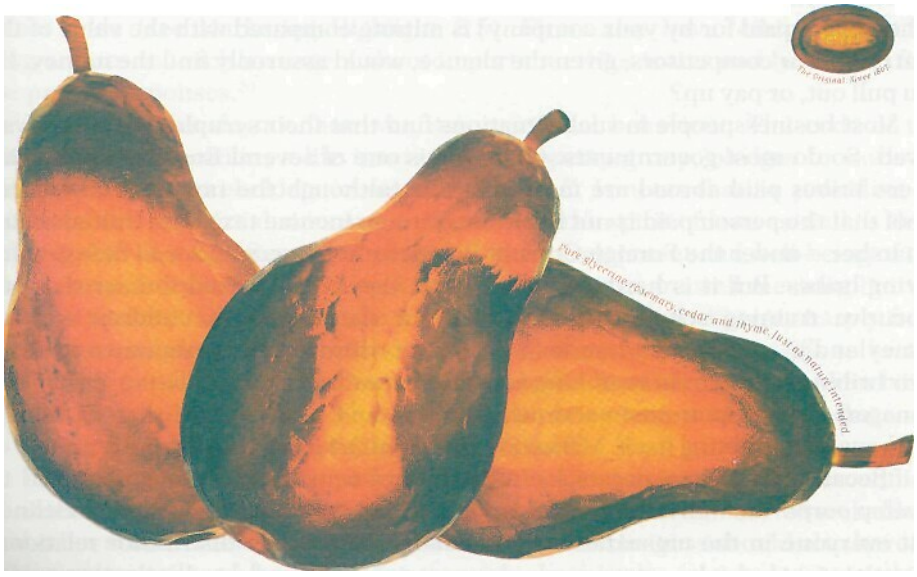
A second problem is that what consumers want is sometimes at odds with societal welfare. If marketings job Is to fulfil customers' wants, unsavoury desires leave marketers with a dilemma. Consumers want the convenience and prestige of hardwood window frames, doors and furniture, but society would also like to keep the Amazon rain forest; consumers want the comfort of air-conditioning, yet we need the oxone layer; consumers worldwide should be using lead-free petrol, yet not all bother. Marketing has to be more alert to the inconsistencies between consumer wants and society's welfare. Where there is insufficient drive from within the consumer movement and consumers' own sense of responsibility, marketers would do better to control or regulate their own behaviour in providing goods or services that are undesirable for society at large. If not, legislation is likely to do that for them.

A socictally oriented marketer should design products that are not only pleasing but also beneficial. The difference is shown in Figure 2.2. Products can be classified according to their degree of immediate consumer satisfaction and long-run consumer benefit. Desirable products give both high immediate satisfaction and high long-run benefits. A desirable product with immediate satisfaction and long-run benefit would be a tasty and nutritious breakfast food. Pleasing products give high immediate satisfaction, but may hurt consumers in the long run. Examples are indulgence goods like confectionery, alcohol and cigarettes. Salutary products have low appeal, but benefit consumers in the long run. Seat belts and air

desirable products
Products that give both high immediate satisfaction and high long-run benefits.

pleasing products
Products that give high immediate satisfaction, but may hurt consumers in the long run.

salutary **products**
Products tliat have low appeal but may benefit consumers in the long run.



Pears promote their product as being at one with nature - a strategy wsetf *more often in this age of heightened environmental awareness.*

deficient products *Products that have neither immediate appeal nar long-run benefits.*

bags in cars are salutary products. Finally, deficient products, such as bad-tasting and ineffective medicines, have neither immediate appeal nor long-run benefits.

The challenge posed by pleasing products is that they sell very well, but may end up hurting the consumer. The product opportunity, therefore, is to add long-run benefits without reducing the product's pleasing qualities. For example, the British drug and household product manufacturer Reckitt & Coleman developed a phosphate-free laundry detergent that was relatively more effective than existing 'green' detergents. The challenge posed by salutary products is to add some pleasing qualities so that they will become more desirable in the consumers' minds. For example, synthetic fats and fat substitutes, such as NutraSweets Simplesse and P & G's Olese, promise to improve the appeal of low-calorie and low-fat foods.

Marketing Ethics

Ethics, in the broadest sense of the word, is rising to the top of the corporate agenda. Scarcely a week goes by without a leading company coming under attack, rightly or wrongly, for alleged unethical business practices, whether it is Ford removing the black faces from a sales brochure, Shell UK dumping its redundant oil platform, Brent Spar, in the North Sea, or MeVities' use of fish oil from sand eels, an endangered species and puffins' staple diet.

However far from reality the accusations of manufacturers' unethical business practices are, companies under attack risk tarnishing their reputation. And those found guilty of wrongdoing face hefty legal penalties. The US subsidiary of Lucas (automotive components and parts manufacturer) was fined $106 million for keeping false records of gearboxes, while Daiwa Bank suffered fines of £340 million for concealing SI billion of losses.[18]

High-publicity scandals, which made international news, such as the case of Union Carbide's plant in Bhopal, India, which negligently released toxic fumes, killing 2,5000 people, serve to remind society of the pressing imperatives for corporations to act in an ethical manner.

Conscientious marketers face many moral dilemmas, though the best thing to do is often unclear. Imagine you are trying to win a big public contract in a developing country. The minister in charge makes unmistakable references to the disgracefully low pay of local civil officials and the benefits his own children would enjoy if they could study abroad. The cost of providing this (concealed as a 'scholarship' paid for by your company) is minute compared with the value of the contract. Your competitors, given the chance, would assuredly find the money. Do you pull out, or pay up?

Most businesspeople in such situations find that their scruples are soon swallowed. So do most governments. Germany is one of several European countries where bribes paid abroad are tax-deductible (although the tax office may want proof that the person paid is not liable for German income tax). The United States is harsher - under the Foreign Corrupt Practices Act, executives can face gaol for paying bribes. But it is hard to prove ('I was shocked, shocked to hear that our executive training scholarship had paid for the minister's children to visit Disneyland'); and many American firms get third-party consultancies to do their bribing for them. In searching for ethical standards for marketing, marketing managers draws upon postmodernist thinking and philosophies that date back well beyond marketing itself. Marketing Highlight 2.4 introduces some of this,[19]

Because not all managers have fine moral sensitivity, companies need to develop *corporate marketing ethics policies.* Such policies offer broad guidelines that everyone in the organization must follow. They cover distributor relations, advertising standards, customer service, pricing , product development and

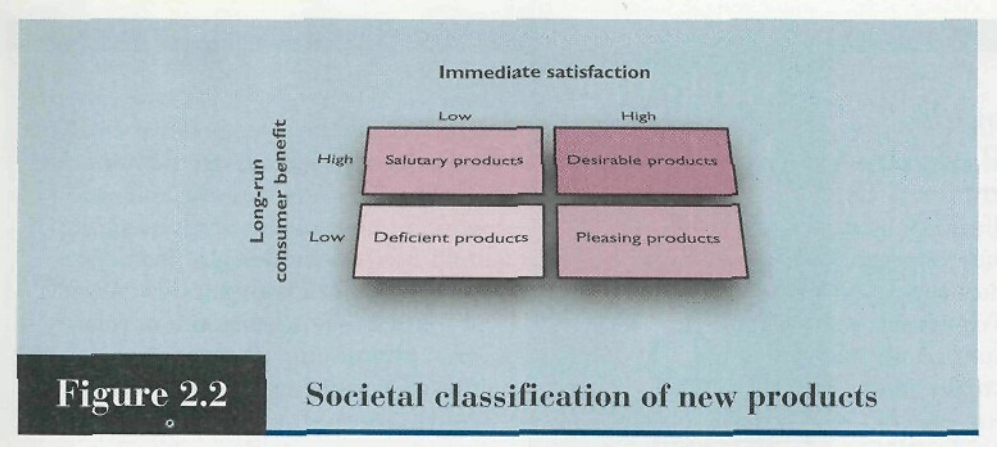


Figure 2.2 **Societal classification of new products**

general ethical standards. Managers need a set of principles that will help them figure out the moral importance of each situation and decide how far they can go in good conscience. But ta/iat principle should guide companies and marketing managers on issues of ethics and social responsibility? One philosophy is that such issues are decided by the free market and legal system. Under this principle, companies and their managers are not responsible for making moral judgements. Companies can in good conscience do whatever the system allows.

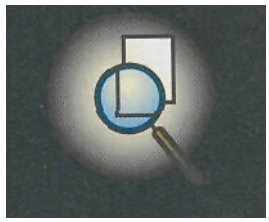
A second philosophy puts responsibility not in the system, but in the hands of individual companies and managers. This more *enlightened philosophy* suggests that a company should have a 'social conscience'. Each company and marketing manager must work out a philosophy of socially responsible and ethical behaviour. Under the societal marketing concept, each manager must look beyond what is legal and allowed, and develop high standards of ethics and morality based on personal integrity, corporate conscience and long-run consumer welfare. A clear and responsible philosophy will help the marketing manager deal with the many knotty questions posed by marketing and other human activities.

Many industrial and professional associations have suggested codes of ethics, and many companies are now adopting their own codes of ethies. About half" of European firms (a modest sum) compared to something like 90 per cent of America's biggest 2,000 companies have established 'ethical codes of practice' for their employees. Efforts have been made to establish a general international ethies code (see Marketing Highlight 2.5). Firms also have 'ethics education' programmes to teach managers about important ethics issues and help them find the proper responses.[2]"

Written codes do not, however, assure ethical behaviour. The code of the Prudential Corporation, a life insurance-to-property group, pledges to work for the good of its shareholders, customers and staff. It notes that 'in providing its business, the Prudential aims are ... to abide by the spirit of laws as well as their letter and to be a significant contributor to the development and well-being of the wider community in which we operate". The guidelines are well meaning but too abstract to direct action when the interests of the company diverge sharply from those of its employees, customers or the local community. There has to be the small print to tell employees what to do in specific dilemmas, such as when being offered, or asked for, a bribe. There should also be sanctions to enforce the code, so that ethical pledges are more than mere PR 'puff.

Companies are urged to provide detailed policy on issues such as conflicts of interest, bribes, gift-giving, relations with competitors, and shareholders' and other stakeholders' rights. Every function of the business should also have an ethics policy tailored for them. For example, how is the export division, which

Marketing Highlight 2.4



From Plato's *Republic* to Supermarket Slavery

There is good reason to search a long way back for the ethics to guide marketing. As the British philosopher Alfred North Whitehead (1861-1947) commented, 'all Western philosophy is really no more than a footnote to Plato's (428-354 BC) great work *The Republic.*' Tf that were true, our thinking on 'marketing ethics' is little more than a smudge on that footnote.

The ancients were also practical, as Plato's student explained:

> 'Ethics is a rough and ready business determined by ordinary practical men of common sense, not by inbred ascetic "experts" with their heads in a remote and austere world.'
>
> Aristotle (384-322 BC}

Thinking's the thing

A lot of thinking went on in ancient Athens, a city state of only about 400,000 people. Socrates (469-399 EG) thought that the most important thing about human beings is that they ask questions. He also thought that real moral knowledge existed and was worth pursuing. He did not think morality could be tough, but said that it was more than just obeying the law. The newly democratic Athenians did not like this questioning of state morality, so they condemned him to death by poisoning.

Good I'or the slate and good for you too

Plato thought that Athens' experiments with democracy were a shambles and left town. He believed in moral absolutes that were separate from the more sordid world. This letl him to idealize regimes where right and wrong was well defined. He thought militaristic and disciplined Sparta was a much better place than free-thinking Athens and that people should do what is good for the state. Lots of leaders have tried this and very nasty it is too.

Choosing the happy medium

Aristotle rejected his teachers' concern for absolute truths, suggesting that people take a middle road and learn how to behave from experience. People learn to become good citizens, and from that achieve contentment. Well, most people! And how about being a good citizen of a gang of hooligans?

It was a long time before western philosophy recovered from these Greeks, but the Renaissance got things going again. Machiavelli was born in another city state: Florence.

He may be clung, but at least he's our dung

Machiavelli (1469-1527) was an observer rather than a philosopher. After he saw what succeeded, he recognized that politics and morality mix badly. This is a convenient view for business leaders who think there should be two Nets of moral standards: one for public life and one for private life. In political and business life it is necessary to be pragmatic and prudent - in other words, unethical - while retaining a different private ethic. As recent politicians have found, life does not always divide -so easily.

Solitary, poor, nasty, brutish and short

The English Royalist Hobbes (1588-1678) is even more depressing than Machiavelli, People are awful and are prevented from degenerating into our natural brutish behaviour only by realizing that everyone behaving that way would make life unbearable. People therefore establish a 'social contract' (which parents call 'bringing up') that has to be enforced by a neutral third party (government contract). Franco-Swiss Rousseau (1712-78) had the opposite view that humanity is essentially good, but is corrupted by society to want things like smart clothes, carriages and Nike trainers.

Sum happiness

English Utilitarians Bentham (1748-1832) and Mill (1806-73) invented a form of moral calculus. Bentham thought his country's laws were in a mess because they lacked a scientific foundation, lie saw human beings as pleasure-pain machines, so he suggested that law makers should balance the sum of the pain and pleasure to achieve 'the greatest happiness of the greatest number'. This

has two consequences: means justifying ends, and problems for minority groups. Mills worried about this 'tyranny of the majority'. He preferred talking about happiness rather than pleasure, tolerated individual lifestyles and thought that the 'happiness sums' varied and were for individuals as well as law makers.

Bah. happiness

Kant (1724-1804) had little time for happiness. The German idealist's ethics had categorical imperatives. Tie believed that a moral action was one done out of a sense of duty, and thought that ethics was about finding out our duties and living by them. Kant deduced a 'universality test' to find the compulsory rules. He asked people to imagine what it would be like if everybody did what they themselves wanted to do. Using this mind model, we deduce that if people sold shoddy goods habitually, life would be chaotic and, therefore, people have a duty not to sell shoddy goods.

And justice for all

Living American John Rawls (1921—) has greatly influenced modern liberal thinking. He has a mind model based on imagining a group of people brought together with no knowledge of what place they will have in society. They have to invent a series of rules that will make their community just and fair. Then they have to live in it.

Don't know; can't know

This rationalist climb to understanding 'truths' started being undermined by Scotsman David Hume (1711-76). His 'meta-ethics' does not offer any advice, but reeogni/<es an 'is-ought gap' between what we experience (is) and the conclusion we try to draw from that (ought). Even though we know that bull bars on ears kill children (is), we can only produce a false argument that they should not be sold (ought). Developing similar insights, it follows that any moral argument between people is 'utterly futile, unsolvcable and irrational' (A. J. Avers 1910-89).

The Age of Unreason

Postmodernists have pursed this ethical scepticism to new layers. Reason fails because of its dependence on language. What passed as reason in the past has caused so much human suffering. This level of ethical uncertainty is not new; it is close to the Sophist views that Plato argued against. Postmodernists despair at the society they see coming: a kaleidoscope of consumerist images that hypnotize citizens into accepting the morality of capitalism; where individual morality ceases to exist, where all that remains is supermarket slavery and where the only choice is by consumers between products - marketing.

Meanwhile Alisdair Maclntyre looks back to the Aristotelian idea that we should concentrate less on the individual and more on people and what is good for the society.

SouKflES: J. Ackrill, An.stotfe *and the Philosophers* (Oxford, 1981); *G.* Kerner, *Three Philosophical Moralists* (Oxford, 1990); A. Maclntyre, *A Short History (/Ethics* (Routledgu, 1987); D. Robinson ami C. Garratt, *Kthitisfar Beginners* (Icon. 1996); B. Russell,/I *History nj'Western Philosophy* (Oxford, 1945); P. Singer, *I'rautical Kthics* (Oxford, 1993).

deals with vSaudi Arabia, or many South American countries, where bribes and kickbacks are routine business practice, to actV Some companies may set tougher standards than others. The question arises as to whether a company must lower its ethical standards to compete effectively in countries with lower standards. Some western firms have made a commitment to a common set of shared standards worldwide. For example, the ethical code of Levi Strauss, a jeans manufacturer, forbids bribes, whether or not prevalent or legal in the foreign country involved.

Across Europe, national cultures naturally impose different standards of behaviour on individuals and organizations. In the European Union, each market sector in each country is still characterized by a mixture of accepted commercial practices, codes of practice and formalized legislation. What is considered an acceptable practice in one country may be illegal in another (see Marketing

Highlight 2.6). The EU may eventually move towards a pan-Europe an business ethics policy anil codes of conduct, but that day is still some way off.[21]

Ethics and social responsibility require a total corporate **commitment.** They must be components of the overall corporate culture. Ethics programmes or seminars for employees help to imbue corporate ethics and codes of conduct among staff, while ethical audits may be used to monitor and evaluate business conduct and to use the lessons to guide both policy and behaviour:

> In the final analysis, 'ethical behaviour' must he an integral part of the organization, a way of life that is deeply ingrained in the collective corporate body ... In any business enterprise, ethical behaviour must be a tradition, a way of conducting one's affairs that is passed from generation to generation of employees at all levels of the organization. It is the responsibility of management, starting at the very top, to both set the example by personal conduct and create an environment that not only encourages and rewards ethical behaviour, but which also makes anything less totally unacceptable.[22]

The future holds many challenges and opportunities for marketing managers as they move into the twenty-first century. Technological advances in solar energy, home computers, interactive television, modern medicine and new forms of transportation, recreation and communication provide abundant marketing opportunities. However, forces in the socioeconomie, cultural and natural environments increase the limits within which marketing oan be carried out. Companies that are able to create new values and to practise societally responsible marketing will have a world to conquer.

Principles for Public Policy Towards Marketing

Finally, we propose seven principles that might guide the formulation of public policy towards marketing. These principles reflect assumptions underlying much of modern marketing theory and practice.

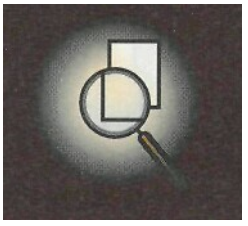
The Principle of Consumer and Producer Freedom

As much as possible, marketing decisions should be made by consumers and producers under relative freedom. Marketing freedom is important if a marketing system is to deliver a high standard of living. People can achieve satisfaction in their own terms rather than in terms defined by someone else. This leads to greater fulfilment through a closer matching of products to desires. Freedom for producers and consumers is the comerstone of a dynamic marketing system. But more principles are needed to implement this freedom and prevent abuses.

The Principle of Curbing Potential Harm

As much as possible, transactions freely entered into by producers and consumers are their private business. The political system curbs producer or consumer freedom only to prevent transactions that harm or threaten to harm the producer, consumer or third parties, Transactional harm is widely recognized

Marketing Highlight 2.5



In Search of Universal Ethics

In July 1994, the Caux Round Table (CRT) launched an *international ethics code - a* seven-point *Principles for Business* • that stresses the need for moral values in business decision making. The document is thought to be the first of its kind to attract affluent supporters from Europe, Japan and the United States. Signatories include Ryuzaburo Kaku, chairman of Japan's Canon, John Charlton, managing director of New York's Chase Manhattan Bank, and a group of senior executives from the twin cities Minneapolis/ StPaul.

CRT was formed in 1968 by Frederik Philips, former president of the Dutch electronics giant, Philips, and Olivier Giscard D'Estaing, vice-chairman of the Insead business school at Fontainebleau, France, in an attempt to reduce the then escalating trade tensions with Japan. It is concerned with 'the development of constructive economic and social relationships between the participants' countries and with their joint responsibilities towards the rest of die world'.

The *Principles* epitomize the group's intention to set 'a world standard against which business behaviour can be measured': that is, a benchmark to help more companies devise their own codes. The authors of the initiative seek to 'begin a process that identifies shared values, reconciles differing values, and thereby develops a shared perspective on business behaviour acceptable to and honoured by all'.

The CRT's *Principles* affirm the responsibilities of business towards a range of stakeholders {e.g. customers, employees and shareholders) and to the countries in which they operate. Suppliers and competitors should expect businesses to 'honour their obligations in a spirit of honesty and fairness'. Business behaviour should be governed by a spirit of trust which goes beyond the letter of the law, while domestic and international rules should be respected. The principles also require companies to promote 'the progressive ant! judicious liberalization of trade', 'to protect and, where possible, improve the environment' and to avoid illicit operations.

The *Principles* are supposedly drawn from two ethical traditions: the Japanese philosophy of *kyosei,* which calls for 'living and working together for the common good of mankind'; and 'human dignity', which refers to the saeredness or value of each person as an end and not a means to die fulfilment of others' purposes or even majority prescription. Neville Cooper, a founder of the UK Institute of Business Ethics, noted that, at the beginning, the CRT group did not know if it was possible to reconcile three different approaches. The Americans emphasize company rather than .state responsibility for community affairs; the Japanese place more importance on the team; whereas in Europe there is a strong tradition of individual rights. Although it seems idealistic to expect to amalgamate differing cultural tendencies and preferences, Cooper insists that statements of practice, in the first instance, are an important way to clarify the ambiguities for people in an organization.

The case for corporate ethics is more widely accepted today than it was a decade ago. Sceptics, however, say that an ethics code cannot make a business's or employees' behaviour ethical. But then, supporters believe that it is a good start, and that it is only a tool, just as a hammer does not build a house. Enlightened companies would agree.

SOURCES: Tun Dickson, 'The search for universal ethics', *Financial Times* (22 July 1994), p. 11. Also, copies of the *Principles far Business* can ho obtained from *Caux.* Round Table Secretariat, Arnaliastraat 10, 2514JC, The Hague, Netherlands

Marketing Highlight

FrequentFlyer: Perks or Bribes?

A high-ranking official at the Swedish Board of Health and Welfare faced prosecution for allegedly violating regulations prohibiting public sector employees from making private use of airline bonus points gained on business trips. The official was suspended for using bonus points accumulated on regular business flights under Scandinavian Airlines System's **EuroBorms** scheme to fund private holidays. A similar case has also been reported from Finland, where strict anti-corruption laws also prevent employees from accepting inducements.

The incidents reflect tensions between employers and SAS over the frequent-flyer programme, which, companies say, inflates ticket prices, restricts competition and encourages staff to make unnecessary trips in order to amass bonus points.

Public organizations have declared that the benefits constitute illegal inducements when offered to business travellers, and have issued instructions to employees banning private use of frequent-flyer benefits. In the private sector, personal use of bonus points has also been deemed unlawful unless sanctioned by the employer. Ulf Frankc, of the Stockholm-based Institute Against Corruption, a private watchdog, said; 'Giving private benefits to business travellers is just like sending them a cheque. The law is absolutely clear, it is corrupt behaviour.'

But employers say it is practically impossible to track down individuals who contravene the regulations. The Swedish parliament said state bodies and companies were powerless to intervene because the frequent-flyer programme was a private contract between airline and traveller. The parliament is among a growing number of public and private sector employers that have protested to SAS. urging it to modify the system by allowing them to handle the bonus points on behalf of their workers. SAS has rejected the pleas out of hand as the key object of the scheme is to cultivate the loyalty of individual passengers.

Instead, business travellers' associations in Sweden and Denmark turned to the European Commission in Brussels, urging it to rule frequent-flyer schemes unlawful on competition grounds. The Swedish Business Travellers' Association spokesperson said that bonus programmes discriminated against smaller carriers. 'Only the biggest companies have the resources to fund these schemes. If a carrier does not have a large numbur of routes, it is forced out of the market.'

SAS insists that its frequent-flyer programme does not prompt staff to make unnecessary journeys, but simply encourages them to fly more with SAS. With 800,000 members, the SAS EuroBonus scheme is expanding at the rate of 150,000 new subscriptions per year. The airline brushes off talk of illegal inducements. It is up to employers to clamp down on abuses.

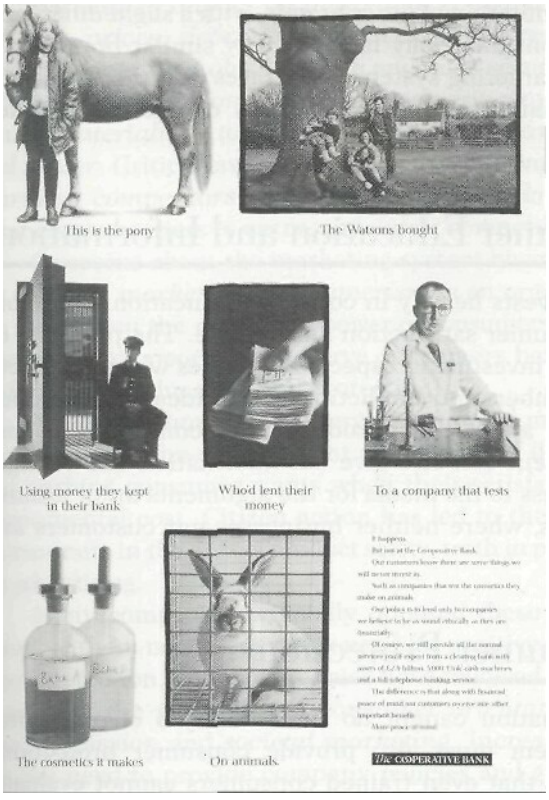
'It is not up to us to be a police force,' said Knut Lovstuhagen, SAS's director of corporate communications.

iifi- Greg Mclvor, 'Swedes say frequent-flyer perks are bribes', *The European* (15-21 February 19%), p. 17.

as grounds for government intervention. The central issue is whether there is sufficient actual or potential harm to justify the intervention.

The Principle of **Meeting** Basic Needs

The marketing system should serve **disadvantage^** consumers as well as affluent ones. In a free-enterprise system, producers make goods for markets that are willing



In f/iis *innovative ad, the Co-operative Bank reflects its unspoken /md unwritten culture - it* pro/esses that *it twill not do* business *with* organisations *that arc environmentally or politically unsound.*

and able to buy. Certain groups who lack purchasing power may go without needed goods and services, causing harm to their physical or psychological well-being. While preserving the principle of producer and consumer freedom, marketers should support economic and political actions to solve this problem. The marketing system should strive to meet the basic needs of all people, and all people should share to some extent in the standard oi living it creates.[23]

The Principle of Economic Efficiency

The marketing system strives to supply goods and services efficiently. The extent to which a society's needs and wants can be satisfied depends on how efficiently its searee resources are used. For marketing to work efficiently, the system needs competition. An open market allows for competition, free flow of goods, freedom of information and informed buyers. These make a market efficient. To make profits, competitors must watch their costs carefully while developing products, prices and marketing programmes that serve buyer needs. Buyers get the most satisfaction by finding out about different competing products, prices and qualities, and choosing carefully. The presence of active competition and well-informed buyers keeps quality high and prices low. But, more importantly, competition brings out the best in products and services. Producers that strive to offer the best value can expect to thrive.

The Principle of Innovation

The marketing system encourages genuine innovation to reduce production and distribution costs, and to develop new products to meet changing consumer

needs. Much innovation is really imitation of other brands, with a slight difference to provide a selling point. The consumer may face ten very similar brands in a product class. But an effective marketing system encourages real product innovation and sustainable differentiation to meet the wants of different market segments.

The Principle of Consumer Education and Information

An effective marketing system invests heavily in consumer education and information to increase long-run consumer satisfaction and welfare. The principle of economic efficiency requires this investment, especially in cases where products are confusing because of their numbers and conflicting claims. Ideally, companies will provide enough information about their products. But consumer groups, regulatory agencies and government can also give out information and ratings. They should encourage more access to the media for the arguments for or against consumption of goods or services, where neither businesses nor customers are behaving responsibly.

The Principle of Consumer Protection

Consumer education and information cannot do the whole job of protecting consumers. The marketing system must also provide consumer protection. Modern products are so complex that even trained consumers cannot evaluate them with confidence. Consumers do not know whether a mobile phone gives off cancer-causing radiation, whether a new car has safety flaws, or whether a new dmg product has dangerous side-effeets. A government agency has to review and judge the safety levels of various foods, drugs, toys, appliances, fabrics, cars and housing. Similarly, it has to assess the integrity or professionalism of service providers like banks, insurance companies, doctors and police forces. Consumers may buy products but fail to understand the environmental consequences, so consumer protection also covers production and marketing activities that might harm the environment. Finally, consumer protection prevents deceptive practices and high-pressure selling techniques where consumers would be defenceless.

These seven principles are based on the assumption that marketing's goal is not just to maximize company profits or total consumption or consumer choice, but rather to balance that with maximization of life quality. Life quality means meeting basic needs, having available many good products, and enjoying the natural and cultural environment. Properly managed, the marketing system can help to create and deliver a higher quality of life to people around the world. The very implementation of the marketing philosophy can therefore be seen as a productive activity, not *;i* destructive evil. Responsible marketing works.

Summary

A marketing system should sense, serve and satisfy consumer needs and improve the quality of consumers' lives. In working to meet consumer needs, marketers may take some actions that arc not to everyone's liking or benefit. Marketing managers should be aware of the main *criticisms of marketing.*

Marketing's *impact on individual consumer welfare* has been **criticized** for its *high* prices, *deceptive practices, high-pressure selling, shoddy or unsafe products, planned obsolescence* and poor service *to disadvantaged consumers.* Marketing's *impact on society* has been **criticized** for *creating false wants* and £00 *much materialism, too few social goods, cultural pollution* and too *much political power.* Critics have also criticized marketing's *impact on other businesses* for *harming competitors* and *reducing competition* through acquisitions, practices that create; barriers to entry, and unfair competitive marketing practices.

Concerns about the marketing system have led to *citizen and public actions* to *regulate marketing.* Consumerism is an organized social movement intended to strengthen the rights and power of consumers relative to sellers. Alert marketers view it as an opportunity to serve consumers better by providing more consumer information, education and protection.

Environmentalism is an **organized** social movement seeking to minimize the harm done to the environment and quality of life by marketing practices. It calls for curbing consumer wants when their satisfaction would create too much environmental cost. Citizen action has led to the passage of many laws to protect consumers in the area of product safety, truth in packaging, truth in lending and truth in advertising.

Many companies originally opposed these social movements and laws, but most of them now recognize a need for positive consumer information, education and protection. Some companies have followed a policy of enlightened marketing based on the principles of consumer orientation, innovation, *value creation, social* mission and *societal marketing.* Increasingly, companies are responding to the need to provide company policies and guidelines to help their employees deal with questions of *marketing ethics.* Although there are many questions concerning marketing and social responsibility, companies are urged to consider seven principles for public policy towards modern, responsible marketing: consumer and *producerfreedom; curbing potential harm; 'meeting basic needs; economic efficiency; innovation; consumer education and information,* and consumer *protection.*

Key Terms

Consumer-oriented marketing 61
Consumerism 56
Deficient products 64
Desirable produets 64
Enlightened marketing 61
Environmentalism 57
Innovative marketing 62
Planned obsolescence 51
Pleasing products 64
Salutary products 64
Sense-of-mission marketing 63
Societal marketing 63
Value marketing 62

Discussing the Issues

I. Consider the following example. The great Disney animation revival, which began with *The Little Mermaid* in 1989, reached a peak with the 1994 blockbuster Lion *King,* which took §7(0 million at the box office worldwide. Since then, each new release has done less well. Analysts say a backlash is

developing against Disney's hard sell. Parents are put off by the marketing blitz and the cost ol" *the* extras - the T-shirt, the video, the toys, all the rest of it - that follow each new release. 'When you come out to the cinema foyer you arc barraged with Disney products,' parents complain. Disney's expensive marketing campaigns leave parents feeling crammed ami committed to spending on a host of knick-knacks that their children demand after seeing the movie. Is it right or wrong for the company to use merchandising to market its films? Why? Why not?

2. Docs marketing *create* barriers to entry or *reduce* them? Describe how a small local manufacturer of household cleaning products could use advertising to compete with the market leader, which holds a dominant share of the product sector.

There is evidence to suggest that laws are more effective than voluntary actions to protect our environment (for example, see Marketing Highlight 2.3). If you were a marketing manager at a chemical company, which would you prefer: government regulations on acceptable levels of air and water pollution, or a voluntary industry code suggesting target levels of emissions? Why?

4. The issue of ethics provides special challenges for international marketers as business standards and practices vary a great deal from one country to the next. Should a company adapt its ethical standards to compete effectively in countries with different standards? (Bribes, use of child labour, positive discrimination against female workers and members from ethic minorities might be useful examples of values/practices which vary across countries/cultures in different corners of the globe and can be used to focus your discussion.)

5. Compare the marketing concept with the principle of societal marketing. Do you think marketers should adopt the societal marketing concept? Why or why not?

6. If you had the power to change our marketing system in any way feasible, what improvements would you make? What improvements can you make as a consumer or marketing practitioner?

Applying the Concepts

1. Changes in consumer attitudes, especially the growth of consumerism and environmentalist!!, have led to more societal marketing - and to more marketing that is *supposedly* good for society, but is actually close to deception.
   - List three examples of marketing campaigns that you feel are genuine societal marketing. If possible, find examples of advertising or packaging that supports these campaigns.
   - Find three examples of deceptive or borderline imitations of societal marketing. How are you able to tell which campaigns are genuine and which are not?
   - What remedies, if any, would you recommend for this problem?

2. Consider the case of Scandinavian employers' hostility towards die SALS frequent-flyers programme (Marketing Highlight 2.6) and discuss the following:

Should airlines reward regular customers with bonus points?

Should employees' private use of airline bonus points gained on business trips constitute an abuse of business perks?

Where do we draw the line between a legal inducement offered by the supplier of a product or service to cultivate loyal customers, and an unethical ploy to bribe customers and encourage unnecessary purchase and usage? And, who should police unsavoury practices?

Thinking about other countries in Europe/Asia/North America, to your knowledge, is personal use of airline bonus points accumulated on business trips deemed unlawful?

How universal are different country authorities' treatment of frequent-flyer inducements for business travellers?

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Case 2

Nestle: Singled Out **Again and Again**

'during the first few months, the mother's milk will always be the most natural nutriment, and every mother able to do so, should herself suckle her children.'

Henri Nestle, 1869

In July 1994 the corporate affairs department at Nestle UK's headquarters in **Croydon** were bracing themselves for another burst of adverse publicity. At the forthcoming General Synod of the Church of England to take place at York University, aii Oxford diocesan motion would call for a continued ban on Nescafe by the Church. They also wanted the Church Commissioners to disinvcst their £1.1 million in Nestle. The Church's much publicized boycott of Nescafe first occurred, amid much ridicule, in 1991, as a protest against the use of breast milk substitutes in the Third World countries. In the aftermath of the 1991 vote, Nescafe claimed that its sales increased, although many churchgoers said they stopped using the brand-leading coffee. The 1994 protest would he one of many the company had faced from activist protesters in the last 20 years although, according to Nestle, the protesters' complaints had no foundation.

Nestle SA, whose headquarters are in Vevey, Switzerland, is the world's largest food company, with annual worldwide sales of SFr57.5 billion. The company produces in 494 factories operating in 69 countries. Numerous Nestle brands are quite familiar: Nestle's chocolates, Nesquik, Nescafe, Crosse & niackwell. Libby, Perrier, Friskies and many others. Over 100 years ago Henri Nestle invented manufactured baby food '-to save a child's life' and the company have been suppliers ever since. Then, in the late 1970s and early 1980s, Nestle came under heavy fire from health professionals, who charged the company with encouraging Third World mothers to give up breast feeding and use a company-prepared formula. lit 1974 the British charity, War on Want, published a pamphlet, *The Baby Killer,* that criticized Unigate and Nestle's ill-advised marketing efforts in Africa. While War on Want criticized the entire infant formula industry, the German-based Third World Action Group issued a German 'translation' of the original pamphlet retitled *Nestle Killu Babies,* which singled out Nestle for 'unethical and immoral behaviour'. The pamphlets generated much publicity - the general public became both aware and concerned about the issue. Enraged at the protest, Nestle sued the activists for defamation. The two-year case kept media attention on the issue. 'We won the legal case, but it was a public-relations disaster,' commented a Nestle executive.

In 1977, two American social-interest groups, the Intcrfaith Center on Corporate Responsibility and the Infant Formula Action Coalition (INFACT), spearheaded a worldwide boycott against Nestle. The campaign continued despite the fact that many organizations rejected the boycott. The US United

Methodist Church concluded that the activists were guilty of 'substantial and sometimes gross misrepresentation', of 'inflammatory rhetoric', and of using 'wildly exaggerated figures'. The boycott was called off in 1984 when the activists accepted that the company was complying with an infant formula marketing code adopted by the World Health Organization (WHO). Since then, church, university, local government and other action groups periodically rediscover the controversy and create publicity by calling for a boycott.

In 1991 the main accusation was the use of sophisticated promotional techniques to persuade hundreds of thousands of poverty-stricken, poorly educated **mothers** that formula feeding was better for their children. One issue predominated: the donation of free or low-cost supplies of infant formula to maternity wards and hospitals in developing countries. Formula feeding is not usually a wise practice in such countries. Because of poor living conditions and habits, people cannot or do not clean bottles properly and often mix formula with impure water. Furthermore, income level does not permit many families to buy sufficient quantities of formula. Protesters particularly hit out at several industry practices, keeping Nestle as their target:

- Promotional baby booklets ignoring or de-emphasizing breast feeding.
- Misleading advertising encouraging mothers to bottle feed their babies and showing breast feeding to be old-fashioned and inconvenient.
- Gifts and samples inducing mothers to bottle feed their infants.
- Posters and pamphlets in hospitals.
- Endorsements of bottle feeding by milk nurses.
- Formula so expensive that poor customers dilute to non-nutritious levels.

The WHO code eliminates all promotional efforts, requiring companies to serve primarily as passive 'order takers'. It prohibits advertising, samples and direct contact with consumers. Contacts with professionals (such as doctors) occur only if professionals seek such contact. Manufacturers can package products with some form of visual corporate identity, but they cannot picture babies. The WHO code effectively allows almost no marketing. However, the code contains only **recommended** guidelines. They become *mandatory* only if individual governments adopt national codes through their own regulatory mechanisms,

WHO allows the donation of free or low-cost supplies of infant formulas for infants who cannot be breast-fed. However, because of protests the International Association of Infant Food Manufacturers (IFM) is working with WHO and UNICEF to secure country-by-country agreements with countries to end free and low-cost supplies. By the end of 1994, only one small developing country had not agreed to the change.

Nestle itself has a policy on low-cost supplies in developing countries, as follows:

- Where there is government agreement, Nestle will strictly apply the terms of that agreement.
- Where there is no agreement Nestle, in co-operation with others, will be active in trying to secure early government action.
- Where other companies break an agreement, Nestle will work with IFM and governments to stop the breach.
- Nestle will take disciplinary measures against any Nestle personnel or distributors who deliberately violate Nestle policy.

Nestl6 continues to sell infant formula and display the Nestle name on almost all its brands. This contrasts with some companies using furtive branding to hide common ownership. Given the repeated public relations problems that Nestle faces, why does it not take unilateral action in ending free supplies? Since the Third World infant formula market is so small compared with Nestle's worldwide interests, why bother with it? Part of the answer is in Tlenri Nestle's desire 'to save a child's life'. The European Commission's directive on baby food concludes that infant formula is 'the only processed foodstuff that wholly satisfies the nutritional requirements of infants'first four to six months of life'.

Few mothers in countries with very high infant mortality rates use anything other than breast milk. However, Kenya is probably typical of what happens when mothers do supplement breast milk with something else:

33 per cent use uji, a local food made from maize.
33 per cent use cow's milk.
28 per cent use water.
14 per cent use glucose.
11 per cent use milk powder, of which some is infant formula.
3 per cent use tea.

A study in the Ivory Coast shows the sort of problems that arise when Nestle withdraws unilaterally. Other companies replaced the supplies to the affluent private nurseries, but supplies for mothers in need collapsed. As a result, two premature babies fed on ordinary powdered milk did not survive, and the main hospital was not able to 'afford to buy enough to feed abandoned babies or those whose mothers are ill'.

QUESTIONS

1. Was and is Nestle's and the other IFM members' marketing of infant formula 'unethical and immoral'?
2. Is it the case that ethical standards should be the responsibility of organizations such as WHO and UNESCO, and that the sole responsibility of firms is to work within the bounds set?
3. Is Nestle just unlucky or did its actions precipitate its being singled out by activists? Is the activists' focus on Nestle unjust and itself dangerous? What accounts for Nestle's continuing in the infant formula market despite the protests?
4. Did Nestle benefit from confronting the activists directly in court and winning? Should firms ever confront activists directly? What other forms of action are available to the company? Should firms withdraw from legitimate markets because of the justified or unjustified actions of pressure groups?
5. The WHO code is a recommendation to government. Is it Nestles responsibility to operate according to the national legislation of any given country, or to follow WHO's recommendations to that country? Do international bodies setting international standards, such as WHO and UNICEF, have a moral responsibility to make those standards clearly understood by all parties and to demand action by national governments to enact them?

6, How should Nestle respond to the threats from the General Synod in 1994V Since Nestle claimed sales increased after the Nescafe boycott in 1991, should they just ignore the problem?

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3

Strategic Marketing Planning

CHAPTER OBJECTIVES

After reading this chapter, you should be able to:

Explain company-wide strategic planning and its principal steps,

Describe how companies develop mission statements and objectives.

Explain how companies evaluate and develop their business portfolios.

Explain marketing's role in strategic planning.

Describe the marketing management process and the brand plan.

Show how marketing organizations are changing.



Preview Case

Levi's Strategic **Marketing and** Planning

Bavarian immigrant to America, Levi-Strauss, carted a load of heavy fabric to California to make tents during the gold rush. He found that the gold seekers needed trousers more than tents, so he used the fabric to make canvas trousers. His blue jeans are now a worldwide institution. Levi-Stranss &Co. still dominates the jeans industry. From the 1950s to the 1970s, as the baby boom caused an explosion in the number of young people, Levi-Strauss & Co. and other jeans makers experienced heady 10-15 per cent annual sales growth, with little or no strategic or marketing planning effort. Selling jeans was easy - Levi concentrated on simply trying to make enough jeans to satisfy a seemingly insatiable market. However, by the early 1980s, demographics had caught up with the jeans industry. Its best customers, the



baby-boomers, were ageing, and their tastes were changing with their waistlines- they bought fewer jeans and wore them longer. Meanwhile, tine IS-to 24-year-old segment, the group traditionally most likely to buy jeans, was shrinking. Thus Levi found itself fighting for share in a lading jeans market.

At first, despite the declining market, Levi-Strauss & do. stuck closely to its basic jeans business. It sought growth through mass-marketing strategies, substantially increasing its advertising and selling through mass retailers like Sears and J.C. Penney. When these tactics failed and profits continued to plummet, Levi tried diversification into faster-growing fashion and speciality apparel businesses. It hastily added more than 75 new lines, including Ralph Lauren's Polo line (high fashion); the David Hunter line (classic men's sportswear): the Perry Ellis Collection (men's, women's and children's casual sportswear); Tourage SSE (fashionable men's wear); Frank Shorter Sportswear (athletic wear); and many others. By 1984 Levi had diversified into a muddled array of businesses ranging from its true olue jeans to men's hats, ski-wear and even denim maternity wear. As one analyst reported at the time in *Inc.* magazine:

> For years, Levi prospered with one strategy: chase the demand for blue jeans. Then came die designer jeans craze - and Levi became unstitched. The company diversified into fashion. It slapped its famous name on everything from running suits to women's polyester pants. The results were disastrous: profits collapsed by 79 per cent last year, and the company slashed about 5,000 jobs.

In 1985, in an effort to turn around an ailing Levi-Strauss it Co., new management implemented a bold new strategic plan, beginning with a drastic reorganization. It sold most of the ill-fated fashion and speciality apparel businesses and took the company back to what it had always done best - making and selling jeans. For starters, Levi rejuvenated its flagship product, the classic button-fly, shrink-to-fit 501 jeans. It invested *$38* million in the now-classic 501 blues' advertising campaign, a series of hip, documentary-

style reality ads. Never before had a company spent so much on a single item of clothing. At the time, many analysts questioned this strategy. As one put it: 'That's just too much to spend on one lousy pair of jeans.' However, the 501 blues campaign spoke for all of the company's products. It reminded consumers of Levi's strong tradition and refocused the company on its basic, blue jeans heritage. During the next six years, the campaign would more than double the sales of 501s.

Building on this solid-blue base, Levi began to add new products. For example, it successfully added prewashed, stonewashed and brightly coloured jeans to its basic line. In late 1986, Levi introduced Dockers, casual and comfortable cotton trousers targeted at the ageing male baby-boomers. A natural extension of the jeans business, the new line had even broader appeal than anticipated. Not only did adults buy Dockers, so did their children. In the few years since its introduction, the Dockers line has become a *Si* billion-a-year success, Le\i's has continued to develop now products for the ageing boomers. In 1992 it introduced 550 and 560 loose-fitting jeans - 'a loose interpretation of the original' - for men who have outgrown the company's slimmer-cut 501s.

In addition to introducing new products, Levi-Strauss & Co. also stepped up its efforts to develop new markets. In 1991, for example, it developed jeans designed especially for women and launched an innovative five-month, S12 million 'Jeans for Women' advertising campaign, featuring renderings of the female form in blue jeans by four female artists.

But Levi's most dramatic turnaround has been in its international markets. In 1985 Levi almost sold its then stumbling and unprofitable foreign operations. Since then, however, the company has turned what was a patchwork of foreign licensees into a well-co-ordinated team of worldwide subsidiaries. Levi is now a truly global apparel maker. Its strategy is to 'think globally, act locally'. It operates a closely co-ordinated worldwide marketing, manufacturing rind distribution system. Twice a year, Levi brings together managers from around the world to share product and advertising ideas, and to search for those that have global appeal. For example, the Doekers line originated in Argentina, but has now become a worldwide best seller. However, within its global strategy, Levi encourages local units to tailor products and programmes to their home markets. For example, in Brazil, it developed the Feminina line of eurvaceously cut jeans that provide the ultralight fit that Brazilian women favour. Levi's European Docker division now plans to conquer Europe from its Swedish base. In doing so it has created the world's biggest advertisement, a 480 square metre banner hung on Stockholm's up-market NK department store,

In most markets abroad, Levi-Strauss & Co. boldly plays up its deep American roots. For example, James Dean is a central figure in almost all Levi advertising in Japan. Indonesian ads show Levi-clad teenagers driving around Dubuque, Iowa, in 1960s convertibles. And almost all foreign ads feature English-language dialogue. However, whereas Americans usually think of their Lcvis as basic knockaround wear, most European and Asian consumers view them as up-market fashion statements. The prices match the snob appeal - a pair of Levi 501 jeans selling for S30 in the United States costs $63 in Tokyo and $88 in Paris, creating lush profit margins.

Levi's aggressive and innovative global marketing efforts have produced stunning results. As the domestic market continues to shrink, foreign sales have accounted for most of Levi's growth. Overseas markets now yield 39 per cent of the company's total revenues and 60 per cent of its profits. Perhaps more impressive, its foreign business is growing at 32 per cent per

year, five times the growth rate of its domestic business. Levi continues to look for new international market opportunities. For example, the first Romanian shop officially to sell Levi's jeans recently opened to large crowds, and Levi is now racing competitors to reach jeans-starved consumers in eastern Europe and the former Soviet republics. Dramatic strategic and marketing planning actions have transformed Levi-Strauss into a vigorous and profitable company, one better matched to its changing market opportunities. Since its 1985 turnaround, Levi's sales have grown more than 31 per cent and its profits have increased fivefold. Thus, by building a strong base in its core jeans business, coupled with well-planned product and market development, Levi has found ways to grow profitably despite the decline in the domestic jeans market. As one company observer suggests, Levi has learned that 'with the right mix of persistence and smarts, [planning new products and] cracking new markets can seem as effortless as breaking in a new pair of Levi's stonewashed jeans',[1]

QUESTIONS

1. What stimulated Levi to diversify away from its homeland in the American blue jeans market?
2. With its focus on the global blue jeans market, is Levi likely to face the same pressure for diversification again?
3. Conduct a SWOT (strengths, weaknesses, opportunities and threats) analysis of Levi and comment upon its implications for the company.
4. Use the 'product/market expansion grid' to plot the moves made by Levi during the case. In which quadrants was Levi least successful and why? In which was it most successful and why?
5. Suggest a 'mission statement' for Levi that would help the company focus on its strengths.
6. Considering Levi's international subsidiaries as 'strategic business units', what do you imagine Levi's 'BCG growth-share matrix' to look like? What global strategies does the matrix suggest?

Introduction

All companies need strategies to meet changing markets. No one strategy is best for all companies. Each company must find the way that makes most sense, given its situation, opportunities, ohjeetives and resources. Marketing plays an important role in strategic planning. It provides information and other inputs to help prepare the strategic plan. Strategic planning is also the first stage of marketing planning and defines marketing's role in the organization. The strategic plan guides marketing, which must work with other departments in the organization to achieve strategic objectives.

Here we look at the three stages of strategic market planning: first, the strategic plan and its implications for marketing; secondly, the marketing process; and thirdly, ways of putting the plan into action.

Strategic Planning

Overview of Planning

Many companies operate without forma! plans. In new companies, managers are sometimes too busy for planning. In small companies, managers may think that only large corporations need planning. In mature companies, many managers argue that they have done well without formal planning, so it cannot be very important. They may resist taking the time to prepare a written plan. They may argue that the marketplace changes too fast for a plan to be useful - that it would end up collecting dust.[2]

Yet formal planning can yield many benefits for all types of company, large and small, new and mature. It encourages systematic thinking. It forces the company to sharpen its objectives and policies, leads to better co-ordination of company efforts, and provides clearer performance standards for control. The argument that planning is less useful in a fast-changing environment makes little sense. The opposite is true: sound planning helps the company to anticipate and respond quickly to environmental changes, and to prepare better for sudden developments. The best-performing companies plan, but plan in a way that does not suppress entrcpreneurship.-[1]

Companies usually prepare annual plans, long-range plans and strategic pi.'ins:

- The annual plan is a short-term plan that describes the current situation, company objectives, the strategy for the year, the action programme, budgets and controls.
- The long-range plan describes the primary factors and forces affecting the organization during the next several years. It includes the long-term objectives, the main marketing strategies used to attain them and the resources required. This long-range plan is reviewed and updated each year so [hat the company always has a current long-range plan. The company's annual and long-range plans deal with current businesses and how to keep them going.
- The strategic plan involves adapting the firm to take advantage of opportunities in its constantly changing environment. It is the process of developing and maintaining a strategic fit between the organization's goals and capabilities and its changing marketing opportunities.

annual **plan**
A short-term plan that describes the company's current situation, its *objectives, che strategy, action programme and budgets for the year ahead and controls.*

long-range plan
A plan that describes the principal factors and forces affecting the organization during the next several years, including long-term objectives, the chief marketing strategies used to attain them and the resources required.

strategic plan
A plan chat describes hoi® a firm will adapt to take advantage of opportunities in its constantly changing environment, thereby maintaining a strategic fit between the firm's goals and capabilities and its changing market opjjortiinities.

Strategic planning sets the stage for the marketing plan. It starts with its overall purpose and mission. These guide the formation of measurable corporate objectives. A corporate audit then gathers information on the company, its competitors, its market and the general environment in which the firm competes. A SWOT analysis gives a summary of the strengths and weaknesses of the company together with the opportunities and threats it faces. Next, headquarters decides what portfolio of businesses and products is best for the company and how much support to give each one. This helps to provide the strategic objectives that guide the company's various activities. Then each business and product unit develops detailed marketing and other functional plans to support the company-wide plan. Thus marketing planning occurs at the business-unit, product and market levels. It supports company strategic planning with more detailed planning for specific marketing opportunities. For instance Nestle, the world's largest

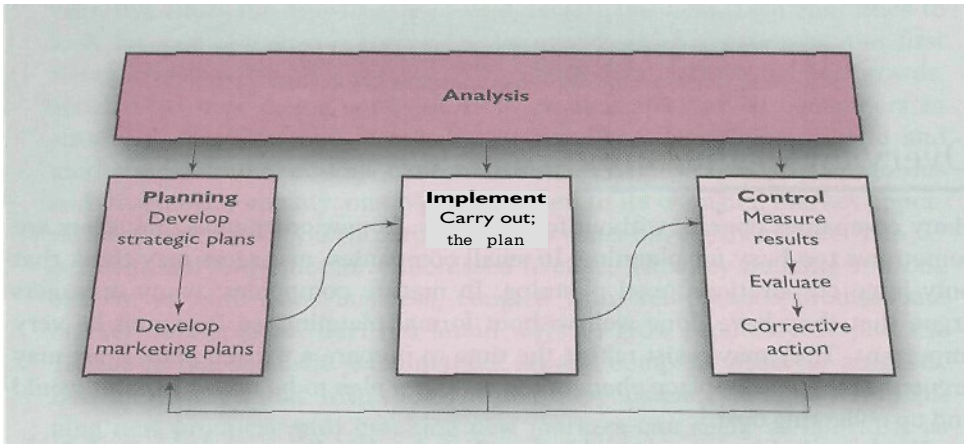


Figure 3.1 Market analysis, planning, **implementation** and control

food manufacturer, develops an overall strategic plan at its headquarters in Vevey, Switzerland. Below that, each strategic group, such as confectionery, develops subordinate strategic plans. These feed into the strategic plan's national operations. At each level, marketing and other functional plans will exist. At the final level, brand plans cover the marketing of brands such as Kit Kat, Lion and Quality Street in national markets.

The Planning Process

Putting plans into action involves four stages: analysis, planning, implementation and control. Figure 3.1 shows the relationship between these functions that are common to strategic planning, marketing planning or the planning for any other function.

ANALYSIS. Planning begins with a complete analysis of the company's situation. The company must analyse its environment to find attractive opportunities and to avoid environmental threats. It must analyze company strengths and weaknesses, as well as current and possible marketing actions, to determine which opportunities it can best pursue. Analysis feeds information and other inputs to each of the other stages.

PLANNING. Through strategic planning, the company decides what it wants to do with each business unit. Marketing planning involves deciding marketing strategies that will help the company attain its overall strategic objectives. Marketing, product or brand plans are at the centre of this.

IMPLEMENTATION Implementation turns strategic plans into actions that will achieve the company's objectives. People in the organization that work with others both inside and outside the company implement marketing plans.

CONTROL. Control consists of measuring and evaluating the results of plans and activities, and taking corrective action to make sure objectives are being achieved. Analysis provides information and evaluations needed for all the other activities.

The Strategic Plan

The strategic plan contains several components: the mission, the strategic objectives, the strategic audit, SWOT analysis, portfolio analysis, objectives and strategies. All of these feed from and feed into marketing plans.

The Mission

A mission states the purpose of a company. Firms often start with a clear mission held within the mind of their founder. Then, over time, the mission fades as the company acquires new products and markets. A mission may be clear, but forgotten by some managers. An extreme ease of this was the Anglican Church Commissioners, who thought they had the 'Midas touch' when they started speculating on the international property market. They found out that markets go down as well as up and lost a third of the Church's ancient wealth in the process. Other problems can occur when the mission may remain clear, but no longer fits the environment. The Levi preview shows that company struggling with this problem.

When an organization is drifting, the management must renew its search for purpose. It must ask: What business are we in? What do consumers value? What are we in business for? What sort of business are we? What makes us special? These simple-sounding questions are among the most difficult that the company will ever have to answer. Successful companies continuously raise these questions and answer them. Asking such basic questions is a sign of strength, not uncertainty.



Company mission: 3M states its *mission not as making office products, but as creating* innovations *tiu.it* '*make your work- make your life - simpler, more* efficient, more *productive:.*'

mission statement
A statement *of the organisations purpose - •what it -wants to accomplish in the environment.*

Many organizations develop formal mission statements that answer these questions. A mission statement is a statement of the organization's purpose - what it wants to accomplish in the larger environment, A clear mission statement acts as an 'invisible hand' that guides people in the organization, so that they can work independently and yet collectively towards overall organizational goals.

Traditionally, companies have defined their business in product terms ('we manufacture furniture'), or in technological terms ('we are a chemical-processing firm'). But mission statements should be *market-oriented.*

WllAT BUSINESS ARE WE IN? Asking this question helps. Market definitions of a business are better than product or technological definitions. Products and technologies eventually become outdated, but basic market needs may last for ever. A market-oriented mission statement defines the business based on satisfying basic customer needs. Thus Rolls-Royce is in the power business, not the aero-engine business. Visa's business is not credit cards, but allowing customers to exchange value - to exchange assets, such as cash on deposit or equity in a home, for virtually anything, anywhere in the world. Creative 3M does more than just make adhesives, scientific equipment and healthcare products; it solves people's problems by putting innovation to work for them.

Wl-IO ARE OUR CUSTOMERS? This is a probing question. Who are the customers of Rolls-Royce's new Trent aero-engine? At one level it Is the airframers, like Boeing and European Airbus. If Rolls-Royce can get an airframer to launch a new aircraft with a Rolls-Royce engine, this saves development costs and makes early orders likely. Is it the airline or leasing companies that eventually buy the engines? They will certainly have to sell to them as well. Is it (he pilot, the service crew or even the passenger? Unlike the competition, Rolls-Royce has a brand name that is synonymous with prestige and luxury.

WHAT ARE WE IN BUSINESS FOR? This is a hard question for non-profit-making organizations. Do universities exist to educate students or to train them for industry? Is the pursuit of knowledge by the faculty the main reason for their existence? If so, is good research of economic value or is pure research better?

WHAT SORT OF BUSINESS ARE WE? This question guides die strategy and structure of organizations. Companies aiming at *cost leadership* seek efficiency. These firms, like Aldi or KwikSave, run simple, efficient organizations with careful cost control. These contrast with *differentiators,* like Sony, who aim to make profits by inventing products, such as the Walkman, whose uniqueness gives a competitive edge. *Focused* companies concentrate upon being the best at serving a well-defined target market. They succeed by tailoring their products or services to customers they know well. In Britain, Coutts & Co., a National Westminster Bank subsidiary, does this by providing 'personal banking' to the very wealthy. Michael Porter[4] describes a fourth option that occurs if firms do not define how they are to do business: *stuck in the middle.*

Management should avoid making its mission too narrow or too broad. A lead-pencil manufacturer that says it is in the communieation equipment business is stating its mission too broadly. A mission should be:

- *Realistic.* Singapore International Airlines is excellent, but it would be deluding itself if its mission were to become the world's largest airline.
- *Specific.* It should fit the company and no other. Many mission statements exist for public-relations purposes, so lack specific, workable guidelines. The statement 'We want to become the leading company in this industry by

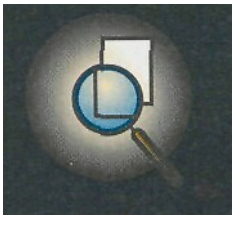
producing the highest-quality products with the best service at the lowest prices' sounds good, but it is full of generalities and contradictions. Such motherhood statements will not help the company make tough decisions.

- Rased on *distinctive competences.* Bang & Otufsen has the technology to build microcomputers, but an entry into that market would not take advantage of its core competences In style, hi-fi and exclusive distribution.
- *Motivating.* It should give people something to believe in. It should get a 'Yeah!', not a yawn or a 'Yuek!', A company's mission should not say 'making more sales or profits' - profits are only a reward for undertaking a useful activity. A company's employees need to feel that their work is significant and that it contributes to people's lives. Contrast the missions of the two computer giants IBM and Apple. When IBM sales were £50 billion, president John Akcrs said that IBM's goal was to become a $100 billion company by the end of the century. Meanwhile, Apple's long-term goal has been to put computer power into the hands of every person. Apple's mission is much more motivating than IBM's.

Visions guide the best missions. A vision is a contagious dream, a widely communicated statement or slogan that captures the needs of the time. Sony's

Marketing Highlight 3.1

Eastman Kodak Asks: "What Business Are We In?'



Eastman Kodak is one of many firms now asking: 'What business are we in?' It is one of many companies that diversified in the 1980s. Originally a photographic products company, it entered the attractive Pharmaceuticals and consumer healthcare industry by acquisition and alliances. Then, in the late 1980s, tough competition and tight economic conditions saw its fortunes decline. Its debt burden went up and its imaging business lacked money for investment. Like IBM, the company was a troubled giant.

In early 1994 George Fisher, the company's new chair, launched a new plan that would take Kodak back to its imaging roots. George Eastman had started the company in 1880 and it had grown to be the world's biggest photographic company using silver-halide technology. This time the proposed technology was digital imaging - a business that was a small fraction of current sales and a loss maker. Silver-halide offered little opportunity for development, but digital imaging was on track for the much discussed 'information highway'. It offers the chance to take images from any source, manipulate them electronically, store them digitally (on PCs or CDs), transmit them, and display them on everything from photographic paper to TVs.

Kodak wanted to sell its pharmaceuticals and consumer healthcare divisions and reinvest the proceeds in its imaging business. The move would also lighten the group's *$1* billion debt. Three divisions went up for sale: Stirling Winthrop (drugs and consumer health care), L & F products (personal care and household products), and the Clinical Diagnostics division. The sales raised §16.4 billion, almost a quarter of Kodak's 1993 revenue.

After the sale, Kodak was left with its imaging business and Health Sciences division. Health Sciences' X-ray film and electronic diagnostics businesses were central to Kodak's imaging strategy. Steps would be taken to protect and develop Kodak's traditional film products and especially its position in the rapidly developing market for digital electronic imaging, where its technology was the standard in multimedia applications.

Kodak is already coming tinder increasing pressure in the conventional silver-halide-based photographic markets. People in the developed world are buying more and better cameras, but not more films. Fuji is competing hard on price, and own-label films are undercutting Kodak's prices by 40 per cent. Unlike many market leaders, Kodak has joined the price cutters and launched Funtimc, priced 20 per cent lower than Kodak Gold. New markets in the East are growing fast, but these are very price sensitive and bootlegging abounds.

The move into digital imaging is a gamble. So far Kodak has little to show for the millions of dollars it has invested in digital-imaging technology. Its Photo-CD system, which uses CDs to store images, was a flop in the consumer market. Only a few hundred were sold in 1993. Kodak's digital camera also has problems: the black-and-white model costs over $8,000 and produces poorer pictures than a 35 mm camera.

Joint ventures make Kodak's prospects look better. A new digital camera from Apple Computer, using Kodak technology, may be on the market soon. It will cost a tenth of Kodak's product. Microsoft and Silicon Graphics are already using Kodak's digital-imaging technology. Fisher says he is talking to several potential partners about longer-term ventures: 'We have to work with companies that are much stronger in software and teleeoms than we are.' With these ventures, the digital-imaging group expects to move into profit in two to three years. Will it? The 'electronic highways' to carry the digital pictures of little Jimmy do not exist yet. Also, there is still a price and quality gulf between silver-halide and digital imaging. The gap will eventually narrow, but expect it to close only slowly. Whenever a new technology takes on an old one, competition usually finds ways of squeezing unexpected performance out of the old dog.

Kodak missed out on video technology by concentrating on conventional films. It dominated the 16 rnm-video film market that almost disappeared overnight when video cameras arrived. Its effort in digital imaging recognizes that its business is imaging, not silver-balide film.

SOURCKS: Patnek Ilarveson, "Eastman Kodak prepare tor a new ima^e', *Financial Times* (4 May 1993), p. 29; Patrick Ilarveson. 'Kodak to return to core with drug sale', *Financial* Times (4 May 1994), p. 23; Chris Butler and Tony Patey, 'Drug firms on the trail of US partners', *The European* (6-12 May 1994), p. 15, 'Picture imperfect', *Tim* Economist (28 May 1994), pp. 87-8.

president, Akio Morita, wanted everyone to have access to 'personal portable sound', and his company created the Walkman. Richard Branson thought 'flying should be fun', so he founded Virgin Airlines. Thomas Monaghan wanted to deliver hot pizza to any home within 30 minutes, and he created Domino's Pizza.

The company's mission statement should provide a vision and direction for the company for the next 10—20 years. They do not change every few years in response to each new turn in the environment. Still, a company must redefine its mission if that mission has lost credibility or no longer defines an optimal course for the company." Marketing Highlight 3.1 describes how recent events have caused Eastman Kodak to think carefully about its mission. The hostile environment in the early 1990s caused Siemens, the German electronic giant, to review its strategy. Its seven core statements (Figure 3.2) provided strong communications and drove its strategy, structure and style of management.

From Mission to Strategic Objectives

The company's mission needs to be turned into strategic objectives to guide management. Each manager should have objectives and be responsible for reaching them. For example, its fertilizer business unit is one of International

Strategy	Competitive strength	Achieve a sustained leading position worldwide
Identity	Progress	Technological, social **and marketing** competences focused on progress
Entrepreneurial style	Will to lead	Agree on clear objectives and vigorously transform them into compecicive advantage
Managers	**Entrepreneurship**	Managers and employees think and act as if it **were** their **own company**
Executive decision making	**Speed**	Faster decision making through integrated business **functions**
New organization	Close to the customer	Marketing-oriented business functions create entrepreneurial freedom
Strength	Systems integration	Integrate competitive products into problem-solving systems

Figure 3.2 Siemens" seven core **statements**

Minerals & Chemical Corporation's many activities. The fertilizer division does not say that its mission is to produce fertilizer. Instead, it says that its mission is to increase agricultural productivity'. This mission leads to a hierarchy of objectives, including business objectives and marketing objectives. The mission of increasing agricultural productivity leads to the company's business objective of researching new fertilizers that promise higher yields. Unfortunately, research is expensive and requires improved profits to plough back into research programmes. So improving profits becomes another key business objective. Profits are improved by increasing sales or reducing costs. Sales increase by improving the company's share of the domestic market, or by entering new foreign markets, or both. These goals then become the company's current marketing objectives. The objective to 'increase our market share' is not as useful as the objective to 'increase our market share to 15 per cent in two years'. The mission states the philosophy and direction of a company, whereas the strategic objectives arc measurable goals.

StrategicAudit

'Knowledge is power': so stated Francis Bacon, the sixteenth-century philosopher, while according to the ancient Chinese strategist Sun Zi, 'The leader who docs not want to buy information is inconsiderate and can never win.' The strategic audit covers the gathering of this vital information. It is the intelligence used to build the detailed objectives and strategy of a business. It has two parts: the external and internal audit.

Marketing Highlight 3.2

Financial Statements: Are We Making Money?



Table 1 shows the 1995 operating statement for a speciality store, Dale Parsons Men's Wear. This statement is for a retailer; the operating statement for a manufacturer would be somewhat different. Specifically, the section on purchases within the 'Cost of goods sold' area would be replaced by 'Cost of goods manufactured'.

The outline of the operating statement follows a logical series of steps to arrive at the firm's 825,000 net profit figure:

Net sales	8300,000
Cost of goods sold	-175,000
Gross margin	$125,000
Expenses	-100,000
Net profit	£325,000

The first part details the amount that Parsons received for the goods sold during the year. The sales figures consist of three items: gross saies, returns or allowances, and net sales. Gross sates is the total amount charged to customers during the year for merchandise purchased in Parsons' store. Some customers returned merchandise. If the customer gets a full refund or full credit on another purchase, we call this a return. Other customers may decide to keep the item if Parsons will reduce the price. This is called an allowance. By subtracting returns and allowances from gross sales:

Gross sales	8325,000
Returns and allowances	-25,000
Net sales	g300,000

The second part of the operating statement calculates the amount of sales revenue that Dale Parsons retains after paying the costs of the merchandise. We start with the inventory in the store at the beginning of the year. During the year, Parsons bought $150,000 worth of suits, slacks.

TABLE 1 OPERATING STATEMENT FOR DALF, PARSONS MEN'S WEAR FOR YEAR ENDING 31 DECEMBER 1995 (g)

Gross sales			325,000
less: Kales returns and allowances			25,000
Net sales			300,000
Cost *ofgoods sold*			
Beginning inventory, 1 January 1995, at cost		60,000	
Purchases	150,000		
plus: Freight-in	10,000		
Net cost of delivered purchases		160,000	
Cost of goods available for sale		220,000	
less: Ending inventory, 31 December 1995, at eost		45,000	
Total cost of goods sold			175,000
Gross margin			125,000
Expenses			
Selling expenses:		50,000	
Administrativeexpenses:		30,000	
General expenses:		20,000	
Total expenses			100,000
Net profit			25,000

shirts, ties, jeans and other goods. Because the store is located away from regular shipping routes, Parsons had to pay an additional Si 0,000 to get the products delivered, giving the firm a net cost of 8160,000. Adding the beginning inventory, the cost of goods available for sale amounted to 8220,000. The 845,000 ending inventory of clothes in the store on ,31 December is then subtracted to come up with the 8175,000 cost *of goods Hold.*

The difference between what Parsons paid for the merchandise ($175,000) and what he sold it for (gJOO.OOO) is called *the gross margin* (£125,000).

In order to show the profit Parsons 'cleared' at the end of the year, we must subtract from the gross margin the expenses incurred while doing business. *Selling expenses* included two sales employees, local newspaper and radio advertising, and the cost of delivering merchandise to customers after alterations. Selling expenses totalled £50,000 for the year. *Administrative expenses* included the salary for an office manager, office supplies such as stationery and business cards, and miscellaneous expenses including an administrative audit conducted by an outside consultant. Administrative expenses totalled $30,000 in 1995. Finally, the *general expenses* of rent, utilities, insurance, and depreciation came to 820,000. Total expenses were therefore fSlOO.OQO for the year. By subtracting expenses (8100,000) from the gross margin (8125,000), we arrive at the *net profit* of $25,000 for Parsons during 1995.

The cxtemal audit or marketing environment audit examines the maeroenvironment and task environment of a company. EuroDisney's problems can be partly explained by an excessive faith in company strengths and too little attention being paid to the inacroenvironment. French labour costs make the park much more expensive than in America, Europe's high travel costs add to guests' total bill and the north European climate takes the edge off all-year-round operations. EuroDisney contrasts with the success of Center Pares. This Dutch company's resort hotels offer north Europeans undercover health and leisure facilities that they can enjoy all year round.

external **aiic|it**
,-1 *detailed examination ofthe. markets,' competition, business and economic environment in whibh the organization operates.*

The internal audit examines all aspects of the company. It covers the whole *value chain* described by Michael Porter/' It includes the primary activities that follow the flow of goods or services through the organization: inbound logistics, operations, outbound logistics, sales and marketing, and after-sales services. In addition, it extends to the support activities on which the primary activities depend: procurement, technology development, human resource management and the infrastructure of the firm. These go beyond traditional marketing activities, but marketing strategy depends on all of them. A key to the Italian Benetton's international success is a system that allows it to change styles and colours rapidJy. Unlike traditional mass-clothing manufacturers, which have to order fabrics in colours and patterns over a year ahead of seasons, Benetton's design and manufacturing technology allows it to change within a season. Long before the idea of close supplier relationships was re-imported from Japan, Marks & Spencer and G & A made supplier relations arid human resource management central strategies.

internal *audit*
An evaluation of die firm's entire value chain.

balance sheet
A financial statement that shows assets, liabilities antl net <&orch of a company at a given time.

Reading financial statements is basic to understanding the state of a company and seeing how it is developing. The operating statement and the balance sheet are the two main financial statements used. The balance sheet shows the assets, liabilities and net worth of a company at a given time. The operating statement (also called profit-and-loss statement or income statement) is the more important of the two for marketing information. It shows company sales, cost of goods sold, and expenses during a specified time period. By comparing the opcniting statement from one time period to the next, the firm can spot favourable or

operating **statement** *(profit-and-loKs statement or income statement)*
A financial statement that shows company sales, aost ofgoods sold and expenses during a given period of time.

unfavourable trends and take appropriate action. Marketing Highlight 3.2 describes these .statements in more detail and **explains** their construction.

SWOT Analysis

SWOT analysis
‚ì distillation of the findings of the internal and external audit •which draws attention tn the critical organizational strengths and weaknesses and the opportunities and threats facing the company.

SWOT analysis draws the critical strengths, weaknesses, opportunities and threats (SWOT) from the strategic audit. The audit contains a wealth of data of differing importance and reliability. SWOT analysis distils these data to show the critical items from the internal and external audit. The number of items is small for forceful communications, and they show where a business should focus its attention.

• *Opportunities and Threats*

Managers need to identify the main threats and opportunities that their company faces. The purpose of the analysis is to make the manager anticipate important developments that can have an impact on the firm. A large pet food division of a multinationalcompanycouldlistthefollowing.

Opportunities:

- *Economic climate.* Because of improved economic conditions, pet ownership is increasing in almost all segments of the population.
- *Demographic cluuiget?.* (1) Increasing single parenthood, dual-income families and ageing will increase the trend towards convenient pet foods (from wet to dry); and (2) the aged population will grow and increasingly keep pets as company.
- *Market.* The pet food market will follow the human market in the concern for healthy eating and pre-prepared luxury foods,
- *Technology.* New forms of pet food that are low in fat and calories, yet highly nutritious and tasty, will soon emerge. These products will appeal strongly to many of today's pet food buyers, whose health concerns extend to their pets.

Threats:

- *Competitive activity.* A large competitor has just announced that it will introduce a new premium pet food line, backed by *n* huge advertising and sales promotion blitz,
- *(Channel pressure.* Industry analysts predict that supermarket chain buyers will face more than 10,000 new grocery product introductions next year. The buyers accept only 38 per cent of these new products and give each one only five months to prove itself,
- *Demographic changes.* Increasing single parenthood and dual-income families (1) will encourage the trend towards pets that neeci little care (cats rather than dogs), and (2) will encourage the trend towards smaller pets who eat less.
- *Politics.* European Union legislation will force manufacturers to disclose the content of their pet food. This will adversely affect the attractiveness of some ingredients like kangaroo and horse meat.

Not all threats *call* for the same attention or concern - the manager should assess the likelihood of each threat and the potential damage each could cause.

The manager should then focus on the most probable and harmful threats and prepare plans in advance to meet them.

Opportunities occur when an environmental trend plays to a company's strength. The manager should assess each opportunity according to its potential attractiveness and the company's probability of success. Companies can rarely find ideal opportunities that exactly fit their objectives and resources. The development of opportunities involves risks. When evaluating opportunities, the manager must decide whether the expected returns justify these risks. A trend or development can be a threat or an opportunity depending on a company's strengths. The development of the steel-braced radial tyre was an opportunity for Miehchn, which used its technological lead to gain market share. To the rest of the industry, the new technology was a threat because the tyre's longer life reduced total demand and the new technology made their plant obsolete.

• *Strengths and Weaknesses*

The strengths and weaknesses in the SWOT analysis do not list all features of a company, but only those relating to critical success factors. A list that is too long betrays a lack of focus and an inability to discriminate what is important. The strengths or weaknesses are *relative,* not absolute. It is nice to be good at something, but it can be a weakness if die competition is stronger, Mercedes is good at making reliable luxury cars with low depreciation, but this stopped being a strength when Honda's Acurri and Toyota's Lexus beat Mercedes on all three fronts in the American market. The Japanese products were not cheap, but they were styled for the American market and eame with all the extras that buyers of German luxury cars had to pay for. Finally, the strengths should be *based on/act.* In buying Skoda, VW has acquired a well-known brand name, but is the name a strengthV A failure to understand true strengths can be dangerous. A well-known aircraft manufacturer for years promoted the quality of its after-sales service. Only after another company acquired it did it find out that its reputation was the worst in the industry.

critical success factors *The strengths and weaknesses that most Critically affect an organisation's* success. *Thc.fi' arc measured relative* ro competition.



Lund Raver compete in the competitive car market by concentrating on [heir strength in making credible cross-country vehicle. Photography: Max Ftirxythe

A major pet food manufacturer could pitch the following strengths and weaknesses against the opportunities and threats,

Strengths:

- Market leader in the dry eat food market.
- Access to the group's leading world position in food technology.
- Market leader in luxury pel: foods.
- The group's excellent worldwide grocery distribution.
- Pet food market leader in several big markets, including France, Italy, Spain and South America.

Weaknesses:

- Number three in the wet pet food market.
- Excessive product range with several low-volume brands.
- Most brand names are little known, and are cluttered following acquisitions.
- Relatively low advertising and promotions budget.
- Product range needs many manufacturing skills.
- Poor store presence in several large markets: Germany, UK, USA and Canada.
- Overall poor profits performance.

The pet food company shows how some parts of the SWOT balance. The strengths in dry and luxury pet foods match demographic trends, so this looks like an opportunity for growth. Access to food technology should also help the company face changing consumer tastes and legislation. The weaknesses suggest a need for more focus. Dropping some uneconomic lines in the mass wet pet food market, simplifying the brand structure and concentrating on fewer manufacturing processes could release resources for developing the dry and luxury markets. By using its access to worldwide grocer;' distribution, the company could become profitable and focused.

The Business Portfolio

business portfolio
The collection of businesses and products that make up the company.

The business portfolio is the collection of businesses and products that make up the company. It is a link between the overall strategy of a company and those of its parts. The best business portfolio is the one that fits the company's strengths and weaknesses to opportunities in the environment. The company must (]) analyze its *current* business portfolio and decide which businesses should receive more, less or no investment, and (2) develop growth strategies for adding *IKW* products or businesses to the portfolio.

Analysing the Current Easiness Portfolio

portfolio analysis
A tool by which management identifies and evaluates the •varifms businesses that make up the company.

Portfolio analysis helps managers evaluate the businesses making up the company. The company will want to put strong resources into its more profitable businesses and phase down or drop its weaker ones. Recently, Sweden's Volvo has started disposing of its non-core businesses to strengthen its portfolio. It plans to sell its interests in consumer products (holdings in BCP), Pharmaceuticals (28 per cent of Pharmacia), stock brokering, property and investment. The tighter portfolio will allow Volvo to concentrate on revitalizing its passenger car, truck and bus operations.

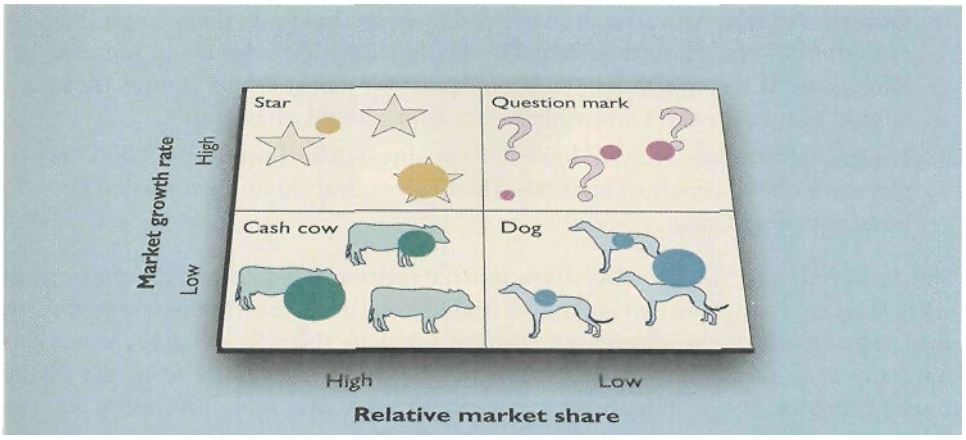


Figure 3.3 The BCG growth-share matrix

Management's first step is to identity the key **businesses** making up the company. These are strategic business units. A strategic business **unit** (SBC) is a unit of the company that has a separate mission and objectives, and which can be planned independently from other company businesses. An SBU can be a company division, a product line within a division, or sometimes a single product or brand.

strategic business **unit** (SBU)
A unit of the company chat has a, separate miss ton *and objectives and than can be planned independently fro m other company businesses. An SBU can be a company division, a product line -within a division, or sometimes a single product or brand.*

The next step in business portfolio analysis calls for management to assess the attractiveness of its various SBUs and decide how much support each deserves. In some companies, this occurs informally. Management looks at the company's collection of businesses or products and uses judgement to decide how much each SBU should contribute and receive. Other companies use formal portfolio-planning methods.

The purpose of strategic planning is to find ways in which the company can best use its strengths to cake advantage of attractive opportunities in the environment. So most standard portfolio-analysis methods evaluate SBUs on two important dimensions: the attractiveness of the SBU's market or industry; and the strength of the SBU's position in that market or industry. The best-known portfolio-planning methods are from the Boston Consulting Group, a leading management consulting firm, and by General Electric and Shell.

Tl-IE BOSTON **CONSULTING GROUP BOX.** Using the Boston Consulting Group (BCG) approach, a company classifies all its SBUs according to the growth-share **matrix** shown in Figure 3.3. On the vertical *axis,.market growth rate* provides a measure of market attractiveness. On the horizontal axis, *relative market share* serves as a measure of company strength in the market. By dividing the growth-share matrix as indicated, four types of SBU can be distinguished:

growth-share **matrix**
A port/olio-planning method that evaluates a company's strategic business units (SBUs) in terms of their market growth rate and relative market share. SMU& are classified as stars, cash cotes, *question marks or dogs.*

1. Stars. Stars are high-growth, high-share businesses or products. They often need heavy investment to finance their rapid growth. Eventually their growth will slow down, and they will turn into cash cows,

stars
High-growth, high-share businesses or products that often require heavy investment to finance their rapid growth.

2. Cash eows. Cash cows are low-growth, high-share businesses or products. These established and successful SBUs need less investment to hold their market share. Thus they produce cash that the company uses to pay its bills and to support other SBUs that need investment.

cash oows
Lois-growth, high-share businesses or products; established ami successful units that generate c>c<s/i that the company uses to pay Us billx and support other business units thai need investment.

question marks
Low-share business unite in *high-growth markets that require a lot of cash in order to hold their nhare or become stars.*

dogs
Low-growth, low-share businesses and products thai inny generate enough cash to maintain themselves, but do not promise to he large sources of cash.

J. Question marks. Question marks are low-share business unite in high-growth markets. They require cash to hold their share, let alone increase it. Management has to think hard about question marks - which ones they should buikl into stars and which ones they should phase out.

4. Dogs. Dogs are low-growth, low-share businesses and products. They may generate enough cash to maintain themselves, but do not promise to be large sources of cash.

The ten circles in the growth-share matrix represent a company's ten current SBl's. The company has two stars, two cash cows, three question marks and three dogs. The areas of die circles are proportional to the SBUs' sales value. This company is in fair shape, although not in good shape. It wants to invest in the more promising question marks to make them stars, and to maintain the stars so that they will become cash cows as their markets mature. Fortunately, it has two good-sized eash cows whose income helps finance the company's question marks, stars and dogs. The company should take some decisive action concerning its dogs and its question marks. The picture would be worse if the company had no stars, or had too many dogs, or had only one weak cash cow.

Once it has classified its SBUs, the company must determine what role each will play in the future. There are four alternative strategies for eaeh SBU. The company can invest more in the business unit to *build* its share. It can invest just enough to *hold* the SBU's share at the current level. It can *harvest* the SBU, milking its short-term cash flow regardless of the long-term effect. Finally, the company can *divest* the SBU by selling it or phasing it out and using the resources elsewhere.

As time passes, SBUs change their positions in the growth-share matrix. Each SBU has a life cycle. Many SBUs start out as question marks and move into the star category if they succeed. They later become cash cows as market growth falls, then finally die off or turn into dogs towards the end of their life cycle. The company needs to add new products and units continuously, so that some of them will become stars and, eventually, cash cows that will help finance other SBUs.

business-planning grid
A portfolio planning method chat evaluates a company's strategic business units using indices of industry attractiveness and the company's strength in the industry'.

THE GENERAL ELECTRIC GRID. General Electric introduced a comprehensive portfolio planning tool called a strategic business-planning grid (see Figure 3.4). It is similar to Shell's *directional policy matrix.* Like the BCG approach, it uses a matrix with two dimensions - one representing industry attractiveness (the vertical axis) and one representing company strength in the industry (the horizontal axis). The best businesses are those located in highly attractive industries where the company has high business strength.

The GE approach considers many factors besides market growth rate as part of *industry attretctifBeness,* It uses an industry attractiveness index made up of market size, market growth rate, industry profit margin, amount of competition, seasonally and cycle of demand, and industry cost structure. Each of these factors is rated and combined in an index of industry attractiveness. For our purposes, an industry's attractiveness is high, medium or low. As an example, the Kraft subsidiary of Philip Morris has identified numerous highly attractive industries - natural foods, speciality frozen foods, physical fitness products and others. It has withdrawn from less attractive industries, such as bulk oils and cardboard packaging. The Dutch chemical giant Akzo Nobel has identified speciality chemicals, coatings and Pharmaceuticals as attractive. Its less attractive bulk chemical and fibre businesses are being sold.

For *business strength,* the GE approach again uses an index rather than a simple measure of relative market share. The business strength index includes factors such as the company's relative market share, price competitiveness,

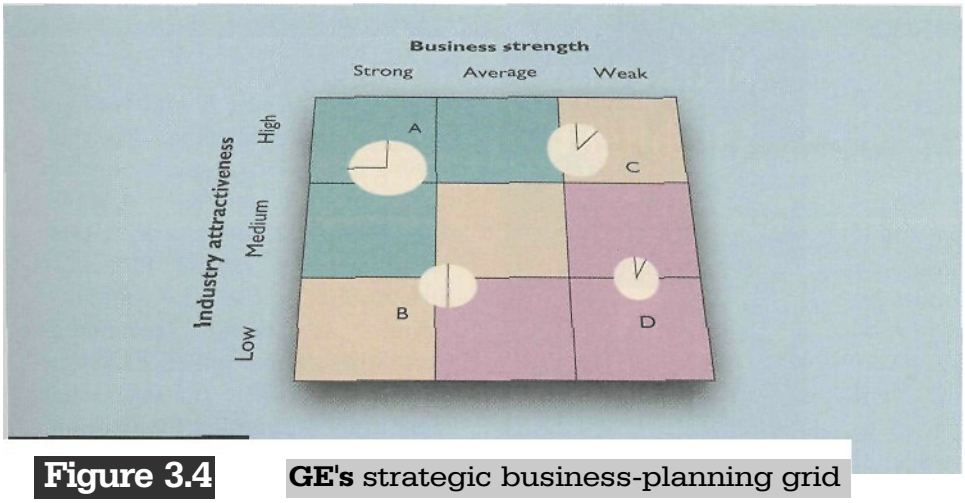


Figure 3.4 **GE's** strategic business-planning grid

product quality, customer and market knowledge, sales effectiveness and geographic advantages. These factors are rated and combined in an index of business strengths described as strong, average or weak. Thus, Kraft has substantial business strength in food and related industries, but is relatively weak in the home appliances industry.

The grid has three zones. The green cells at the upper left include the strong SBUs in which the company should invest and grow. The beige diagonal cells contain SRUs that are medium in overall attractiveness. The company should maintain its level of investment in these SRUs. The three mauve cells at the lower right indicate SBUs that are low in overall attractiveness. The company should give serious thought to harvesting or divesting these SRUs.

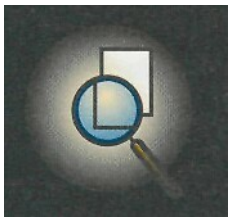
The circles represent t'oxir company SBUs; the areas of the circles are proportional to the relative sizes of the industries in which these SRUs compete. The pie slices within the circles represent each SBU's market share. Thus circle A represents a company SRU with a 75 per cent market share in a good-sized, highly attractive industry in which the company has strong business strength. Circle B represents an SRU that has a 50 per cent market share, but the industry is not very attractive. (Circles C and D represent two other company SBUs in industries where the company has small market shares and not much business strength. Altogether, the company should build A, maintain B and make some hard decisions on what to do with G and D.

Management would also plot the projected positions of the SBUs with and without changes in strategies. By comparing current and projected business grids, management can identify the primary strategic issues and opportunities it faces. One of the aims of portfolio analysis is to direct firms away from investing in markets that look attractive, but where they have no strength:

> In their rush away from the declining steel market, four of Japan's 'famous five' big steel makers (Nippon. NKK, Kawasaki, Sumitomo and Kobe) diversified into the microchip business. They had the misplaced belief that chips would be to the 1980s what steel had been to the 1950s and that they, naturally, had to be part of it. The market was attractive but it did not fit their strengths. So fer, none have made money from chips. The misadventure also distracted them from attending to their core business. In 1987 they said they would reduce fixed costs by 30 per cent but their 'salary-men' stayed in place. By 1993, their costs were up by 3.6 per cent and their losses huge.

Marketing Highlight 3.3

Back to the Basics



During the 19711s and early 1980s, strategic planners caught expansion fever. Big was beautiful and it seemed that everyone wanted to get bigger and grow faster by broadening their business portfolios. Companies milked their stodgy but profitable core businesses to get the cash needed to acquire glamorous businesses in more attractive industries. It did not seem to matter that many of the acquired businesses fitted poorly with old ones, or that they operated in markets unfamiliar to company management.

Thus many firms exploded into huge conglomerates, sometimes containing hundreds of unrelated products and businesses. Extreme cases involved French bank and Japanese electronics companies buying Hollywood film studios. Managing these 'smorgasbord' portfolios often proved difficult. Managers learned that it was tough to run businesses they knew little about. Many newly acquired businesses were bogged down under added layers of corporate management and increased administrative costs. Meanwhile, the profitable core businesses that had financed the acquisitions withered from lack of investment and management attention.

By the mid-1980s, as attempt after attempt at scattergun diversification foundered, acquisition fever gave way to a new philosophy - getting back to the basics. The new trend had many names: 'narrowing the focus', 'sticking to your knitting' and 'the urge to purge'. They all mean narrowing the company's market focus and returning to the idea of serving one or a few core industries that the firm knows. The company sheds businesses that do not fit its narrowed focus and rebuilds by concentrating resources on other businesses that do. The result is a smaller, but more focused company; a stronger firm serving fewer markets, but serving them much better.

Since the mid-1980s, companies in all industries have worked at getting back in focus and shedding unrelated operations. For example, during the 1970s Gulf & Western acquired businesses in dozens of diverse sectors: from auto industrial equipment and cement to cigars and racetracks. Then, in 1983 and 1984, to regain focus and direction, the company purged itself of over 50 business units that made up nearly half of its S8 billion in sales. In 1989 the company changed its name to Paramount Communications, to reflect better its narrower focus on entertainment and communications. It now concentrates its operations on a leaner, tighter portfolio of entertainment and publishing units: Paramount Pictures, Simon & Schuster/Prentice Hall publishers, USA Cable Network, Pocket Books, Cinamerica Theatres and other related companies.

Food companies are building strength by going back to their bread-and-butter baM.cs. Quaker Oats sold its speciality retailing businesses - Jos. A. Bank (clothing), Brookstone (tools) and Eyelab (optical). It used the proceeds to strengthen current food brands and to acquire the Golden Grain Macaroni Company (Riee-a-Roni and Noodle-Roni) and Gaines Foods {pet foods), whose products strongly complement Quaker's. Some food companies are still growing by acquisitions and mergers, but the new expansion fever differs notably from that of the last decade. The growth is not through broad diversification into attractive but unrelated new businesses. Instead, most are acquiring or merging with *related* companies, often competitors, in an attempt to build market power '*within* their core businesses. Philip Morris has acquired General Foods and Kraft, and Nestle has acquired Rowntree, Perrier, Carnation, Cereal Partners and others.

In the mid-1980s Lloyds Bank, along with many other banks, almost went bust in Latin America's debt crisis. Many hard-up hanks went back to their shareholders to ask for more money and continued on the financial and international adventures. Expect some of that to be lost in south-east Asia's debt crisis, Lloyds behaved differently. The bank's chief executive, Sir Brian Pitman, 'was the first to realise that planting flags around the world was not always the best way to make money'. It sold its loss-making foreign subsidiaries, pulled out of investment banking, and

wound down international lending to concentrate on selling financial services to consumers. Now known as Lloyds TSB, the bank is only the no. 33 in the world based on assets, but it is number the world's no, 1 in terms of market capitalization - ahead of Bank of Tokyo-Mitsubishi, HSBO, Citicorp, etc. Earning too much money is the bank's problem now!

These and other companies have concluded that fast-growing businesses in attractive industries are not good investments if they spread the company's resources too thinly, or if the company's managers cannot run them properly. They have learned that a company without market focus - one that tries to serve too many diverse markets - might end up serving few markets well.

SOURCES: Sec Thomas Moore, 'Old-line industry shapes up', *Fortune* (27 April 1987), pp. 23-32; Walter Kiechel III, 'Corporate strategy for the 1990s', *Fortune* (29 February 1988), pp. 34-42; 'G & W plans to expand in entertainment anil publishing', press release, Paramount Communications (9 April 1990); Brian Bremncr, 'The age of consolidation.', business *Week* (14 Octoher 1991), pp. 86-94; Christopher Lorenz, 'Sugar daddy'. *Financial Times* (20 April 1994). p. 19; Ian Veix-hore, 'Nestle told EO sell stake in L'Oreal', '*Che European (22-8* April 1994). p. 17; 'The Lloyds money machine', 'J'/ie *Rtxnxnmst* (17 January 1998), pp. 81-2.

The 'famous five's' failure contrasts with Erainet, a focused French company who arc the world's biggest producer of Ferro-riiekel and high speed steels. They owe their number one position to their decision to invest their profits in a 'second leg' that would be a logical industrial and geographical diversification for them. They bought French Commentryene and Swedish Kloster Speedsteel. They quickly integrated them and, according to Yves Rambert, their chairman and chief executive, 'found that the French and the Swedes can work together'. The unified international marketing team is doing better than when the companies were separate. Eramct are now looking for a 'third industrial leg' that will have customers and technologies with which the group's management are familiar but does not compete for their present customers.[7]

• *Problems with Matrix Approaches*

The BCG, GE, Shell and other formal methods revolutionized strategic planning. However, such approaches have limitations. They can be difficult, time consuming and costly to implement. Management may find it difficult to define SBUs and measure market share and growth. In addition, these approaches focus on classifying currenf businesses, but provide little advice *for future* planning. Management must still rely on its judgement to set the business objectives for each SBU, to determine what resources to give to each and to work out which new businesses to add.

Formal planning approaches can also lead the company to place too much emphasis on market-share growth or growth through entry into attractive new markets. Using these approaches, many companies plunged into unrelated and new high-growth businesses that they did not know how to manage - with very bad results. At the same time, these companies were often too quick to abandon, sell or milk to death their healthy, mature businesses. As a result, many companies that diversified in the past are now narrowing their focus and getting back to the industries that they know best (see Marketing Highlight 3.3).

Despite these and other problems, and although many companies have dropped formal matrix methods in favour of customized approaches better suited

to their situations, most companies remain firmly committed to strategic planning. Roughly 75 per cent of the Fortune 500 companies practise some form of portfolio **planning.**[6]

Such analysis is no cure-all for finding the best strategy. Conversely, it can help management to understand the company's overall situation, to see how each business or product contributes, to assign resources to its businesses, and to orient the company for future success. When used properly, strategic planning is just one important aspect of overall strategic management, a way of thinking about how to manage a business.'

Developing Growth Strategies

The product/market expansion grid,'"shown in Figure 3.5, is a useful device for identifying growth opportunities. This shows four routes to growth: market development, new markets, new products and diversification. We use the grid to explain how Mercedes-Benz, the luxury ear division of German Daimler-Benz industrial group, hoped return to profits after its DM1.8hn loss in 1993."

MARKET PENETRATION. The new C-class model (replacing the ageing 190) helped the company increase its sales by 23 per cent in 1994. Sales were Up 40 per cent in western Europe (excluding Germany), 34 per cent in the United States and 30 per cent in Japan. In Germany, the 38 per cent growth gave a *2* per cent rise in market share.

MARKET DEVELOPMENT. Its original 190 launched Mercedes into the executive saloon market for the first time. With its A series, an 'even smaller car' produced at Rastatt, Mercedes will enter the family saloon market. German reunification gave the company an immediate sales boost. In eastern Europe and China, the brand's image and reputation for reliability and quality have made it *the* transport for the new rich.

DIVERSIFICATION. Diversification is an option taken by Mercedes' parent company Daimler-Renz, It has rapidly moved into aerospace by buying Dornier, Motoren Turbinen Union (MTU) and a 51 per cent stake in Mcsserschmitt Boelkow-BIohm (MBB). Its newr Deutsche Aerospace (DASA) is now Germany's biggest aerospace and defence group. The motives behind the strategy were to offset stagnating vehicle sales and to use high technology from the acquisitions in cars and trucks. Like many other firms, Daimler-Benz is finding diversification a difficult route. Shortly after consolidating the acquisitions, the 'peace dividend' damaged the defence sector and the international airline industry was in recession. Observers now question the logic of the acquisitions and doubt whether even a company with Daimler's management and financial strength can handle such a radical diversification.

Marketing Within Strategic Planning

Planning Funclional Strategies

The company's strategic plan establishes what kinds of business the company will be in and its objectives for each. Then, within each business unit, more detailed

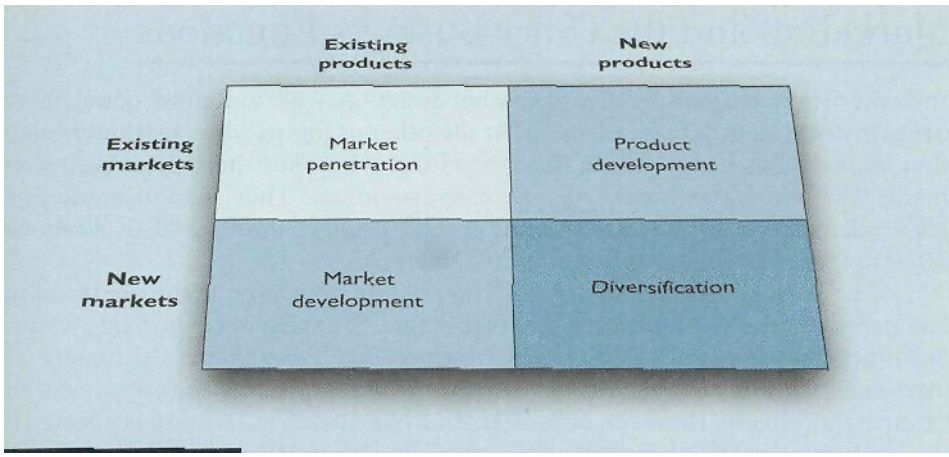


Figure 3.5 **Product/market** expansion grid

planning takes place. The main functional departments in each unit - marketing, finance, accounting, buying, manufacturing, personnel and others - must work together to accomplish strategic objectives.

Each functional department deals with different publics to obtain resources such as cash, labour, raw materials, research ideas and manufacturing processes, For example, marketing brings in revenues by negotiating exchanges with consumers. Finance arranges exchanges with lenders and stockholders to obtain cash. Thus the marketing and finance departments must work together to obtain needed funds. Similarly, the personnel department supplies labour, and the buying department obtains materials needed for operations and manufacturing.

Marketing's Role in Strategic Planning

There is much overlap between overall company strategy and marketing strategy. Marketing looks at consumer needs and the company's ability to satisfy them; these factors guide the company mission and objectives. Most company strategic planning deals with marketing variables - market share, market development, growth - and it is sometimes hard to separate strategic planning from marketing planning. Some companies refer to their strategic planning as 'strategic marketing planning'.

Marketing plays a key role in the company's strategic planning in several ways. First, marketing provides a guiding *philosophy* - company strategy should revolve around serving the needs of important consumer groups. Second, marketing provides inputs to strategic planners by helping to identify attractive market opportunities and by assessing the firm's potential to take advantage of them. Finally, within individual business units, marketing designs *strategies* for reaching the unit's objectives.

Within each business unit, marketing management determines how to help achieve strategic objectives. Some marketing managers will find that their objective is not to build sales. Rather, it may be to hold existing sales with a smaller marketing budget, or even to reduce demand. Thus marketing management must manage demand to the level decided upon by the strategic planning prepared at headquarters. Marketing helps to assess each business unit's potential, set objectives for it and then achieve those objectives.

Marketing and the Other Business Functions

In some firms, marketing is just another function - all functions count in the company and none takes leadership. At the other extreme, some marketers claim that marketing is the *principal* function of the firm. They quote Drucker's statement: 'The aim of the business is to create customers.' They say it is marketing's job to define the company's mission, products and markets, and to direct the other functions in the task of serving customers.

More enlightened marketers prefer to put the *customer* at the centre of the company. These marketers argue that the firm cannot succeed without customers, so the crucial task is to attract and hold them. Customers are attracted by promises and held by satisfaction. Marketing defines the promise and ensures its delivery. However, because actual consumer satisfaction is affected by the performance of other departments, *all* functions should work together to sense, serve and satisfy customer needs. Marketing plays an integrative role in ensuring that all departments work together towards consumer satisfaction,

Conflict Between Departments

Each business function has a different view of which publics and activities are most important. Manufacturing focuses on suppliers and production; finance addresses stockholders and sound investment; marketing emphasizes consumers and products, pricing, promotion and distribution. Ideally, all the different functions should blend to achieve consumer satisfaction. In practice, departmental relations are full of conflicts and misunderstandings. The marketing department takes the consumer's point of view. But when marketing tries to develop customer satisfaction, it often causes other departments to do a poorer job *in their* terms. Marketing department actions can increase buying costs, disrupt production schedules, increase inventories and create budget headaches. Thus the other departments may resist bending their efforts to the will of the marketing department.

Despite the resistance, marketers must get all departments to 'think consumer' and to put the consumer at the centre of company activity. Customer satisfaction requires a total company effort to deliver superior value to target customers.

Creating value for buyers is much more than a 'marketing function'; rather, it is 'analogous to a symphony orchestra in which the contribution of each subgroup is tailored and integrated by a conductor - with a synergistic effect. A seller must draw upon and integrate effectively ... its entire human and other capital resources .., [Creating superior value for buyers] is the proper focus of the entire business and not merely of a single department in it."[2]

> ABB Asea Brown Boveri, formed in 1987 by the merger of Sweden's Asea and Switzerland's Brown Boveri, shows the benefits of customer focus. ABB launched a customer focus programme in 1990. It was initially a regional effort stressing time-based management to quicken response to customers by cutting total customer order to delivery time. The customer focus programme has since extended to all its operations. It encourages people in all its 5,000 plus profit centres to 'think customer', track customer satisfaction and to find ways to continually improve customer service.
>
> The company keeps 'close to the customer' by extreme decentralization and a flat, team driven organization. Sune Karlsson, who

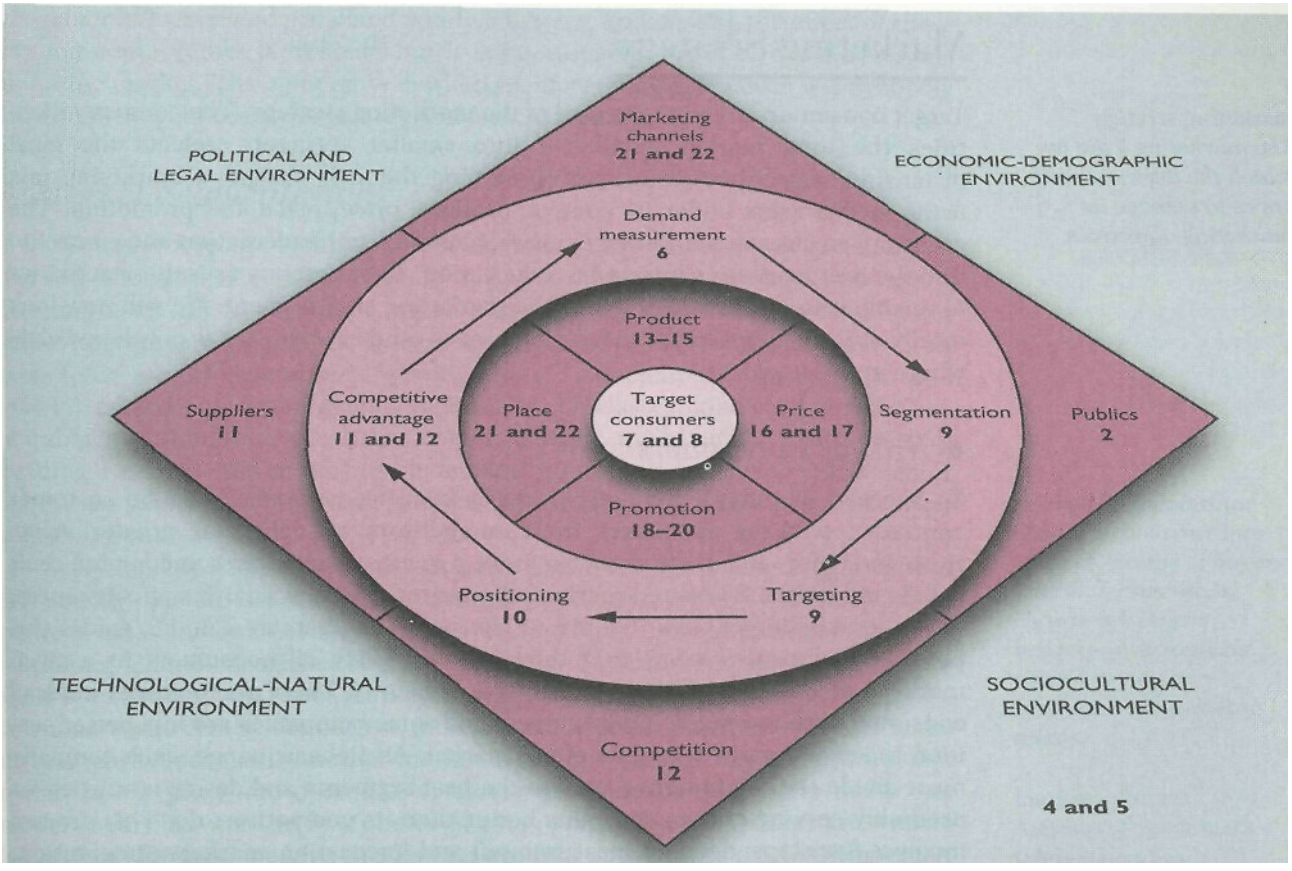


Figure 3.6 Influences on marketing **strategy**

is responsible for the customer focus programme, says: 'the people in our many small groups are close to the customer, are more sensitive to their needs, and are more able to respond to those needs'. The role of keeping the customer satisfied and happy is not just the role of marketing people. Employees work together to develop a system of functional plans and then use cross-border co-ordination to accomplish the company's overall objectives. Furthermore, Karlsson suggests, 'We have learned that the customer focus programme reduces the optimal size of an operation (that is, improves efficieney). It ensures that the customer is better served and brings us closer to the ultimate goal of partnering (that is, long-term relationships).'[0]

The Marketing Process

marketing process *The* process *of (1) analyzing marketing opportunities; (2) selecting target markets; f,3) developing tlie marketing mix; and (4) managing the marketing effort.*

The strategic plan defines the company's overall mission and objectives. Within each business unit, marketing plays ;i role in helping to accomplish the overall strategic objectives. Marketing's role and activities in the organization are shown in Figure 3.6, which summarizes die marketing process and the forces influencing marketing strategy.

Marketing Strategy

marketing strategy
Tlie marketing logic by which Che business unit *liopcs co achieve its marketing objectives.*

Target consumers are at the centre of the marketing strategy. The company identifies the total market, divides it into smaller segments, selects the most promising segments and focuses on serving them. It designs a marketing mix using mechanisms under its control: product, price, place and promotion. The company engages in marketing analysis, planning, implementation and control to find the best marketing mix and to take action. The company uses these activities to enable it to watch and adapt to the marketing environment. We will now look briefly at e;ieh factor in the marketing process and say where it is developed elsewhere in this book.

• *Target Consumers*

To succeed in today's competitive marketplace, companies must be customer centred - winning customers from competitors by delivering greater value. However, before it can satisfy consumers, a company must first understand their needs and wants. So, sound marketing requires a careful analysis of consumers. An understanding of buyer behaviour, discussed in Chapters 7 and 8, guides this process. Companies know that they cannot satisfy all consumers in a given market - at least, not all consumers in the same way. There arc too many kinds of consumer with too many kinds of need, and some companies are in a better position to serve certain segments of the market. As a consequence, each company must divide the total market, choose the best segments and design strategies for profitably serving chosen segments better than its competitors do. This process involves five steps: demand measurement and forecasting, market segmentation, market targeting, market positioning and competitive positioning.

The Competitive. Environment

Companies aim to serve their customers, but they must do so in an environment with many other Influences. At the widest level is the *macroenvironment* of Political, Economic, Social and Technological (PEST) influences that all organizations face. Besides this companies also face a unique microenvironment, including suppliers, competitors, channels of distribution and publics - such as employees and the media - that are not necessarily customers. Chapters 4 and 5 explore these environments and their increasingly global dimensions.

• *Demand Measurement and Forecasting*

Suppose a company is looking at possible markets for :\ potential new product. First, the company needs to estimate the current and future size of the market and its segments. To estimate current market size, the company would identify all competing products, estimate the current sales of these products, and determine whether the market is large enough to support another product profitably. Chapter 6 explores ways of doing this and other types of marketing research and information system.

Equally important is future market growth. Companies want to enter markets that show strong growth prospects. Growth potential may depend on the growth rate of certain age, income and nationality groups that use the product. Growth may also relate to larger developments in the environment, such as economic conditions, the crime rate and lifestyle changes. For example, the future markets for quality children's toys and clothing relate to current birth rates, trends in

consumer affluence and projected family lifestyles. Forecasting the effect of these environmental forces is difficult, but it is necessary in order to make decisions about the market. The company's marketing information specialists will probably use complex techniques to measure and forecast demand.

Market Segmentation

If the demand forecast looks good, the company next decides how to enter the market. The market consists of many types of customers, products and needs, The marketer has to determine which segments offer the best opportunity for achieving company objectives. Consumers are grouped in various ways based on geographic factors (countries, regions, cities); demographic factors (sex, age, income, education); psychographic factors (social classes, lifestyles); and behavioural factors (purchase occasions, benefits sought, usage rates). The process of dividing a market into groups of buyers with different needs, characteristics or behaviour, who might require separate products or marketing mixes, is market segmentation.

murkci segmentation
Dividing a market into distinct groups of buyers teitft *different needs, characteristics or behaviour, laho might require separate products or marketing*

Every market has market segments, but not all ways of segmenting a market are equally useful. For example, Panadol would gain little by distinguishing between male and female users of pain relievers if both respond the same way to marketing stimuli. A market segment consists of consumers who respond in a similar way to a given set of marketing stimuli. In the car market, for example, consumers who choose the biggest, most comfortable car regardless of price make up one market segment. Another market segment would be customers who care mainly about price and operating economy. It would be difficult to make one model of car that was the first choice of every consumer. Companies are wise to focus their efforts on meeting the distinct needs of one or more market segments.

market segment
A group of consumers *who respond in a similar 'way to a given set of marketing stimuli.*

• *Market, To/'gcfing*

After a company has defined market segments, it can enter one or many segments of a given market. Market targeting involves evaluating each market segment's attractiveness and selecting one or more segments to enter. A company should target segments in which it has a differential advantage over its competitors; where it can generate the greatest customer value and sustain it over time. A company with limited resources might decide to serve only one or a few special segments; this strategy limits sales, but can be very profitable, Alternatively, a company might choose to serve several related segments - perhaps those with different kinds of customer, but with the same basic wants. Or perhaps a large company might decide to offer a complete range of products to serve all market segments. The closely linked processes of market segmentation and targeting are both developed in Chapter 9.

market targeting
The process of evaluating each market, segment's al.tracCi'oeness and selecting tine or more segments *to enter.*

Most companies enter a new market by serving a single segment, and if this proves successful, they add segments. Large companies eventually seek full market coverage. They want to be the 'General Motors' (GM) of their industry. America's GM says that it makes a car for every 'person, purse, and personality'. Similarly. Japan's Seiko is proud of its range of 2,500 watches designed to cover consumer segments across the world. The leading company normally has different products designed to meet the special needs of each segment.

• *Positioning*

After a company has decided which market segments to enter, it must decide what 'position' it wants to occupy in those segments. A product's position is the

product position
The way the product is *defined by consumers nn important attributes - the place the product occupies in Consumers' minds relative to competing products.*



Market positioning: Red Roof Inns positions on value - it doesn't 'add frills that only add to your bill.' In contrast, *Four Seasons Hotels positions on luxury. For those* tci/to *can afford it, Four Sea-sons offers endless amenities - such* us *a seamstress, a valet and a 'tireless individual who collects your shoes each night and returns them at dawn, polished to perfection'.*

place the product occupies in consumers' minds. If a product were perceived to be exactly like another product on the market, consumers would have no reason to buy it.

market positioning *Arranging for a product to occupy a clear, distinctive and desirable place relative to competing products in tlie minds of target consumers. Formulating competitive positioning for a product and a detailed marketing mix.*

Market positioning gives a product a clear, distinctive and desirable place in the minds of target consumers compared with competing products. Marketers plan positions that distinguish their products from competing brands and give them the greatest strategic advantage in their target markets. For example, Ford says, 'Everything we do is driven by you'. Renault builds cars that 'take your breath away', Mitsubishi's are 'designed to be driven'. BMW is 'the ultimate driving machine'. Rolls-Royce cars are 'Strictly for the wealthy arrived individual', while the equally luxurious Bentley is 'The closest a car can come to having wings'. Such simple statements are the backbone of a product's marketing strategy.

In positioning its product, the company first identifies possible competitive advantages upon which to build the position. To gain competitive advantage, the company must offer greater value to chosen target segments, either by charging lower prices than competitors or by offering more benefits to justify higher prices. However, if the company positions the product as *offering* greater value, it must *deliver* greater value. Effective positioning begins with actually *differentiating* the company's marketing offer so that it gives consumers more value than is offered by the competition.

The company can position a product on only one important differentiating factor or on several. However, positioning on too many factors can result in consumer confusion or disbelief. Once the company has ehosen-a desired position, it must take steps to deliver and communicate that position to target consumers. Chapter 10 focuses on positioning and tells how the company's entire marketing programme should support the chosen positioning strategy.

Marketing Strategies for Competitive Advantage

To be successful, the company must do a better job than its competitors of satisfying target consumers. Chapter 11 shows how this increasingly depends upon establishing relationships with customers and other participants in the value chain by providing them with quality, value and service. Recently there has been a major shift from marketing as a single transaction between supplier and buyer ro establishing a longer-term relationship with customers through loyalty schemes and data-based marketing. These recognize that it is far more expensive to obtain customers than to retain them.

Providing excellent value and customer service is a necessary but not sufficient means of succeeding in the marketplace. Besides embracing the needs of consumers, marketing strategies must build an advantage over the competition. The company must consider its size and industry position, then decide how to position itself to gain the strongest possible competitive advantage. Chapter 12 explains how to do this.

The design of competitive marketing strategies begins with competitor analysis. The company constantly compares the value and customer satisfaction delivered by its products, prices, channels and promotion with those of its close competitors. In this way it can discern areas of potential advantage and disadvantage. The company must formally or informally monitor the competitive environment to answer these and other important questions: Who are our competitors? What are their objectives and strategies? What are their strengths and weaknesses? How will they react to different competitive strategies we might use?

Which competitive marketing strategy a company adopts depends on its industry position. A firm that dominates a market can adopt one or more of several market leader strategies. Well-known leaders include Chanel (fragrances), Coca-Cola (soft drinks), McDonald's (fast food), Komatsu (large construction equipment), Kodak (photographic film), Lego (construction toys) and Boeing (civil aircraft).

Market challengers are runner-up companies that aggressively attack competitors to get more market share. For example, Pepsi challenges Coke and Airbus challenges Boeing. The challenger might attack the market leader, other firms of its own sixe, or smaller local and regional competitors. Home runner-up firms will choose to follow rather than challenge the market leader. Firms using market follower strategies seek stable market shares and profit by following competitors' product offers, prices and marketing programmes.[14] Smaller firms in a market, or even larger firms that lack established positions, often adopt market nicher strategies. They specialize in serving market niches that large competitors overlook or ignore. Market nichers avoid direct confrontations with the big companies by specializing along market, customer, product or marketing-mix lines. Through clever niching, low-share firms in an industry can be as profitable as their large competitors.

market leader
The firm in an industry 'with the largest marker share; it usually leads other firms in price changes, new product introductions, distribution coverage and promotion Spending.

market challenger
A runner-up firm in an industry that infighting hard to increase its *market share.*

market follower
A -ntnner-upfirni in an industry that wants to hold its share without rocking the boat

market metier
A firm in an industry that serves small segments that the other firms overlook or ignore.

marketing mix
The set of controllable tactic-id marketing tools - product, price, place and promotion - that tliv firm blends to produce the response it wants in che target market.

Developing the Marketing Mix

Once the company has chosen its overall competitive marketing strategy, it is ready to begin planning the details of the marketing mix. The marketing mix is one of the dominant ideas in modern marketing. We define marketing mix as the set of controllable tactical marketing tools that the firm blends to produce the response it wants in the target market. The marketing mix consists of everything the firm can do to influence the demand for its product. The many possibilities gather into four groups of variables known as the 'four Ps'; product, price, place

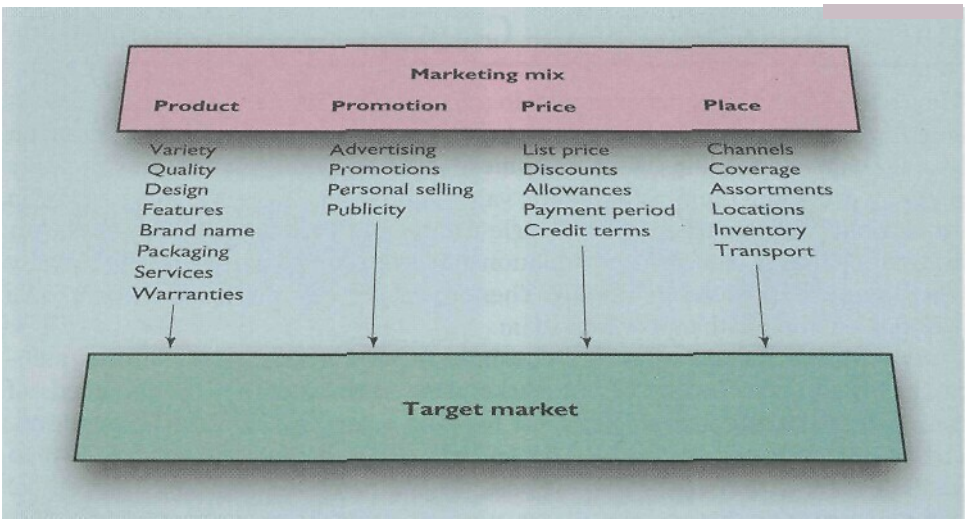


Figure 3.7 The four **Ps:** the **marketing mix**

product
Anything that can be offered to a market for attention, acquisition, use or consumption thai might satisfy a want or need. It includes physical objects, .seroic-es, *persons, plnccn, organizations and* ideas.

price
The amount of money charged for a product or service, or the sum of the values thai consumers exchange for the benefits of having or using the product or service.

place
All the company activities chut make the product or service available to target customers.

promotion
Activities tl\at communicate the product or service and its 'merits to target customers *and persuade them to buy.*

and promotion.[15] These are the subject of the second part of this hook, Chapters 13-22. Figure 3.7 shows the particular marketing tools under each P.

Product means the totality of 'goods and services' that the company offers the target market. The Honda Civic 'product' is nuts, bolts, spark plugs, pistons, headlights and many other parts. Honda offers several Civic styles and dozens of optional features. The car comes fnlly serviced, with a comprehensive warranty and financing that is as much a part of the product as the exhaust pipe. Increasingly, the most profitable part of the business for car companies is the loan that they offer to car buyers.

Price is what customers pay to get the product. Honda suggests retail prices that its dealers might charge for each car, but dealers rarely charge the full asking price. Instead, they negotiate the price with each customer. They offer discounts, trade-in allowances and credit terms to adjust for the current competitive situation and to bring the price into line with the buyer's perception of the car's value.

Place includes company activities that make the product available to target consumers. Honda maintains a body of independently owned dealerships that sell the company's cars. They select dealers carefully and support them strongly. The main dealers keep a stock of Hondas, demonstrate them to potential buyers, negotiate prices, close sales, arrange finance, and service the cars after the saie.

Promotion means activities that communicate the merits of the product and persuade target customers to buy it. Honda spends millions on advertising each year to tell consumers about the company and its products. Dealership salespeople assist potential buyers and persuade them that a Honda is the car for them. Honda and its dealers offer special promotions - sales, cash rebates, low financing rates - as added purchase incentives.

An effective marketing programme blends the marketing mix elements into a co-ordinated programme designed to achieve the company's marketing objectives. The marketing mix constitutes the company's tactical tool kit for establishing strong positioning in target markets. However, note that the four Ps represent the sellers' view of the marketing tools available for influencing" buyers. From a consumer viewpoint, each marketing tool must deliver a customer benefit. One marketing expert suggests that companies should view the four Ps as the customer's four Cs:[10]

FOUK Ps	FOUR Gs
Product	Customer needs and wants
Price	Cost to the eustomer
Place	Gonvemenee
Promotion	Communication

Winning companies are those that meet customer needs economically and conveniently and with effective communication.

The Marketing Plan

Each business, product or brand needs a detailed marketing plan. What does a marketing plan look like? Our discussion focuses on product or brand plans that are a development of the general planning process in Figure 3.1. A product or brand plan should contain the following sections: executive summary, current marketing situation, threats and opportunities, objectives and issues, marketing strategies, action programmes, budgets and controls (see Table 3.1).

Executive Surmnary

The marketing plan should open with a short summary of the main goals and recommendations in the plan. Here is a short example;

> The 1999 Marketing Plan outlines an approach to attaining a significant increase in company sales and profits over the preceding year. The sales target is #240 million - a planned 20 per cent sales gain. We think this increase is attainable because of the improved economic, competitive, and distribution picture. The target operating margin is *$25* million, a 25 per cent increase over last year. To achieve these goals, the sales promotion budget will be S4.8 million, or 2 per eent of projected sales. The advertising budget will be S7.2 million, or 3 percent of projected sales ... [more details follow]

The executive summary helps top management to find the plan's central points quickly. A table of contents should follow the executive summary.

Marketing Audit

The marketing audit is a systematic and periodic examination of a company's environment, objectives, strategies and activities to determine problem areas and opportunities. The first main section of the plan describes the target market and the company's position in it (Table 3.2 gives the questions asked). It should start with the strategic imperatives: the pertinent objectives, policies and elements of strategy passed down from broader plans. In the current marketing situation section, the planner provides information about the market, product performance, competition and distribution. It includes a *market description* that defines the market, including chief market segments. The planner shows market size, in total and by segment, for several past years, and then reviews customer needs together with factors in the marketing environment that may affect customer

marketing audit
.4 eompreftensfee, *systematic; independent and periodic examination of a company's environment, objectives, strategies and activities to determine problem areas mid opportunities, and to recommend a plan of action* to *improve the company's marketing performance.*

current marketing situation
The section of a marketing plan that describes the target market and the company's position in it.

Table 3.1 **Contents** of a marketing plan

SECTION	PURPOSE
Executive summary	Presents a quick overview of the plan for quick management review.
Current marketing situation	The marketing audit that presents background data on the market, product, competition and distribution.
SWOT analysis	Identifies the company's main *strengths* and *weaknesses* and the main *opportunities* and *threats* facing the product.
Objectives anil issues	Defines the company's objectives in the areas of sales, market share and profits, and the issues that vviJl affect these objectives.
Marketing strategy	Presents the broad marketing approach that will be used to achieve the plan's objectives.
Action programmes	Specifies *what* will be done, ro/io will do it, '*when* it will be done and *what* it will cost.
Budgets	A projected profit and loss statement that forecasts the expected financial outcomes from the plan.
Controls	Indicates how the progress of the plan will be monitored.

purchasing. Next, the *product review* shows sales, prices and gross margins of the principal products in the product line. A section on *competition* identifies big competitors and their individual strategies for product quality, pricing, distribution and promotion. It also shows the market shares held by die company and each competitor. Finally, a section on *distribution* describes recent sales trends and developments in the primary distribution channels.

Managing the marketing function would be hard enough if the marketer had to deal only with the controllable marketing-mix variables. Reality is harder. The company is in a complex marketing environment consisting of uncontrollable forces to which the company must adapt. The *environment* produces both threats and opportunities. The company must carefully analyze its environment so that it can avoid the threats and take advantage of the opportunities.

The company's marketing environment includes forces close to the company that affect its ability to serve its consumers, such as other company *departments, channel members, suppliers, competitors* and other *publics.* It also includes broader *demographic* and *economic* forces, *political* and *legal* forces, *technological* and *ecological* forces, and *social* and *cultural* forces. The company must consider all of these forces when developing and positioning its offer to the target market.

SWOT Analysis

The SWOT analysis section draws from the market audit. It is a brief list of the critical success factors in the market, and rates strengths and weaknesses against the competition. The SWOT analysis should include costs and other non-marketing variables. The outstanding opportunities and threats should he given. If plans depend upon assumptions about the market, the economy or the competition, they need to be explicit.

Objectives and Issues

Having studied the strengths, weaknesses, opportunities and threats, the company sets objectives and considers issues that will affect them. The objectives are goals that the company would like to attain during the plan's term. For example, the manager might want to achieve a 15 per cent market share, a 20 per eent pre-tax profit on sales and a 25 per eent pre-tax profit on investment. If current market share is only 10 per cent, the question needs answering: Where are the extra sales to come from? From the competition, by increasing usage rate, by adding, and so on?

Marketing Strategy

In this section of the marketing plan, the manager outlines the broad marketing strategy or 'game plan' for attaining the objectives. Marketing strategy is the marketing logic by which the business unit hopes to achieve its marketing objectives. It shows how strategies for target markets and positioning build upon the firm's differential advantages. It should detail the market segments on which the company will focus. These segments differ in their needs and wants, responses to marketing, and profitability. The company should put its effort into those market segments it can best serve from a competitive point of view. It should develop a marketing strategy for each targeted segment.

Marketing Mix

The manager should also outline specific strategies for such marketing mix elements in each target market: new products, field sales, advertising, sales promotion, prices and **distribution.** The manager should explain how each strategy responds to the threats, opportunities and critical issues described earlier in the plan.

Action Programmes

Marketing strategies become specific action programmes that answer the following questions: *What* will be done? When will it be done? *Who* is responsible for doing it? *How much* will it cost? For example, the manager may want to increase sales promotion as a key strategy for winning market share. A sales promotion action plan should outline special offers and their dates, trade shows entered, new point-of-purchase displays and other promotions. The action plan shows when activities will start, be reviewed and be completed.

Budgets

Action plans allow the manager to make a supporting marketing budget that is essentially a projected profit and loss statement. For revenues, it shows the forecast unit sales and the average net price. On the expense side, it shows the cost of production, physical distribution and marketing. The difference is the projected profit. Higher management will review the budget and cither approve or modify it. Once approved, the budget is the basis for materials buying, production

Table 3.2 **Marketing** audit questions

MARKETING ENVIRONMENT AUDIT

THE MACROEKVIRONMENT

1. *Demographic.* What primary demographic trends pose threats and opportunities for this company?
2. *Economic.* What developments in income, prices, savings and credit will impact on the company?
3. *Natural.* What is the outlook for costs and availability of natural resources and energy? Is the company environmentally responsible?
4. *Technology.* What technological changes are occurring? What is the company's position on technology?
5. *Political.* What current and proposed laws will affect company strategy?
6. *Cultural.* What is the public's attitude towards business and the company's products? What changes in consumer lifestyles might have an impact?

THE TASK ENVIRONMENT

1. *Markets.* What is happening to market size, growth, geographic distribution and profits? What are the l;irge market segments?
2. Customers. How do customers rate the company on product quality, service and price? How do they make their buying decisions?
3. Competitors. *Who* are the chief competitors? What arc their strategies, market shares, and strengths and weaknesses?
4. *Channels.* What main channels does the company use to distribute products to customers? How are they performing?
5. *Suppliers. What* trends are affecting suppliers? What is the outlook for the availability of key production resources?
6. *Publics.* What key publics provide problems or opportunities? How should the company deal with these publics?

MARKETING STRATEGY AUDIT

1. *Mission, is* the mission clearly defined and market-oriented?
2. *Objectives.* Has the company set clear objectives to guide marketing planning and performance? Do these objectives fit with the company's opportunities and strengths?
3. *Strategy.* Does the company have a sound marketing strategy for achieving its objectives?
4. *Budgets.* Has the company budgeted sufficient resources to .segments, products, territories and marketing-mix elements?

MARKETING ORGANIZATION AUDIT

1. *Formal structure.* Does the chief marketing officer have adequate authority over activities affecting customer satisfaction? Are activities optimally structured along functional, product, market and territory lines?
2. *Functional efficiency.* Do marketing, sales and other staff communicate effectively? Are the staff well trained, supervised, motivated and evaluated?
3. *Interface efficiency.* Do staff work well across functions: marketing with manufacturing, R & D, buying, personnel, etc.?

MARKETING SYSTEMS AUDIT

1. *Marketing information system.* Is the marketing intelligence system providing accurate and timely information about developments? Are decision makers using marketing research effectively?

2. *Planning system.* Does the company prepare annual, long-term and strategic plans? Are they used?
3. *Marketing control system.* Are annual plan objectives being achieved? Does management periodically analyze the sales and profitability of products, markets, territories and channels?
4. *New-product development.* Is the company well organized to gather, generate and screen new-product ideas? Does it carry out adequate product and market testing? Has the company succeeded with new products?

PRODUCTIVITY AUDIT

1. *Profitability analysis.* How profitable are the company's different products, markets, territories and channels? Should the company enter, expand or withdraw from any business segments? What would he the consequences?
2. *Gost-effectweness analysis.* Do any activities have excessive costs? How can costs he reduced?

MARKETING FUNCTION AUDIT

1. *Products.* Has the company developed sound product-line objectives? Should some products be phased out? Should some new products he added? Would some products benefit from quality, style or feature changes?
2. *Price.* What are the company's pricing objectives, policies, strategies and procedures? Arc the company's prices in line with customers[1] perceived value? Are price promotions used properly?
3. *Distribution.* What are the distribution objectives and strategies? Does the company have adequate market coverage and service? Should existing channels be changed or new ones added?
4. *Advertising, sales promotion and publicity.* What are the company's promotion objectives? How is the budget determined? Ts it sufficient? Arc advertising messages and media well developed and received? Does the company have well-developed sales promotion and public relations programmes?
5. *Sales force.* What are the company's sales force objectives? Is the sales force large enough? Is it properly organized? Is it well trained, supervised and motivated? How is the sales force rated relative to those of competitors?

scheduling, personnel planning and marketing operations. Budgeting can be very difficult and budgeting methods range from simple 'rules of thumb' to complex computer models.[17]

Controls

The last section of the plan outlines the controls that will monitor progress. Typically, there are goals and budgets for each month or quarter. This practice allows higher management to review the results of each period and to spot businesses or products that are not meeting their goals. The managers of these businesses and products have to explain these problems and the corrective actions they will take.

Implementation

Planning good strategies is only a .start towards successful marketing. A brilliant marketing strategy counts for little if the company fails to implement it properly.

Rethinking the role of the product manager: Campbell see up 'brand sales managers'.



marketing implementation
The process *that turns marketing strategies und plans into marketing actions in order to accomplish* strategic *marketing objectives.*

Marketing **implementation** is the process that turns marketing strategies and *plants* into marketing actions to accomplish strategic marketing objectives. Implementation involves day-to-day, month-to-month activities that effectively put the marketing pkn to work. Whereas marketing planning addresses the *what* and *why* of marketing activities, implementation addresses the *who, where, when aivihow.*

Marketing **Organization**

The company must have people who can carry out marketing analysis, planning, implementation and control. If the company is very small, one person might do all the marketing work - research, selling, advertising, customer service and other activities. As the company expands, organizations emerge to plan and carry out marketing activities. In large companies there can be many speeialists: brand managers, salespeople and sales managers, market researchers, advertising experts and other specialists.

Modern marketing activities occur in several forms. The most common form is the *functional organization,* in which functional speeialists head different marketing activities - a sales manager, advertising manager, marketing research manager, customer service manager, new-product manager. A company that sells across the country or internationally often uses a *geographic organization,* in which its sales and marketing people run specific countries, regions and districts. A geographic organization allows salespeople to settle into a territory, get to know their customers, and work with a minimum of travel time and cost.

Companies with many, very different products or brands often create a product *management* or *brand management* organization. Using this approach, a manager develops and implements a complete strategy and marketing programme for a

specific product or brand. Product management first appeared in Procter & Gamble in 1929. A new soap, Camay, was not doing well, and a young P & G executive was assigned to give his exclusive attention to developing and promoting this brand. He was successful, and the company soon added other product managers. Kince then, many organizations, especially in the food, soap, toiletries and chemical industries, have introduced the brand management system, which is in widespread use today.

Recent dramatic changes in the marketing environment have caused many companies to rethink the rule of the product manager. Today's consumers face an ever-growing set of brands and are now more deal-prone than brand-prone. As a result, companies are shifting away from national advertising in favour of pricing and other point-of-sale promotions. Brand managers have traditionally focused on long-term, brand-building strategies targeting a mass audience, but today's marketplace realities demand shorter-term, sales-building strategies designed for local markets.

A second significant force affecting brand management iw the growing power of retailers. Larger, more powerful and better-informed retailers are now demanding and getting more trade promotions in exchange for their scarce shelf space. The increase in trade promotion spending leaves less resources for national advertising, the brand manager's primary marketing tool.

To cope with this change, Campbell Soups created *brand sales managers,* These combine product manager and sales roles charged with handling brands in the field, working with the trade, and designing more localized brand strategies. The managers spend more time in the field working with salespeople, learning what is happening in stores, and getting closer to the customer.

Other companies, including Colgate-Palmolive, Procter & Gamble, Kraft and Lever Bros, have adopted *category management,* which has brands grouped according to the sections or aisles in supermarkets or other stores. Under this system, brand managers report to a category manager who has total responsibility for a category. For example, at Procter & Gamble, the brand manager for Dawn liquid dishwashing detergent reports to a manager who is responsible for Dawn, Ivory, Joy and all other light-duty liquid detergents. The light-duty liquids manager, in turn, reports to a manager who is responsible for all of P & G's packaged soaps and detergents, including dishwashing detergents, and liquid and dry laundry detergents. This offers many advantages. First, the category managers have broader planning perspectives than brand managers do. Rather than focusing on specific brands, they shape the company's entire category offering. Second, it better matches the buying processes of retailers. Recently, retailers have begun making their individual buyers responsible for working with all suppliers of a specific product category. A category management system links up better with this new retailer 'category buying' system. The aim of a supplier is to become a *category leader* who works closely with the retailer to increase category sales rather than that of one brand. These category leaders have considerable power and responsibility. They can clearly directly influence the saies of their competitors' products but not if it damages retailers' profits.

Some companies, including Nabisco, have started combining category management with another idea: *brand* teams or category reams. Instead of having several brand managers. Nabisco has three teams covering biscuits - one each for adult rich, nutritional and children's biscuits. Headed by a category manager, each category team includes several marketing people - brand managers, a sales planning manager and a marketing information specialist handling brand strategy, advertising, and sales promotion. Each team also includes specialists from other company departments: a finance manager, a research and development specialist, and representatives from manufacturing, engineering and distribution.

Thus category managers act as a small business, with complete responsibility for the performance of the category and with a full eomplement of people to help them plan and implement category marketing strategies.

For companies that self one product line to many different types of market that have different needs and preferences, a *market management organisation* might be best. Many companies are organized along market lines. A market management organization is similar to the product management organization. Market managers are responsible for developing long-range and annual plans for the sales and profits in their markets. This system's main advantage is that the company is organized around the needs of specific customer segments.

FJkla Gibbs, Unilever's personal care products division, has scrapped both brand manager and wales development roles. It had many strong brands, including Pears, Faberge Brut, Kignal and Timotei, but sought to improve its service to retailers and pay more attention to developing the brands. To do this it created two new roles: brand development managers and customer development managers. *(Customer development managers* work closely with customers and have also taken over many of the old responsibilities *of* brand management. This provides an opportunity for better co-ordination of sales, operations and marketing campaigns. The change leaves *brand development managers* with more time to spend on the strategic development of brands and innovation. They have the authority to pull together technical and managerial resources to see projects through to their completion.

Elida Gibbs' reorganization goes beyond sales and marketing. Cross-functional teamwork is central to the approach and this extends to the shop floor. The company is already benefiting from the change. Customer development managers have increased the number of correctly completed orders from 72 per cent to 90 per cent. In addition, brand development managers developed Aquatonic - an aerosol deodorant - in six months, less than half the usual time.[18]

Marketing Control

marketing control
The process of measuring and evaluating the results of' marketing strategic.'! and plans, and Caking corrective action to ensure that marketing objectives are attained.

operating control
Checking on-going performance against annual plans and taking corrective action.

strategic **control**
Checking whether the company's basic strategy matches its opportunities and strengths.

Because many surprises occur during the implementation of marketing plans, the marketing department must engage in constant marketing control. Marketing control is the process of measuring and evaluating the results of marketing strategies and plans and taking corrective action to ensure the achievement of marketing objectives. It involves the four steps shown in Figure 3.8. Management first sets specific marketing goals. It then measures its performance in the marketplace and evaluates the causes of any differences between expected ami actual performance. Finally, management takes corrective action to close the gaps between its goals and its performance. This may require changing the action programmes or even changing the goals.

Operating control involves checking on-going performance against the annual plan and taking corrective action when necessary. Its purpose is to ensure that the company achieves the sales, profits and other goals set out in its annual plan. It also involves determining the profitability of different products, territories, markets and channels. Strategic control involves looking at whether the company's basic strategies match its opportunities and strengths. Marketing strategies and programmes can quieldy become outdated and each company should periodically reassess its overall approach to the marketplace. Besides providing the background for marketing planning, a *marketing audit* can also be a positive tool for strategic control. Sometimes it is conducted by an objective and

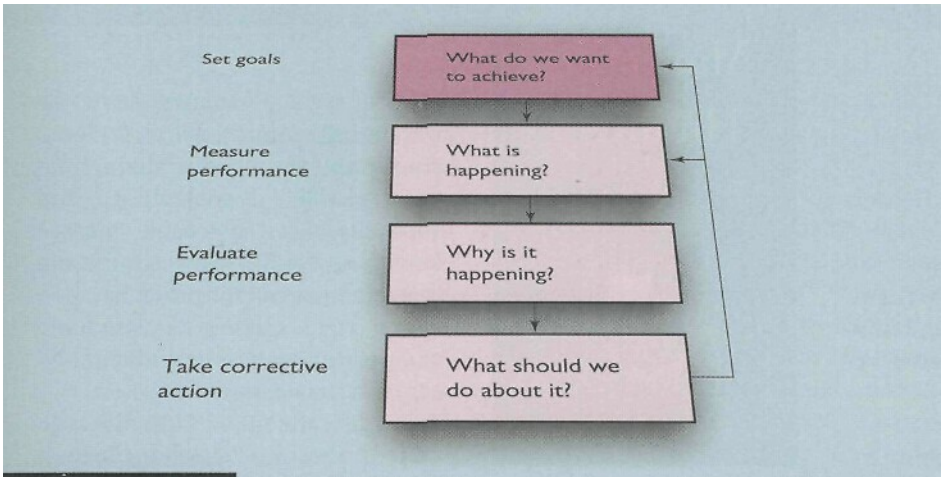


Figure 3.8 **The control process**

experienced outside party who is independent of the marketing department. Table 3.2 shows the kind of questions the marketing auditor might ask. The findings may come as a surprise - and sometimes as a shock - to management. Management then decides which actions make sense and how and when to implementthem.

Implementing Marketing

Many managers think that 'doing things right' (implementation) is as important, or even more important, than 'doing the right things'(strategy):

> A -surprisingly large number of very successful large companies don't have long-term strategic plans with an obsessive preoccupation on rivalry. They concentrate on operating details and doing things well. Hustle is their style and their strategy. They move fast and they get it right ... Countless companies in all industries, young or old, mature or booming, are finally learning the limits of strategy and concentrating on tactics and execution.[19]

Implementation is difficult - it is easier to think up good marketing strategies than it is to carry them out.

People at all levels of the marketing system must work together to implement marketing plans and strategies. Marketing implementation requires day-to-day decisions and actions by thousands of people both inside and outside the organization. Marketing managers make decisions about target segments, branding, packaging, pricing, promoting and distributing. They work with people elsewhere in the company to get support for their products and programmes. They talk to engineering about product design, with manufacturing about production and inventory levels, and with finance about funding and cash flows. They also work witli outside people. They meet with advertising agencies to plan ad campaigns and with the media to obtain publicity support. The sales force urges retailers to advertise, say, Nestles products, provide ample shelf space and use company displays.

Successful implementation depends on several key elements. First, it requires an *action programme* that pulls all the people and activities together. The action

Marketing Highlight

I Ic wlett-PackarcFs sirnatureevolves

In 1939, two engineers, Bill Hewlett and David Packard, started **Hewlett-Packard** in a garage. Bill and Dave did everything themselves, from designing and building their equipment to marketing it. As the **firm** grew out of the garage and began to offer more and different types of test equipment, Hewlett and Packard could no longer make all the necessary operating decisions themselves. They hired functional managers to run various company activities.

By the mid-1970s, Hewlett-Packard's 42 divisions employed more than 30,000 people. The company's structure evolved to support its heavy emphasis on innovation and autonomy. Each division operated as an autonomous unit and was responsible for its own strategic planning, product development, marketing programmes and implementation.

Peters and Waterman, in their book *In Search of Excellence,* cited HP's structure as an important reason for the company's continued excellence. They praised HP's non-restrictive structure and high degree of informal communication (its MBWA style - management by wandering around), which fostered autonomy by decentralizing decision-making responsibility and authority. The approach became known as the 'HP Way', a structure that encouraged innovation by abolishing rigid chains of command and putting managers and employees on a first-name basis.

But by the mid-1980s, although still profitable, **Hewlett-Packard** had begun to encounter problems in the fast-changing microcomputer and minicomputer markets. According to Business *Week:*

> **Hewlett-Packard's** famed innovative culture and decentralization [had] spawned such enormously successful products as its 3000 minicomputer, the hand-held scientific calculator, and the ThinkJet non-impact printer. But when a new climate required its fiercely autonomous divisions to co-operate in product development and marketing, HP's passionate devotion to 'autonomy and entreprcneurship' that Peters and Waterman advocate became a hindrance.

Thus Hewlett-Packard moved to change its structure and culture in order to bring them in line with its changing situation. It established a system of committees to foster communication within and across its many and varied divisions and to co-ordinate product development, marketing, and other activities.

The new structure seemed to work well, for a while. However, the move towards centralization soon got out of hand:

> The committees kept multiplying, like a virus. [Soon] everything was by committee ... no one could make a decision ... By the late 1980s, an unwieldy bureaucracy had bogged down the HP Way. A web of committees, originally designed to foster connmmication ... had pushed costs up and slowed down development.

Entering the 1990s, HP had no fewer than 38 in-house committees that made decisions on



t-Packard began in thin garage in 1939. It now operates globally through asophisticated complex of facilities and communications networks. Its structure and culture have changed ivith growtli.

everything from technical specifications for new products to the best cities for staging product launches. This suffocating structure dramatically increased HP's decision-making and market-reaction time. For example, in one case, it took almost 100 people over seven weeks just to come up with a name for the company's New Wave Computing software.

In 1990, when one of HP's mast important projects, a series of high-speed workstations, slipped a year behind schedule as a result of seemingly endless meetings about technical decisions, top management finally took action. It removed the project's 200 engineers from the formal management structure, so that they could continue work on the project free of the usual committee red tape. The workstation crisis convinced IIP management that it must make similar changes throughout the company.

> [Top management] wiped out HP's committee structure and flattened the organisation. 'The results arc incredible,' says [TIP executive Bob] Fraiikenberg, who now deals with three committees instead of 38. 'We are doing more business and getting product out quicker with fewer people.'

In iess than a decade, Hewlett-Packard's structure has evolved from the decentralized and informal 'IIP Way' to a centralized committee system and back again to a point in between. HP is not likely to find a single best structure that will satisfy all of its future needs. Rather, it must continue adapting its structure to suit the requirements of its ever-changing environment.

Sot'RCBS- See Donald R Harvey, *Business Polity and StrategicManagement* (Columbus, OH; Merrill, 1982), pp. 2()9-70; Thomas J. Peters and Robert H. Waterman, *In Search of Excellence: Less&nsjrom America's best-run* companies (New York: Harper & Row, 19821. Excerpts from 'Who's excellent now'"*', *Business Week (5* November 1984), pp. 76-8; Barbara Buell, Robert D. Hot" and Gary MeWilliams, 'llewlutt-Paekard rethinks itself, *Business Week* (1 April 1991), pp. 76-9; and Robert D. Hof, 'Suddenly, Hewlett-Packard is doing everything right', *liwiiness Week* (2,! March 1992), pp. 88-9.

programme shows what must be done, who will do it, and how decisions and actions will be co-ordinated. Second, the company's formal *organisation* structure plays an important role in implementing marketing strategy. In their study of successful eompanies, Peters and Waterman found that these firms tended to have simple, flexible structures that allowed them to adapt quickly to changing conditions.[a)] Their structures also tended to be more informal - Hewlett-Packard's MRWA (management by walking around), 3M's 'clubs' to create small-group interaction, and Nokia's youthful, egalitarian culture.[21] However, the structures used by these companies may not be right for other types of firm, and many of the study's excellent eompanies have had to change their structures as their strategies and situations have changed. For example, the same informal structure that made Hewlett-Packard so successful caused problems later. The company has since moved towards a more formal structure (see Marketing Highlight 3.4).

tienision-iind-reward system
Formal and informal operating procedures chat guide planning, targeting, compensation and other activities

Another factor affecting successful implementation is the company's decision-and-reward systems - formal and informal operating procedures that guide planning, budgeting, compensation and other activities. For example, if a company compensates managers for short-run results, they will have little incentive to work towards long-run objectives. Companies recognizing this are broadening their incentive systems to include more than sales volume. For instance, Xerox rewards include customer satisfaction and Ferrero's the freshness of its chocolates in stores. Effective implementation also requires careful planning. At all levels, the company must fill its structure and systems with people who have the necessary skills, motivation and personal characteristics. In recent years.

more and more companies have[1] recognized that long-run human resources planning can give the company a strong competitive advantage.

Finally, for successful implementation, the firm's marketing strategies must fit with its culture. *Company culture* is a system of values and beliefs shared by people in an organization. It is the company's collective identity and meaning. The culture informally guides the behaviour of people at all company levels. Marketing strategies that do not fit the company's style and culture will be difficult to implement. Because managerial style and culture are so hard ty change, companies usually design strategies that fit their current cultures rather than trying to change their styles and cultures to fit new strategies."

Thus successful marketing implementation depends on how well the company blends the five elements - action programmes, organization structure, deeision-and-reward systems, human resources and company culture - into a cohesive programme chat supports its strategies.

Summary

Strategic planning involves developing a strategy for long-run survival and growth. Marketing helps in strategic planning, and the overall strategic plan defines marketing's role in the company. Not all companies use formal planning or use it well, yet formal planning offers several benefits. Companies develop three kinds of plan: *annual plans, long-range plans* and *strategic plans.*

Strategic planning sets the stage for the rest of company planning. The strategic planning process consists of developing the company's mission, understanding a company's strengths and weaknesses, its environment, business portfolio, objectives and goals, and functional plans. Developing a sound *mission statement \s* a challenging undertaking. The mission statement should be market-oriented, feasible, motivating and specific, if it is to direct the firm to its best opportunities.

Companies have plans at many levels: global, regional, national and so forth. The higher-level plans contain objectives and strategies that become part of subordinate plans. These *strategic imperatives* are objectives or defined practices. At each level a *strategic audit* reviews the company and its environment. A *SWOT analysis* summarizes the main elements of this audit into a statement of the company's strengths and weaknesses and the chief threats and opportunities that exist.

From here, strategic planning calls for analyzing the company's business *portfolio* and deciding which businesses should receive more or fewer resources. The company might use a formal portfolio-planning method like the *BCG growth-share matrix* or the *General Electric grid.* However, most companies are now designing more customized portfolio-planning approaches that better suit their unique situations.

This analysis and mission lead to strategic objectives and goals. Management must decide how to achieve growth and profits objectives. The *product/market expansion grid* shows four avenues for market growth: *market penetration, market development, product development* and *diversification.*

Once strategic objectives and strategies are defined, management must prepare a set of *functional plans* that co-ordinate the activities of the marketing, finance, manufacturing and other departments. Each of the company's*junctional departments* provides inputs for strategic planning. Each department has a different idea about which objectives and activities are most important. The marketing department stresses the consumer's point of view. Marketing managers

must understand the point of view of the company's other functions and work with other functional managers to develop a system of plans that will best accomplish the firm's overall strategic objectives.

To fulfil their role in the organization, marketers engage in the *marketing process.* Consumers are at the centre of the marketing process. The company divides the total market into smaller segments and selects the segments it can best serve. It then designs its *marketing mix in* order to differentiate its marketing offer and to position this offer in selected target segments. To find the best mix and put it into action, the company engages in marketing analysis, marketing planning, marketing implementation and marketing control.

Each business must prepare marketing plans for its products, brands and markets. The main components of a *marketing plan* are the executive summary, current marketing situation, threats and opportunities, objectives and issues, marketing strategies, action programmes, budgets and controls. To plan good strategies is often easier than to carry them out. To be successful, companies must implement the strategies effectively. *Implementation* is the process that turns marketing strategies into marketing actions. The process consists of five key elements:

1. The action *programme* identifies crucial tasks and decisions needed to implement the marketing plan, assigns them to specific people and establishes a timetable.
2. The *organization structure* defines tasks and assignments and co-ordinates the efforts of the company's people and units.
3. The company's *decision-and-re-ward systems* guide activities such as planning, information, budgeting, training, control and personnel evaluation and rewards. Well-designed action programmes, organization structures and deeision-and-reward systems can encourage good implementation.
4. Successful implementation also requires careful *human resources planning.* The company must recruit, allocate, develop and maintain good people.
5. The firm's *company culture* can also make or break implementation. Company culture guides people in the company; good implementation relies on strong, clearly defined cultures that fit the chosen strategy.

Most of the responsibility for implementation goes to the company's marketing department. Modern marketing activities occur in a number of ways. The most common form is the *functional marketing organisation,* in which marketing functions are directed by separate managers who report to the marketing director. The company might also use a *geographic organization,* in which its sales force or other functions specialize by geographic area. The company may also use the *product management organization,* in which products are assigned to product managers who work with functional specialists to develop and achieve their plans. Another form is the *market management organisation,* in which main markets are assigned to market managers who work with functional specialists.

Marketing organizations carry out marketing control. *Operating control* involves monitoring results to secure the achievement of annual sales and profit goals. It also calls for determining the profitability of the firm's products, territories, market segments and channels. *Strategic control* makes sure that the company's marketing objectives, strategies and systems fit with the current and forecast marketing environment. It uses the *marketing audit* to determine marketing opportunities and problems, and to recommend short-run and long-run actions to improve overall marketing performance. The company uses these resources to watch and adapt to the marketing environment.

Key Terms

Annual plan 85
Balance sheet 93
Business portfolio 96
Cash cows 97
Critical success ("actors 95
Current marketing situation 11
Decision-and-reward systems 121
Dogs 98
External audit 93
Growth-share matrix 97
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Market challenger 109
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Market richer 109
Market positioning 108
Market segment 107
Market segmentation 107
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Question marks 98
Stars 97
Strategic business-planning grid 98
Strategic business unit (SBU) 97
Strategic control] 18
Strategic plan 85
Strategic planning
SWOT analysis 94

Discussing the Issues

1. What arc the benefits ol' a long-range plan? Why should managers take time to develop a long-term plan that will be changed every year?
2. Many companies undertake a marketing audit to identify the firm's strengths and weaknesses relative to competitors, and in relation to the opportunities and threats in the external environment. Why is it important that such an analysis should address relative, not absolute, company strengths and weaknesses?
3. An electronics manufacturer obtains the semiconductors it uses in production from a company-owned subsidiary that also sells to other manufacturers. The subsidiary is smaller and less profitable than are the competing products. Its growth rate has been below the industry average during the past five years. Into what cell of the BCG growth-share matrix does this strategic business unit fallV What should the parent company do with this SBU?

A consumer electronics company finds that sales in its main product line - vidcocassctte recorders - are beginning to stabilize. The market is reaching maturity. What growth strategies might the firm pursue for this product line? How might the strategic-focus tool help managers examine the growth opportunities for this line?

The General Electric strategic business-planning grid gives a broad overview that can be helpful in strategic decision making. For what types of decision would this grid be helpful? For what types of strategic decision would it be less useful?

Sony is the market leader in audio/hi-fi systems, offering a wide range of equipment at moderately high prices. Discuss how a competitor would use market-challenger, market-follower and inarket-niohar strategics to compete effectively with Sony.

Applying the Concepts

Think about the shopping area near where you live. Assume that you wish to start a business here and are looking for a promising opportunity for a restaurant, a clothing store or a music store.

- Is there an opportunity to open a distinctive and promising business? Describe your target market and how you will serve it differently than current businesses do.
- What sort of marketing mix would you use for your business?

2. Take a product or service organisation you are familiar with (you may refer to your college or university).
   - List the key external environmental opportunities or threats that face the organization.

What do you think are the organisation's main strengths and weaknesses?

Suggest ways in which the organization might respond to the external forces.

Recommend a possible marketing strategy which will ensure that the organization matches its internal capabilities with external opportunities.

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Case 3

Look **Out Lipton, Here Comes** Oolong!

Heating up an old product

Chinese Emperor Shen Nung was boiling water under a Camellia Sinensis tree in 2,737 BC. When some leaves fell into the pot, he found the resulting infusion pleasant. So, the legend has it, tea was born. From this accident flowed the Opium Wars, the annexation of Hong Kong and rituals that have made tea far more than just a drink in the great tea-drinking nations of China, Japan and Britain.

Thomas J. Lipton Company has been in the tea business ever since *Cutty Sark* and other tea clippers raced *Cape Horn* and *The Cape of Good Hope* to be the first to the European and American coffee houses with their crop from the Orient. By the 1990s the excitement had left the declining tea market. To enliven the old-fashioned product market leader, Unilever resorted to selling Lipton, along with its other leading brands, Brook Bond, PG Tips, Red Label and Taaza, using frantic sales promotions *and* comical eharaeters. Then, the boring business heated up by cooling down.

Chalk up the change to those fickle consumers. Forget soft drinks. They were the rage of the 1980s, as the cola companies added 'diet everything' to their lines and experimented with all sorts of flavours. Forget sports drinks. They became the glamour drinks of the late 1980s and early 1990s as the soft-drink market levelled and the cola companies searched for growth opportunities. Forget those flavoured sparkling waters, like Oasis and Perrier. They had a wild ride in the early 1990s and became a health sensation. Forget coffee. After being battered by soft drinks, the venerable standby has risen as people have begun to turn away from alcoholic drinks and entrepreneurs have rediscovered the coffee house. However, today's hot drink is iced tea. Yes, iced tea. In fact, it's iced tea in a bottle or can, already prepared and ready to drink. No fuss, no boiling and no tea bags.

Iced tea is not new. We can trace iced tea's invention to the 1904 World's Fair in St Louis. Richard Blechynden, a promoter of Indian and Ceylon tea, found it impossible to peddle his hot tea in the stifling Missouri heat. In desperation he dumped some ice cubes into his tea and discovered that the spectators were willing to gulp anything cold. Iced tea in a can isn't new either. That's been around since the early 1970s, but it had never been more than a blip on the beverage market's radar screen.

Adding flavour

Flavour is what's new. In the USA, .Snapple started the trend by building a regional cult following based on bottled iced teas that featured zany flavours like cranberry, peach and raspberry. Snapple's flavoured, hot-filled tea (the manufacturer bottles the tea while it is still warm from brewing) offered consumers a better-tasting tea. Before Snapple, Lipton and others offered iced teas in plain and leraon flavour. Young, trend-setting consumers bought

Snapple directly from ice cabinets in convenience stores and delicatessens and drank it straight from the bottle.

The flavoured teas hit a bull's-eye with consumers. They were willing to move away from traditional eolas in search of new flavours. Consumers seemed to have a short attention span for new products and were willing to try new drinks. They were interested in so-called 'New Age' beverages - drinks that appealed to their desire for healthier, lighter refreshment. Consumers responded to the all natural, no-calorie, relaxing and refreshing claims that the new-age beverages made. Increasingly on the go, consumers also liked the convenience and availability of ready-to-drink teas.

Forming teams

Despite the small size of the iced *tea* market, the big players noticed the growth rate and jumped in. Coca-Cola made the first move by teaming up with Nestle to form Coca-Cola Nestle Refreshments, combining **Coca-Cola's** powerful distribution network with Nestles tea expertise and its Nestea brand. Pepsi-Cola followed by joining forces with **Thomas** J. Lipton Company. Barq's energized its Luzianne tea brand, A & W announced it would make and distribute Tetley tea, Cadbury uncovered little-known All Seasons to serve *-AS* its tea partner and Perrier joined forces with Celestial Seasonings.

Lipton was already no. 1 in the tea market, but like Coca-Cola, Pepsi's top management argued that the company's alliance with Lipton would leverage Pepsi's distribution strength with Lipton's leadership in tea to produce a can't-miss proposition. Upton's president observed that the new partnership would make Lipton 'as widely available as Pepsi'.

The entrance of Pepsi, Coea-Cola and their competitors should invigorate the ready-to-drink tea market. One observer noted that the iced-tea market was still a small market despite growing 50 per cent between 1990 and 1991. And it was getting very overcrowded. Indeed, all this attention produced almost 200 new ready-to-drink teas during 1991 and 1992. The tea category leaped another 50 per cent in 1992 and the same again in 1993. The competitors generated this growth by dusting off tea's boring image and recasting it as a natural, better-for-you beverage. Further, scientific evidence emerged that tea inhibited certain types of cancer in laboratory mice and seemed to be linked to lower cholesterol rates. Lipton, Nestea and Snapple lured customers with new flavours and pointed out that lack of carbonation makes iced tea easier to drink rapidly and in quantity.

Although Coca-Cola/Nestles Nestea sales soared, Snapple's and Lipton's grew even faster. As a result, Nestea narrowed its promotion to target 18- to 29-year-olds witb a promotional blitz consisting of sponsorships and sampling. It dispatched five 18-wheeler demonstration trucks, which it called its 'Cool Out Caravans' to sporting events, theme parks and beaches in 60 markets,

Pepsi continued its cola-style marketing for Lipton teas. Its radio ads argued that Snapple is 'mixed up from a powder', but Lipton is 'real brewed'. Pepsi also promoted Lipton in supermarkets by offering customers 'value packs' that contained one bottle each of three new drinks: Lipton Original, Ocean Spray Lemonade and AllSport sports drink. Pepsi also pur-sued sponsorship of a Rolling Stones concert tour, to which it would link a massive sampling programme.

Because of its efforts, Lipton's teas seemed ready to unseat Coca-Cola/ Nestle, despite its early market entry, was falling behind in the iced-tea wars. Lipton was taking market share from both Snapple and Nestea. One

selling hot tea. Having spent £10 million developing hot cans to be sold In convenience stores and petrol stations, it was ready to test market the product in Manchester, England. Brooks Bond's PG Tips will be sold in ring-pull tins kept at 56'C in a heated cabinet on shop counters. On sale alongside PG Tips, with or without sugar, will he Red Mountain coffee, sweetened or unsweetened, and Choky, the leading Freneh hot chocolate brand. Watch out Oolong, Rrook Bond's waiting!

QUESTIONS

1. What bases can companies use to segment the iced-tea market?
2. What potential market segments can you identify?
3. How would you go about forecasting demand in the iced-tea market and in any given segment?
4. Which type of market coverage strategy should Pepsi/I.ipton adopt? Why? How should they position Lipton iced teas and Brook Bond canned teas?
5. If you were advising Shin Shii, what marketing strategy recommendations would you make concerning its entry into the market?
6. How should it position Kai Shii?

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Overview Case One

KitKat: Have a break

Sylvie Laforet and Andy Hirst***

Introduction

Sonia Ng sat down to have a cup of tea with her friend, David Johnson, in the company's dimly lit canteen in York, in the north of England. She unwrapped the bright red paper band from a KitKat, then ran a finger down the foil between the two biscuits. She snapped the biscuits apart, handed one to David and sighed: This KitKat is not going to be like any I have eaten before,' As a new assistant brand manager. Sonia had to prepare the 1995 brand plan for KitKat. It was a great break for her as KitKat was Nestle's top confectionery brand. Her first action was to gather what information she could about the brand, then talk to managers who knew about it.

Nestle Rowntree

Rowntree launched KitKat in August 1935 as 'Choeolate Crisp'. Renamed twice - in 1937 as 'KitKat Chocolate Crisp' and in 1949 as 'KitKat' - by 1950 it was Rowntree's biggest brand and it has rem.'iiued so ever since. The origin of KitKat s name is uncertain. Some believe the name came from the eighteenth-century political KitKat Club, itself named after one Christopher (or Kit) Cat, who kept a pie house where the club met. The name KitKat has favourable onomatopoeic qualities that help the association of the wafer biscuit with a dry, soft snapping or cracking, as of the biscuit being broken or bitten. Other Rowntree brands include Rowntree's Fruit Pastilles (launched 1881), Rowntree's Fruit Gums (1893), Black Magic (1933), Aero (1935), Dairy Box (1936), Smarties (1937), Polo (1948) and After Eight (1962).

Nestle Rowntree is Nestle's largest works and the United Kingdom's largest exporter of chocolate and sugar confectionery, selling to over 120 countries. The mast important markets are Europe and the Middle East. Besides the United Kingdom, the European markets include France, Germany, Belgium, Holland,

"Birmingham University. "* Lougliboroujih University

Italy and Ireland. The chocolate biscuit countline (CBCL) market is not as large in the rest of Europe as it is in the United Kingdom. The proportions of KitKat volume sales are 67 per cent for the United Kingdom, 10.6 for Germany and 5.6 for France. And since the early 1990s Nestle has developed its overseas markets by more than 50 per cent.

Strategic Objectives

Net operating profits, return on capital employed (ROCE) and market shares drive the company. Eaeh product group has objectives. The company has a cascade system so that each brand has its objectives as well. Each has a brand plan - business plans for each brand. One of the strategic objectives of Nestle is to increase sales across the European markets. Often the marketing managers are not always able to put in capital to supply across Europe, To do this Nestle have had to adopt a penetration strategy, which means that the margins are lower and this has a depressing effect on the group's ROCE.

The company's long-term aims are to become the clear leader in the UK confectionery industry and to generate real growth in the profitability and productivity of its confectionery business. It also aims to increase the efficiency of its supply chain and so improve customer service.

Business Strategy

The company's strategy is to pursue the company's objectives rather than to defend its position against competitors. For example, some ooantlines are 'below threshold size'. The objective for these is to improve the performance up to the threshold level. Rod Flint, the director of J. Walter Thompson, which is responsible for Nestle Rowritree's advertising, comments: 'Their objective is not always driven by the stock market. That gives Nestle a long-term perspective. They are into world brand domination and they are highly global in their approach now, since they arc also organizing their European marketing department.'

Basic principles drive the company's brand strategy. It believes in offering the consumer value for money. It also believes in developing long-term brands and aims to differentiate its products from one another within the brand portfolio, which the company thinks will offer a competitive advantage over those of its competitors. The company works to ensure that its brands maintain clear positions in order to prevent eanniballzation. Up to now, the best way to achieve this has been stand-alone product brands, as opposed to umbrella brands. More recently, however, the cost of establishing new brands has increased very dramatically. The company is continually looking for ways to leverage the brand across the confectionery business and other product categories. Nestle" also wishes to improve its corporate image by associating its name more closely with successful brands. For example, KitKat lias become Nestle KitKat. Part of the company's brand policy is also to dedicate significant sums of money to advertising and promotions. This helps to build customer loyalty and block the entrance of new competitors. On average, 10 per cent of the sales value of the brand goes on advertising and promotions.

KitKat

When launched KitKat entered a market already dominated by Cadbury's Dairy Milk. From its beginning, KitKat was positioned as both a confectionery and a

snack. It is now positioned half-way between a snack and an indulgence. In the consumers' eyes, however, KitKat is essentially a snack product and its 1957 -slogan 'Have a break, have a KitKat' is widely known through long-running ad.s on TV and in other media.

The KitKat brand has two formats in the UK. The two-finger format is bought in a mukipack (packs of eight or more) at large grocers by parents for their children. In contrast, the four-finger format is bought individually by 16-24-year-olds for their consumption (Exhibits 1.1 and 1.2). The two-finger format is part of the CBCL sector, which implies specific usage, non-personal and 'family' consumption, as well as in snack and lunch boxes for kids' consumption. The four-finger format is part of the general chocolate countline sector, which implies personal consumption, broad usage and the 'adults' and 'self-eats' categories. The

EXHIBIT 1.1 GBCL MULTIPACKS MARKET (£M)

YEAR	KITKAT 2-FiNGEK MULTIPACKS	PKNGUIN MULTIPACKS	CLUB MULTIPAGKS	CBCL MULTIPACKS AND MINIS
1990	91	50	40	449
1991	95	55	39	478
1992	101	58	39	508
1993	110	53	45	530
1994	112	48	47	535

SOURCES: BGCGA, AC Nielsen TN-AGB and despatches.

EXHIBIT 1.2 CBCL MANUFACTURER PERFORMANCE (1994)

	% SHARK	% CHANGE YEAR ON YEAR
Nestle Rowntree	25.3	-2.6
United Biscuits	17.4	-15.7
Jacobs Baker;'	12.0	-1.5
Mars Confectionery	3.3	-14.0
Burtons	7.1	-14.3
Thomas Tunnocks	3.8	-3.5
Fox's	7.8	51.8
Others	5.7	3.6
Cadbury	2.2	n/a
Private label	15.3	25.6
Total market		0.9

SOURCE: AG-1! Superpanel.

EXHIBIT 1.3 COUNTLINE MARKET (£M)

YEAR	KITKAT 4-FINCER	MASS	TIME OUT	COUNT-LINES
1990	76	137	0	1,529
1991	87	138	0	1,677
1992	92	142	18	1,723
1993	93	148	20	1,787
1994	96	159	39	1,865

SOURCES; BCCCft. AC Nielsen and despatches.



four-finger format was the main volume format, but was overtaken by the two-finger format (Exhibit 1.3) as the grocery sector rose at the expense of the CTNs (confeetioner/tobaeeonist/newsagent). About 18 per cent of KitKat two-finger's volume goes through cash-and-carry to CTN, compared with 80 per cent of the four-finger format.

Nestle Rowntree divides the chocolate market into three categories: chocolate box assortments (a gift-oriented marketplace); the countline market (a 'self-eat' market)-a consumer-product category'(i.e. KitKat four-finger); and CBGL-a sector that the company created. Thus Nestle Rowntree has developed the KitKat business by marketing it as a countline product in its four-finger format, and by developing it as a CBCL in its two-finger format. This helped KitKat cover two sections in their stores, one selling confectionery and the other selling biscuits.

Another reason for promoting KitKat as a CBCL is the growing power of the multiple grocers (Exhibits 1.4 and 1.5). There is a shift from a less structured retail sector into multiple businesses that are sophisticated and powerful. The company produces different packs for the multiple grocers and the independent sector. This avoids direct price and value comparison by the consumer and, therefore, restricts the power of the multiple retailers in their negotiations to increase their profitability.

EXHIBIT 1.4 KITKAT VOLUME DISTRIBUTION

(A) DISTRIBUTION (%)

	INDEPENDENT GROCERS COVERED		INDEPENDENT CTNs COVERED		
YBAK	KITKAT Z-FIKGER	PENGUIN	KITKAT 4-i'iNGK,u	MARK BAR	TIME OUT
1990	W	65	99	99	0
1991	50	50	99	99	3
1992	57	52	99	99	33
1993	64	64	99	99	95
1994	65	71	99	99	94

(is) KITKAT 2-riNGER SHARE OF CBCL FORWARD STORKS (%)

	MULTIPLE GROCERS		MULTIPLE CTNs		INDEPENDENT GROCERS	
YEAR	KITKAT	PENGUIN	KITKAT	PENGUIN	KITKAT	PENGUIN
1990	20.3	12.9	45.2	3.8	12.8	15.9
1991	14.9	12.3	43.9	5.1	12.1	14.6
1992	11.9	10.3	43.4	6.5	15.0	14.3
1993	12.2	9.3	28.0	8.4	12.6	14.4
1994	12.6	9.9	38.5	5.5	13.4	15.8

(c) KITKAT 4-riNGER SHARE COUNTLINE OF FORWARD STOCKS (%)

YEAR	MULTIPLE GROCERS	MULTIPLE CTNs	INDEPENDENT CTNs	INDEPENDENT GROCERS
1990	5.4	4.2	4.7	5.8
1991	5.3	4.1	4.6	6.0
1992	4.4	3.7	4.8	5.4
1993	4.4	4.0	4.5	5.5
1994	6.0	3.6	4.4	5.1

SOURCE: AC Xielsen.

EXHIBIT !..-> KITKAT SALES BY PACK AND SECTOR (TONNES)

	2-RNGER			4-FINGER		
YEAR	SINOI.KS	MULTIPACKS	OTHER	SINGLES	MULTIPACKS	OTHER
All customers						
1990	1,150	20,750	300	15,550	3,000	0
1991	1,200	20,800	200	16,950	3,700	50
1992	1,200	21,300	100	17,150	3,250	0
1993	800	21,900	0	16,300	3,300	0
1994	700	23,150	100	15,850	3,750	0
Multiple retail						
1990	50	18,750	100	1,800	2,750	0
1991	50	18,850	50	2,050	3.450	0
1992	50	19,300	50	2,100	3,100	0
1993	50	19,950	0	1,950	3,200	0
1994	50	21,200	50	1,900	3,600	0
Wholesale/ independent						
199(1	1,100	2,000	200	13,750	250	0
1991	1,150	1,950	150	14,900	250	50
1992	1,150	2,000	50	15,050	150	0
1993	750	1,950	0	14,350	100	0
1994	650	1,950	50	13,950	150	0

SOURCES: Intern a 1.

The market share for KitKat two-finger was 19.5 per cent of the GBCL market in 1994-the no. 1 seller (Exhibit 1.6). KitKat's nearest competitors are Mars Bars and Twix, both Mars products. Twix was launched as a countline product, but is now marketed as single fingers in the multipack format in the GBCL category. KitKnt two-finger's main CBGL competitors are United Biscuits and Jacobs; in the general chocolate countline category, KitKat four-finger's main competitors are Mars and Cadbury.

EXHIBIT 1,6 GBCL BRAND PERFORMANCE

BRAND	% SliARE (EXPENDITURE)	% CHANGE (YEAR ON YEAR)
KitKat 2-finger	19.5	2.5
Penguin	8.8	7.4
Club	9.0	-7.7
Twix	3.3	-13.6
Rocky	4.1	159.3
Blue Riband	2.7	-4.0
Breakaway	2.7	-7.9
Wagon Wheel	4.7	-15.3
Tunnocks CW	3.4	-2.1
Classic	2.4	-11.2
Trio	2.2	-5.3
Private label	15.3	25.6

AGB Superpanel.

The Market

The ehocolate confectionery market is concentrated, stahle and very competitive. The leading suppliers are Cadbury (28 per cent market share), Nestle Rowntree (25), Mars (21) and Terry's Suchard (5). KitKat has the biggest advertising expenditure in the UK confectioner;' market. The £1.5 billion confectioner;' snack market, including eountlines and chocolate blocks, is 38 per cent of the confectionery market. This market has grown by 20 per cent over the past five years, following the rise in popularity of' snacking. Growth in both the countline market and the CBCL sector has now stabilized. As market leader, KitKat has retained a price premium and set prices for its competitors to follow. There is a risk to volume if the market does not follow. The market share for KitKat four-finger was 7 per cent within the general countline market. KitKat four-finger had lost some of its market share to Mars Bar (Exhibit 1.7). However, it still remains a weak no. 3, competing with two other Mars products, Twix and Snickers.

EXHIBIT 1.7 BRAND SHARES

	VALUE		VOLUME	
BRAND	%1994	% POINTS CHANGE	%1994	% POINTS CHANGE
KitKat4-finger	6.7	-0.1	7.1	0
Mars Bar	13.9	0.8	19.0	1.1
Snickers	7.5	-0.3	9.2	-0.3
Twix	4.9	0	6.1	0
Twirl	3.3	-0.2	2.7	-0.3
Time Out	2.7	-0.3	2.2	-0.2
Drifter	1.3	0	1.4	0

SOURCE: Nielsen (eountlines and filled blocks excluding CFiCL multis).

New-product development, which fuelled eountfine growth, has seen a number of new entrants. Firstly, the GBCL market has seen the entrance of Fox's Rocky bar. Rocky has claimed 4.1 per cent of the market. The second major new-product development has been made by Cadhury. It launched the Fuse bar - a mixture of chocolate, fudge and raisins. It cost £7 million to create, sold 40 million bars in its first week and was becoming the second most popular chocolate bar in the UK.

Pressure will continue to be on the countline market as the population of 15-24-year-olds declines. The KitKat two-finger sales are biased towards the Cl and C2 socioeconomic and the 35-44 age groups. There is also a high penetration of very young consumers, particularly in the 12-15 age group. The four-finger format has a smarter image, inclines more towards 'chocolate occasions' consumption, and is consumed on the street. Consumption is heavily biased towards female buyers. The two-finger format ads aim at the 35-44 year olds through morning television. Children are not specifically targeted. The four-finger format ads target the 16-24-year-olds through TV and youth press. The ad strategy for this format is different from that of the two-finger. The company puts an emphasis on updating KltKat's brand image by making it appeal to the younger generation through advertising in trendy and young people's magazines and independent radio.

The promotions for the two-finger format are value- and grocery-trade-oriented (for example, 'one bar free' activity, or repeat purchase incentives). For the four-finger format, the promotions are different because of the different segments targeted (for example, Ip off). However, there is an annual pan-

promotion for KitKat as a whole that consists of big promotions, price and emphasis on brand awareness. There is a price differentiation between the two formats. KitKat four-finger is 'twin-priced' in parallel with Twix, and 2p below the Mars Bar. This is because KitKat is 'snaclw' and not as hunger satisfying as the Mars Bar. If the company deviated from this pricing strategy, its volume share might drop. The two-finger format is not as price-sensitive as the four-finger. As a market leader within the CBCL category, it can more or less dictate price. Thus its competitor Penguin is priced 2p below KitKat two-finger. According to Nestle brand managers, 'The objective for KitKat is to maintain customer loyalty by being innovative, and to remain *the* number one UK confectionery brand.' There is evidence of relative brand loyalty for KitKat. However, people who buy KitKat two-finger will also be likely to buy other brands, such as Classic, Club Orange, Penguin. Twix, Blue Riband and Gold. According to Brian Ford, the brand manager for the KitKat two-finger: 'Although Nestle has tried to differentiate the two formats of KitKat in its segmentation and positioning strategies, the consumer sees no difference in the total brand.'

In light of the recent developments, KitKat has worked hard to maintain its position as the market leader. In the spring of 1996, the UK's favourite confectionery brand took on a new taste. Nestle launched KitKat Orange, the first flavour variant in its 59-year history. However, the variant was launched as a limited edition and the product was released for only one month. The success of the product was so phenomenal that customers were writing letters to have the product re-released. On 31 January 1997 a Nestle press release revealed that Nestle was launching a limited edition Mint KitKat. This new variant was even more popular in trials than KitKat Orange.

Competition

Competition is likely to come from small brands, grocery retailers' own labels and other lines coming into the United Kingdom. There is also a cross-over between the chocolate countline and the CBCL sector. Oadbury has recently encroached into KitKat's TIave a break' territory with Time Out - a bar aimed at the CBCL sector. Time Out aims to bridge the gap between chocolate snack bars, such as Twirl, and wafer-based snacks, such as KitKat. It will compete with KitKat and Twix and should take sales away from brands with a 'heavy sweet' product image, likeSpira and Twix.

Competition from other European confectioners has intensified with the growth of discounters such as Aldi and Netto. This might lead to a price-cutting war in the multiple grocery sector, especially among Kwik Save, Lo-Cost and Asda. Aldi is a particular concern because it is importing bags of KitKat minis from Germany. Although Nestle Rowntree sells many of its countlines as minis, it does not make or sell KitKat in that format. Besides losing it revenue, Aldi's KitKat minis cause other problems: first, large grocers, like Sainsbury and Tesco, now want supplies of minis like Aldi's; second, the biscuit and chocolate used to make the German KitKat are distinctly different from those used in Britain,

Outside the United Kingdom, the four-finger format sells more than the two-finger format. European retailers outside the United Kingdom also emphasize minis (Aldi only imports that form). Nesde Rowntree does sell minis in the United Kingdom, but these are very low-volume products and appear only in variety packs with other Nestle minis. The company does not see them as a threat to its existing brands as the volume of minis is relatively low in comparison.

The company is now producing to capacity. The problem is managing demand in the marketplace. 'We can't give them any more, so we use price to limit



demand and to get maximum profit return on the amount we produce,' explains Ford. In his opinion, this is easier for the two-finger format because it is the market lender in the CBCL category, but is less easy in the four-finger case. 'It is not the market leader in the chocolate countline sector, therefore we cannot dictate price.'

Pan-European Marketing

To fit the **regulations** across Europe, some KitKats produced by Nestle Rowntree have different chocolate to others. Although they taste different consumers cannot tell the difference. The management of so many internationally important brands limits Nestle Rowntree's freedom of action outside the United Kingdom. The pricing relationships between, say, France, Germany and the United Kingdom need careful controlling. At the same time, the company needs to achieve its UK business objectives. The marketing of brands will be different because these brands are at different product life-cycle states in different markets. 'The United Kingdom is probably the most sophisticated confectionery market in Europe,' claims Robertson. 'Therefore, for example, the company's advertising style for KitKat is not directly transferable to Germany. The German consumer does not understand the British sense of humour,' explains Robertson. 'So, from clie business perspective, there is a [fulling together in Europe, while from the consumer perspective, there are still marked differences between different types of consumers, and that is the biggest problem.'

The packing used for KitKat in the United Kingdom is different from that used elsewhere. So KitKat exported to Germany does not have UK packaging and vice versa. Germany's KitKat is flow-wrapped, whereas the United Kingdom has a foil and band. This relatively expensive format appeared because of the early competition with Cadbury, whose market-leading milk chocolate bars had blue foil and a blue wrapper. To differentiate it from Cadbury, the KitKat pack is a silver foil with a visually strong red band wrapped end to end.

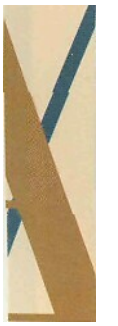
Standardization to less expensive flow wrap is resisted in the United Kingdom because of the ritualistic way that UK consumers eat KitKat. Often they eat KitKat socially over a cup of tea. When eating KitKat, many consumers first take off the red wrapper, then run a finger down the foil between two biscuits. With the top of the foil broken, the KitKat fingers are snapped off and then eaten one by one, just as KitKat's new assistant brand manager, Sonia Ng, did. Her job was to develop a brand plan for KitKat. For her it was a great break; but not an easy one.

SOURCES: Prepared with assistance from: the advertising agency J.Walter Thompson, London; Nestle Rowntree, York; and Nestec, Vevey, Switzerland, Updated from the original by Sylvie Laforet: Kotler. Armstrong, Snundcrs and Wong, *Principles of Marketing: The European Edition* (London: Prentice Hall, 1996), pp. 115-26. Names, statistics and some details have been changed for commercial reasons.

Questions

1. What is the situation facing KitKat: the strengths and weaknesses of the brand and the opportunities and threats it faces?
2. Why are the KitKat two-fingers and four-fingers marketed differently? How do the customers for the KitKat four-finger differ from those for the KitKat two-finger? What are the differences in the way the company addresses the two target markets?

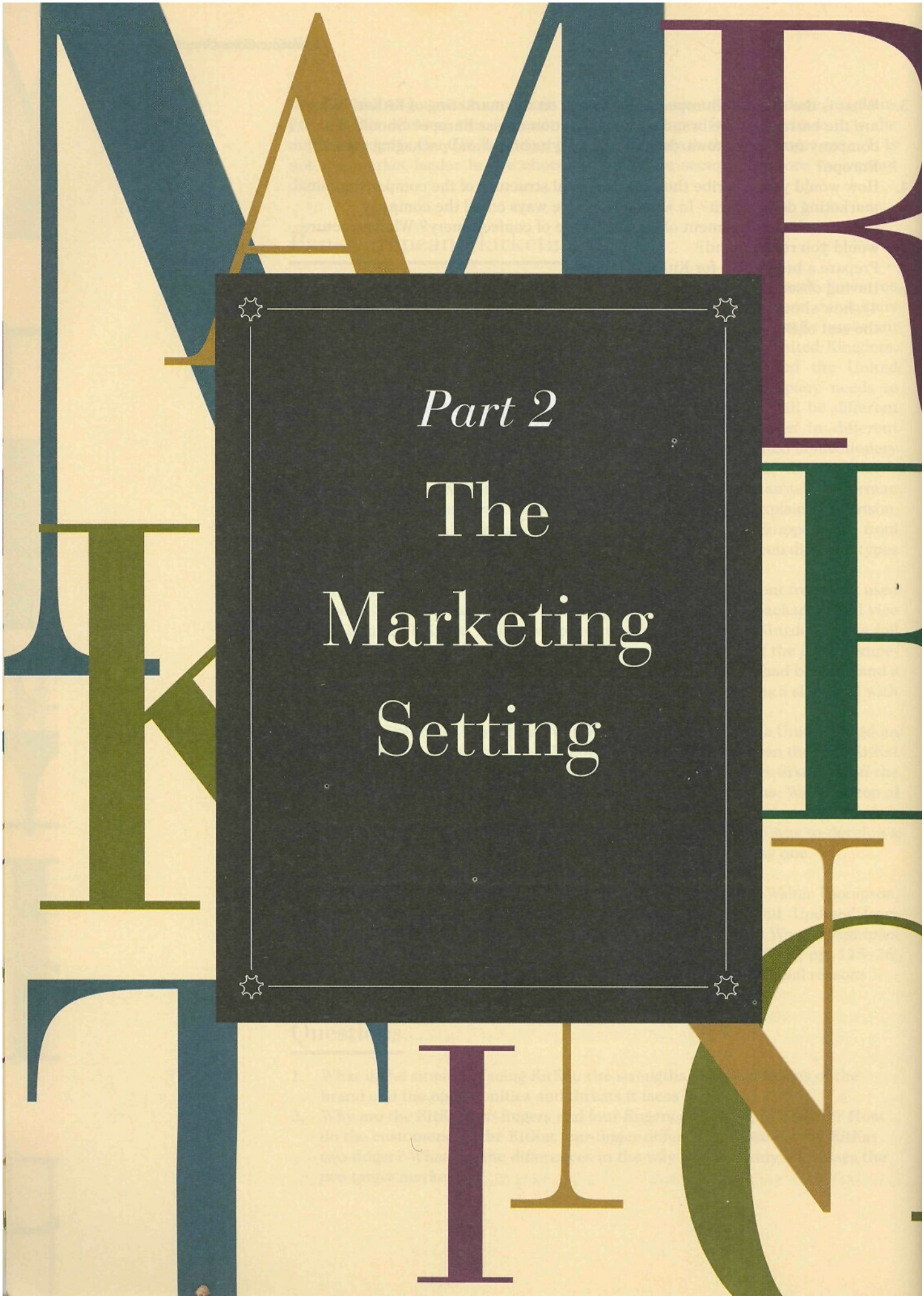




3. What is the effect of European integration on the marketing of KitKatV What are the barriers to the brand's standardization across Europe? Should the company now move towards standardizing its brand and packaging across Europe?
4. How would you describe rhe organizational structure of the company and its marketing department? In what alternative ways could the company organize the management of its wide range of confectionery? What structure would you recommend?
5. Prepare a brand plan for KitKat.
6. Having observed Hadbury's launch of Time Out in Ireland (Overview Case 4), how should KitKat defend itself against Time Out's anticipated launch in the rest of Europe?







Part 2

The Marketing Setting

the great world spin for e-ver down the ringing grooves of change.'

ALh'KED LORD TENNYSON

PartIntroduction

Part Two *of Principles of Marketing* looks at the environment in which marketing operates, customer behaviour and how information from the environment is fed into the marketing decision-making process. It has five chapters:

Chapter 4 looks at the environment in two parts: the *micro environment* that is specific to an organization's operation, such as suppliers and competitors; and the *macro environment* of wider forces that shape society, such as the natural and political environment. Global markets make it even harder to understand the social environment of marketing. Chapter 5 looks at these and forces us to see how much we have to change to succeed in international markets.

Chapter 6 explores ways of understanding consumer markets: individuals and households who buy goods and services for final consumption. The many ways of doing this give insights that can help in the design of marketing research and guide marketing decision making. Although consumer marketing is the most visible, the majority of marketing is to other organizations. These include retailers that sell on to final consumers, sellers of capital equipment - such as trucks - raw materials, components or business services. Chapter 7 reviews this wide range of business markets.

As Giuither Grass recognized, 'Information networks straddle the world. Nothing remains concealed. But the sheer volume of information dissolves the information. We are unable to take it all in.' Chapter 8 shows how *marketing information* systems gather, process and present this overwhelming flow of information to support marketing decision making.



CHAPTER 4
The Marketing Environment

CHAPTER 5
The Global Marketplace

CHAPTER 6
Consumer Buyer Behaviour

CHAPTER 7
Business Markets and Business Buyer Behaviour

CHAPTER 8
Market Information and Marketing Research

OVERVIEW CASE 2
BaUyg&wan Springs into New Age Kisqua

4

The Marketing Environment

CHAPTER OBJECTIVES

After reading this chapter, you should he able to:

Describe the environmental forces that affect chc company's ability to serve its customers.

Explain how changes in the demographic and economic environments affect marketing decisions.

Identify the main trends in the firm's natural and technological environments.

Explain the key changes that occur in the political and cultural environments.



Preview Case

Unilever: Power?

'Mv GOD! THEY'RE REALLY GOING to use it!' Nabil Sakkab. Procter & Gamble's European head of laundry products development, exclaimed to colleagues as he looked closely at the myriad, tiny pink crystals scattered among a heap of detergent *he'd* just poured on to his desk. It was mid-March 1994 - the beginning of a protracted nightmare for Unilever, when arch rival P & G discovered the secret ingredient in its super-concentrated Power, a new, revolutionary washing powder: Omo Power in the Netherlands, Persil Power in the United Kingdom and Skip Power in France. Power was the biggest advance in fabric detergents in 15 years, and sales of Power were leaping in the three European countries where it had been launched. It



Procter & *Gamble strikes back: these campaigns draw attention to the damaging effects ofPersil* Poiecr's *manganese* '*accelerator*'.

worried P & G not just because the rivals were doing so well, but because Power contained a manganese catalyst, known as the 'aeeelerator', which is 'unkind' to clothes - it attacks fabrics! P & G had dropped the defective manganese as a possible ingredient ten years ago for that reason.

The question P & G posed was 'WHY?' With that the Great Soap War over Unilever's Power detergent began.

Power, the culmination of live years of developmental work, lay behind Unilever's strategy to salvage its market position in the £6 billion European fabric detergent market, in which P & G had long since overtaken it. Power was the company's second entry into the concentrated fabric detergent market. It had to be the trailblazer in the industry, a quantum leap in detergent effectiveness, to win back the lead. Unilever planned to launch Power in 11 countries in short order - a marketing blitzkrieg without precedent in Europe. For Niall Fitzgerald, Unilever's global coordinator of detergents, much was riding on Power's success. Turning round Unilever's ailing detergents business could mean eventual ascent to the joint chairmanship of the £roup.

A Private Warning

Ed Artzt, P & G's chairman, also nicknamed the Prince of Darkness, had a well-earned reputation for responding rapidly and ruthlessly when he felt P & G's interests were threatened. Power's success posed a significant threat to the company's current and imminent new products - Ariel Future was

due for launch in late] 994. The Power detergent was claiming a technological lead based on what he knew was a fundamentally flawed formula. Sakkab and his colleagues at P & G's European Technology Centre not only found that some dark dyes in cotton and viscose fabrics reacted badly to the detergent, they also discovered holes in clothes washed in Power.

On 31 March 1994 Amt urged top executives at Unilever House, London, to withdraw their new detergent. This was a private warning. For all the aggression in the market, P & G and Unilever have been known in private to alert one another to product flaws and work together to solve problems. This time, however, Unilever executives ignored this private warning, suspecting that Artzt was on a spoiling mission to undermine Power, Fitzgerald saw no need to take the costly and humiliating step of withdrawing Power, which had already been tested by scientists and over 60,000 consumers for two years without incident.

A story in the Dutch press on 27 April 1994 quoted a P & G spokesman who alluded to fabric damage caused by Power. Unilever held a press conference on 29 April denying P & G's claims, while issuing two writs for product defamation and trademark Infringement, and seeking an injunction to stop P & G using the torni 'Power for its own detergents. Tin rigs were getting 'grubbier'by this time!

P & G not only hired the PR firm, The Rowland Company (a Saatchi & Saatchi subsidiary) to run its campaign of public vilification, but also started a ruthlessly well-organized knocking-copy campaign - running around Europe to consumers' associations, washing machine manufacturers, retailers and anybody else who would listen, giving them very extensive technical briefings with lots of pictures of Power-damaged clothes.

Unilever on the Defensive

Power sales fell after every P & G onslaught. Although Unilever was able to rebuild them with advertising and special offers, this defence could not hold out for long. Leading supermarket chains in various countries were considering emptying their shelves of Power, even though Unilever stood firmly behind its products, denying that there was a problem.

On 3 June 1994 Unilever announced that it would:

- drop the lawsuits against P & G (after P & G assured Unilever that its spokesman had been misquoted);
- reformulate Power, and reduce the level of the accelerator in the powder by *8Q* per cent.

Meanwhile, P & G persisted in proving its point, releasing to the press pictures of clothes damaged by Power, plus results from six test institutes, all of which became front-page news in several European countries. Consumers' associations damned Power detergents; environmental campaigners in Sweden accused 1-V^ver of putting the nation's clothes in imminent jeopardy! Unilever remained defensive with both the press and the public, failing to find an effective counter to criticisms from all sides.

Unilever's Climbdown

Unilever revamped and relaunched Power products, while also retreating from its original broad market positioning to a more specialized niche - the

package was changed to concentrate use of the product in lower temperatures and on white fabrics. The company attempted to reassure consumers through advertisements that guaranteed the safety of Its revamped product. But then the Dutch consumers' union confirmed the damaging effects of the upgraded Power.

In late 1994, Unilever management finally admitted: 'We made a mistake. We launched a product which had a defect which we had not detected. We were very enthusiastic about an exciting new product and did not look closely enough at the negatives. Somewhere between research and marketing something went wrong - under the normal pressure to be first to the market.'

Unilever obviously failed to anticipate how violently its arch rival would react. By the end of the year, new independent tests, including the UK Consumers' Association *Which?* investigation, confirmed everybody's suspicions - that Power, even the reformulated version with reduced manganese, was defective.

What are the Costs of the Power Fiasco to Unilever?

After spending more than £200 million on developing, manufacturing and marketing Power products, Unilever remains a poor second to P & G in the European detergent market. A heavy price was exacted on reputations - the company's and those of the Persil and Onio brands. Unilever's image as a shrewd marketer and innovator was undermined. The whole affair has exacerbated consumers' scepticism towards manufacturers; as one retailer said, 'the whole [detergents] sector is drowning in over-claiming and publicity which leaves consumers confused',

The Lessons

Many soap war observers would conclude that, with Power products, Unilever had practised socially irresponsible marketing - and deservedly paid heavily for it. However, the case has much broader lessons for businesses. The marketing environment for goods and services is getting fiercer. Unilever had failed to appreciate how competition and other environmental forces impact on its organization.

QUESTIONS

1. What are the key actors and forces in the company's marketing environment that affect its ability to serve its target customers effectively?
2. Identify the most critical actors or forces that accounted for Persil/Omo Power's ultimate downfall.
3. Show how each of the actors/forces you have identified in question 2 directly {or indirectly) impacted on Unilever's final decision to revamp and relaunch the defective Omo/Persil Power,
4. Criticallv evaluate the motives of P & G.
5. What are the key lessons for management?
6. Could the problems have been anticipated and avoided? How?

Introduction

In Chapter 3 we examined the marketing strategy and planning process which helps marketing management develop and maintain successful transactions with its target customers. Companies succeed as long as they have matched their products or services to today's marketing environment. This chapter addresses the key forces in the firm's marketing environment and how they affect its ability to maintain satisfying relationships with target customers.

marketing environment *The actors and forces outside marketing that off eat marketing management's ability to develop and maintain successfu l transactions with its target customers.*

A company's marketing **environment** consists of the actors and forces outside marketing that affect marketing management's ability to develop and maintain successful transactions with its target customers. The marketing environment offers both opportunities and threats. Successful companies know the vital importance of using their marketing research and intelligence systems constantly to watch and adapt to the changing environment. Too many other companies, unfortunately, fail to think of change as opportunity. They ignore or resist critical changes until it is almost too late. Their strategies, structures, systems and culture grow increasingly out of date. Corporations as mighty as IBM and General Motors have faced crises because they ignored environmental changes for too long.

A company's marketers take the major responsibility of identifying significant changes in the environment. More than any other group in the company, marketers must be the trend trackers and opportunity seekers. Although ever;' manager in an organisation needs to observe the outside environment, marketers have two special aptitudes. They have disciplined methods - marketing intelligence and marketing research - for collecting information about the marketing environment. They also normally spend more time in the customer and competitor environment. By conducting systematic environmental scanning, marketers are able to revise and adapt marketing strategies to meet new challenges and opportunities in the marketplace.

inieroenvironinent *The forces close to the company that affect its ability to serve its customers - the company, market channel firms, customer markets, competitors and publics.*

macroem<ironment *The larger societal forces that affect the "whole microenvironment - demographic, economic, natural, technological, political and cultural forces.*

The marketing environment consists of a microenvironment and a macroenvironment. The niierocrtvironmeiit consists of the forces close to the company that affect its ability to serve its customers - the company, suppliers, marketing channel firms, customer markets, competitors and publics. The niiieroenvironnient consists of the larger societal forces that affect the whole microenvironment - demographic, economic, natural, technological, political and cultural forces. We look first at the company's microenvironment.

The Company's Microenvironment

Marketing management's job is to create attractive offers for target markets. However, marketing managers cannot simply focus on the target market's needs. Their success will also be affected by actors in the company's microenvironment. These actors include other company departments, suppliers, marketing intermediaries, customers, competitors and various publics (see Figure 4.1).

The Company

In designing marketing plans, marketing management should take other company groups, such as top management, finance, research and development (11 & D), purchasing, **manufacturing** and accounting, into consideration. All these interrelated

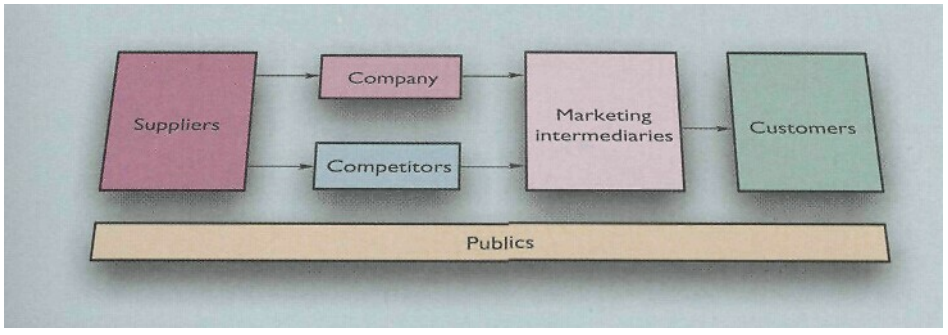


Figure 4.1 Principal actors in the **company's** microenvironment

groups form the internal environment (see Figure 4.2). Top management sets the company's mission, objectives, broad strategies and policies. Marketing managers must make decisions consistent with the plans made by top management, and marketing plans must be approved by top management bel'ore they can be implemented.

Marketing managers must also work closely with other company departments. Finance is concerned with finding and using funds to carry out the marketing plan. The R & D department focuses on the problems of designing safe and attractive products. Purchasing worries about getting supplies and materials, whereas manufacturing is responsible for producing the desired quality and quantity of products. Accounting has to measure revenues and eosts to help marketing know how well it is achieving its objectives. Therefore, all of these departments have an impact on the marketing department's plans and actions. Under the marketing concept, all of these functions must 'think customer' and they should work together to provide superior customer value and satisfaction.

Suppliers

suppliers
Firms *and individuals that provide the resources needed by ilie company and its competitors to produce goods and services.*

Suppliers are an important link in the company's overall customer 'value delivery system". They provide the resources needed by the company to produce its goods and services. Supplier developments can seriously affect marketing. Marketing managers must watch supply availability - supply shortages or delays, labour strikes and other events can cost sales in the short run and damage customer [Satisfaction in the long run. Marketing managers must also monitor the price trends of their key inputs. Rising supply eosts may force price increases that can harm the company's sales volume.

Marketing Intermediaries

marketing **intermediaries**
Firms that help the company to promote, sell and distribute its goods to final buyers; they include physical distribution firms, marke ting-service agencies and financial intermediaries.

Marketing intcrmcdiaries are firms that help the company to promote, sell and distribute its goods to final buyers. They include *resellers, physical distribution firms, marketing services agencies andfinancial intermediaries.* Resellers are distribution channel firms that help the company find customers or make sales to then). These include wholesalers and retailers which buy and resell merchandise. Selecting and working with resellers is not easy. No longer do manufacturers have many small, independent resellers from which to choose. They now face large and growing reseller organizations. These organizations frequently have enough power to dictate terms or even shut the manufacturer out of large markets.

resellers
The *individuals and organisations that buy goods and services to resell ar a profit*

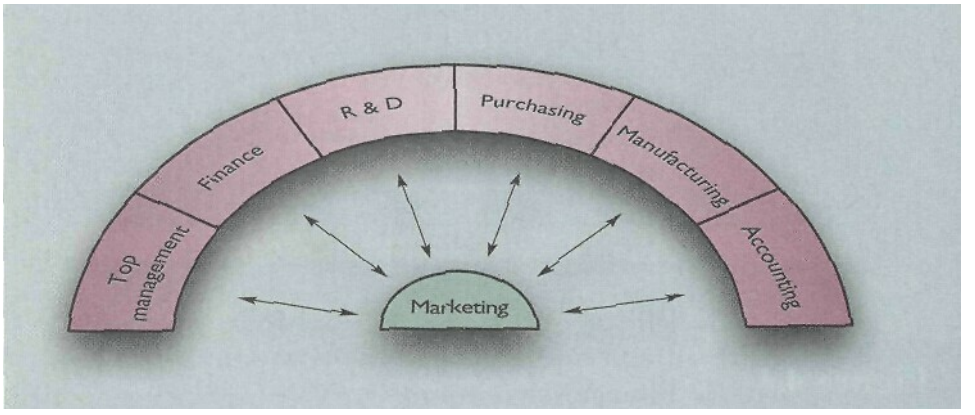


Figure 4.2 **The company's internal environment**

physical distribution firms
Warehouse, transportation and other firms thai help a company to stock and move goods from their points of origin to their destinations.

marketing services agencies
Marketing research firms, advertising agencies, media firms, marketing consulting firms and other service providers that help a company to target and promote its products to the right markets.

financial intermediaries
flanks, credit companies, insurance companies and other businesses that help finance transactions or insure against the risks associated e usith the buying and selling of goods.

Physical distribution firms help the company to stock and move goods from their points of origin to their destinations. Working with warehouse and transportation firms, a company must determine the best ways to store and ship goods, balancing such factors as cost, delivery, speed and safety.

Marketing services agencies are the marketing research firms, advertising agencies, media firms and marketing consultancies that help the company target and promote its products to the right markets. When the company decides to use one of these agencies, it must choose carefully because the firms vary in creativity, quality, service and price. The company has to review the performance of these firms regularly and consider replacing those that no longer perform well.

Financial intermediaries include banks, credit companies, insurance companies and other businesses that help finance transactions or insure against the risks associated with the buying and selling of goods. Most firms and customers depend on financial intermediaries to finance their transactions. The company's marketing performance can be seriously affected by rising credit costs and limited credit. For example, small and medium-sized businesses in the United Kingdom have often found difficulty in obtaining finance for market and product development activities. Many such businesses blame this on the insupportive financial system in the UK. In marked contrast, the Japanese *kieretsu* system favours lower-cost financing for both large and small companies that form part of the informal network of banking, trading and commercial organizations within the *Itieretsu,* Whether *or* not businesses enjoy the support of a favourable financial system, individual businesses must be aware of financial organizations' impact on marketing effectiveness. For this reason, the company has to develop strong relationships with the most important financial institutions.

Like suppliers, marketing intermediaries form an important component of the company's overall value delivery system. In its quest to create satisfying customer relationships, the company must do more than just optimize its own performance. It must partner effectively with suppliers and marketing intermediaries to optimize the performance of the entire system.

Customers

The company must study its customer markets closely. Figure 4.3 shows six types of customer market. *Consumer markets* consist of individuals and households

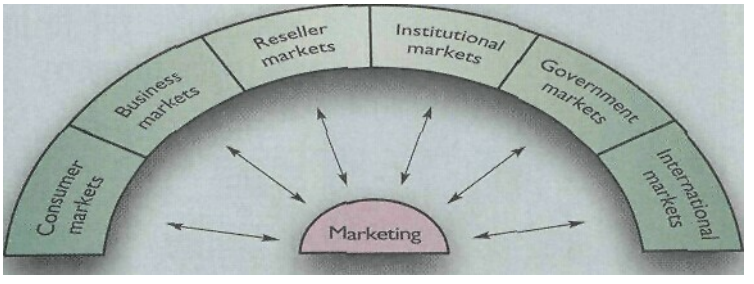


Figure 4.3 **Types** of customer market

that buy goods and services for personal consumption. *Business markets* buy goods and services for further processing or for use in their production process, whereas *reseller markets* buy goods and services to resell at a profit. *Institutional markets* are made up of schools, hospitals, nursing homes, prisons and other institutions that provide goods and services to people in their care. *Government markets* are made up of government agencies that buy goods and services in order to produce public services or transfer the goods and services to others who need them. Finally, *international markets* consist of buyers in other countries, including consumers, producers, resellers and governments. Each market type has special characteristics Chat call for careful study by the seller. At any point in time, the firm may deal with one or more customer markets: for example, Unilever has to communicate detergent brand benefits to consumers as well as maintaining a dialogue with retailers that stock and resell its branded products.

Competitors

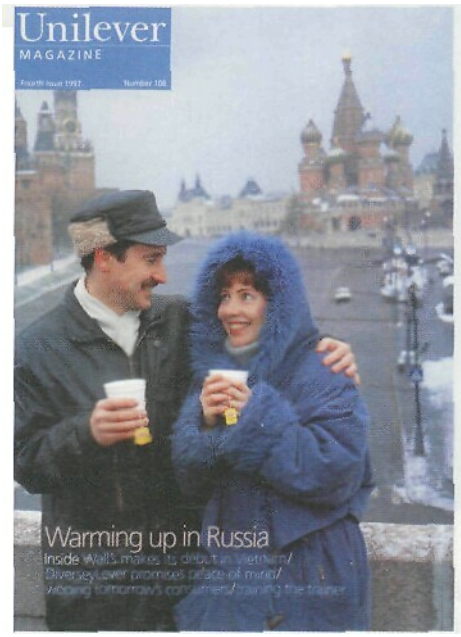
The marketing concept states that, to be successful, a company must provide greater customer value and satisfaction than its competitors do. Thus, marketers must do more than simply adapt to the needs of target consumers. They must also gain strategic advantage by positioning their offerings strongly against competitors' offerings in the minds of consumers.

No single competitive marketing strategy is best for all companies. Each firm should consider its own size and industry position compared to those of its competitors. Large firms with dominant positions in an industry can use certain strategies that smaller firms cannot afford. But being large is not enough. There are winning strategies for large firms, but there are also losing ones. And small firms can develop strategies that give them better rates of return than large firms enjoy.

Publics

public
Any group Chat has an actual or potential interest in or impact on an organization's ability to achieve its objectives.

The company's marketing environment also includes various publics. A public is any group that has an actual or potential interest in or impact on an organization's ability to achieve its objectives. Figure 4.4 shows seven types of public:



Comrnunwatmg 'with publics: Unilever magazine communicates nevus and information to *employees.*



The Kcmira Group uses *this ad to communicate* to *both national and international customers, public and institutionui* Ancestors. *Its 'super-league'fecl^ great about working for thefirm; its customersfeet they are in SLife* ftandw.

1. *Financial publics.* Financial publics influence the company's ability to obtain funds. Banks, investment houses and stockholders are the principal financial publics.
2. *Media publics.* Media publics are those that carry news, features and editorial opinion. They include newspapers, magazines and radio and television stations,
3. *Government public*.* Management must take government developments into account. Marketers must often consult the company's lawyers on issues of product safety, truth-in-advertising and other matters.
4. *Citizen action publics. A* company's marketing decisions may be questioned by consumer organizations, environmental groups, minority groups and other pressure groups. Its public relations department can help it stay in touch with consumer and citizen groups.
5. *Local publics.* Every company has local publics, such as neighbourhood residents and community organizations. Large companies usually appoint a community-relations officer to deal with the community, attend meetings, answer questions and contribute to worthwhile causes.
6. *General public. A* company needs to be concerned about the general public's attitude towards its products and activities. The public's image of the company affects its buying. Thus, many large corporations invest huge sums of money to promote and build a healthy corporate image.
7. *Internal publics. A* company's internal publics include its workers, managers, volunteers and the board of directors. Large companies use newsletters and other means to inform and motivate their internal publics. When employees feel good about their company, this positive attitude spills over to their external publics.

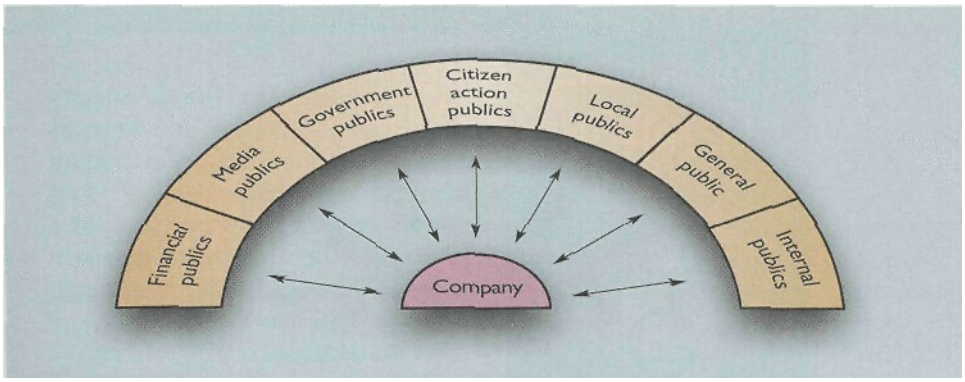


Figure 4.4 **Types** of publics

A company can prepare marketing plans for these publics as well as for its customer markets. Suppose the company wants ;i specific response from a particular public, such as goodwill, favourable word of mouth, or donations of time or money. The company would have to design an offer to this public that is attractive enough to produce the desired response.

Organizations today are under die watchful eyes of their various publics. As we saw in the case of Unilever's soap war with P & G, the company must explain its actions to a wider audience when things go wrong. Those that overlook the power of serious interest groups often learn painful lessons (see Marketing Highlight 4.1).

We have looked at the firm's immediate or microenvironment. Next we examine the larger macroenvironment.

The Company's Macroenvironment

The company and all the other actors operate in a larger macro environment of forces that shape opportunities and pose threats to the company. Figure 4.5 shows the six most influential forces in the company's macroenvironment. The remaining sections of this chapter examine these forces and show how they affect marketing plans.

Demographic Environment

demography
The study qf human populations in *terms of SIKG, density, location, age, sex, race, occupation and other statistics.*

Demography is the study of human populations in terms of size, density, location, age, gentler, race, occupation and other statistics. The demographic environment is of considerable interest to marketers because it involves people, and people make up markets. Here, we discuss the most important demographic characteristics and trends in the largest world markets.

* *Population Size and Growth Trendy*

In any geographic market, population size and growth trends can be used to gaufe its broad potential for a wide range of goods and services. We often refer to the United States. Japan and Europe as the 'triad' markets. The European Union (EU),

Marketing

Speaking for **Herman the Bui]**

Nutricia, a Dutch producer of baby foods and powders and a leading investor in biotechnology research, entered into a joint venture with the Dutch subsidiary of US biotechnology firm GenPharm International, to carry out research which attempted to genetically engineer cows' mill;. A human gene was inserted into the genetic material of a bull called Herman. The two companies hoped that the milk produced by Herman's female descendants would contain large amounts of lactoferrine, a substance normally found in human milk. The Dutch Society for the Protection of Animals (DSPA) subsequently launched an anti-Herman campaign. A first series of shock posters showed a starry-eyed cow with the question posed: 'Soon to be marketed with blonde hair and blue eyes?' A second depicted a woman's naked chest with two neat rows of udders. Campaigners threatened to call an all-out boycott of Nutricia products.

The Dutch government, which has introduced 'never unless' rules to regulate genetic manipulation of animals, exceptionally permitted the Nutricia project to go ahead as scientists argued that large-scale production of lactoferrine serves unique medical goals. The DSPA, however, stressed that the Nutricia project's motive was purely commercial - to manufacture the equivalent of mother's milk on an agribusiness scale at potential cost to animal welfare. A Nutricia spokesman said, 'When the project was presented to us four years ago, it didn't seem likely to cause controversy. There is great pressure on us to keep investing in technology. But in the current climate, if a similar offer came up, the company would probably prefer to decline it.'

The project had to be abandoned. Nutricia admitted a loss of some OKI 4 million and said it would handle such pioneering efforts more carefully in the future. Pressure groups in Holland declare that they have effectively scared investors from venturing into the most delicate and controversial field of modern biotechnology • - the genetic modification of an animal, which the Nutricia case exemplified. According to a spokesman for N1ABA, a group representing the Dutch food industry for biotechnology matters, food companies in the country would invest between two and three times more in such research if they did not fear damaging upheavals. He added, 'The animal rights and environmental pressure groups may not represent a very large section of opinion, but their blackmailing tactics have been known to work in the past. Any company that ignores their signals takes a very big chance,'

Dutch 'novel foods' laws now dictate that firms which want to market an entirely new



STOPB10TECHNOLOG1EBIJDIEREN

The power &finterest groups: the 'anti-Herman' campaign led by the Dutch Society for the Protection *ofAnimalK forced Nutricia and GenPharm International to abandon the controversial biotechnology research project.*

product must first present their plans to the authorities and let them undergo a long series of safety tests. On top of national and European rules, some large companies in the Netherlands have adopted their own corporate policy statement to clarify their views on biotechnology development to avoid damaging controversy. In the light of the Nutricia affair, both investors and companies urge an update of ethical rules at European levels.

SoiniOlo; Ailapfed from Barbara Smit, 'Herman the Bull soarus (ill Hutch research pioneers', *The European (22-8* July **1994), p. 25.**

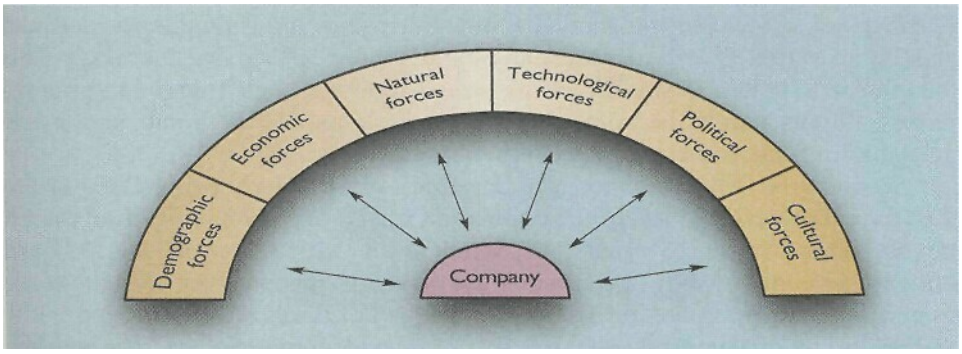


Figure 4.5 **Influential forces in the company's macroenvironment**

together with members of the European Free Trade Area (EFTA), has a population of around 370 million. With another 120 million from eastern Europe and 280 million from the former USSR, the overall European market will be significantly larger than the North America Free Trade Area - the United States, Canada and Mexico - with a population of 370 million and Japan with 128 million. Marketers also view China, with 1.2 billion people, as a potentially lucrative growth market.[2]

Population growth trends are important because they can offer marketers an indication of demand for curtain goods and services, A 'baby boom' would suggest growing demand for infant foods, nursery appliances, maternity services, baby clothing, toys and so forth, in the short to medium term, with rising demand for family-size accommodation, larger cars, schools and educational services over the longer term. Differences in population growth patterns between country markets may also suggest different international marketing opportunities for firms.

• *Changing Age Structure of a Population*

The most noticeable demographic shift in Europe, the United States and affluent Asian countries is the changing age structure of the population. In all three groups, the national populations are getting older, and the trend is forecast to continue over the next 50 years. The ageing population structure reflects two influences. First, there is a long-term slowdown in birth rate, so there are fewer young people to pull the population's average age down. Western European countries, with the exception of Ireland, rank below the 2.1 children per woman (fertility) level found in the United Slates, and well below the 3.3 world average. Italy, reporting 1.3 children per woman, has the lowest fertility level in the world.



To serve the large and groioing 'kid market', many retailers are opening separate children s chains. For example, Toys ' 51' US opened J\ids 'JV't/s.

Fertility rates in Japan, Singapore, South Korea and Hong Kong have declined steadily over the last two decades, and all he below America's 2.1 average. This 'birth-dearth' linked to smaller family sizes is due to people's desire to improve personal living standards, women's desire to work outside the home, and widely available and effective birth control practices.

Secondly, as longevity increases there are more elderly people (see Figure 4.6) to pull the average age of the population up. By 2031, 38 per cent of the UK population will be over 50 years old. Compare this with 32 per cent in 1991 and only 28 per cent in 1951. In Germany, the balance of people over 65 years of age to persons of working age (or *the dependency ratio)* is expected to exceed 1:1 by 2031. Put more colourfully by the historian and demographer Peter Laslett, 'Europe and the West are growing older and will never be young again.' The picture is repeated in developed Asian countries. Tine rapid ageing of the Japanese population is one of the government's biggest long-term **worries.**[3] Further, the demographic change of longer life is not confined to advanced countries. In Latin America and most of Asia, the share of over-60s is set to double between now and 2030, to 14 per cent. In China, it will increase from less than 10 per cent now to around 22 per cent in 2030.

Demographic shifts have important implications for marketing managers. Marketers thus track demographic trends and moves carefully (see Marketing **Highlight 4.2).**

The, Changing Family

The notion of an ideal family - mum, dad and two kids - has lately been losing some of its lustre. People are marrying later and having fewer children. The specific figures may vary among countries, but the general trend is towards fewer married couples with children. In fact, couples with no children under 18 now make up a high proportion of all families. These are worrying trends too for wealthy Asian countries like Singapore, Japan and Hong Kong.

Also, the number of working mothers is increasing. Marketers of goods ranging from cars, insurance and travel to financial services are increasingly directing their advertising to working women. As a result of the shift in the traditional roles and values of husbands and wives, with male partners assuming more domestic functions *such* as shopping and child care, more food and household appliance marketers are targeting this group of individuals.

Finally, the number of non-family households is increasing. Many young adults leave home and move into apartments. Other adults choose to remain single. Still others are divorced or widowed people living alone. By the year 2000, one-person/non-family and single-parent households - the fastest growing category of households - will represent a sizeable proportion of all households. In

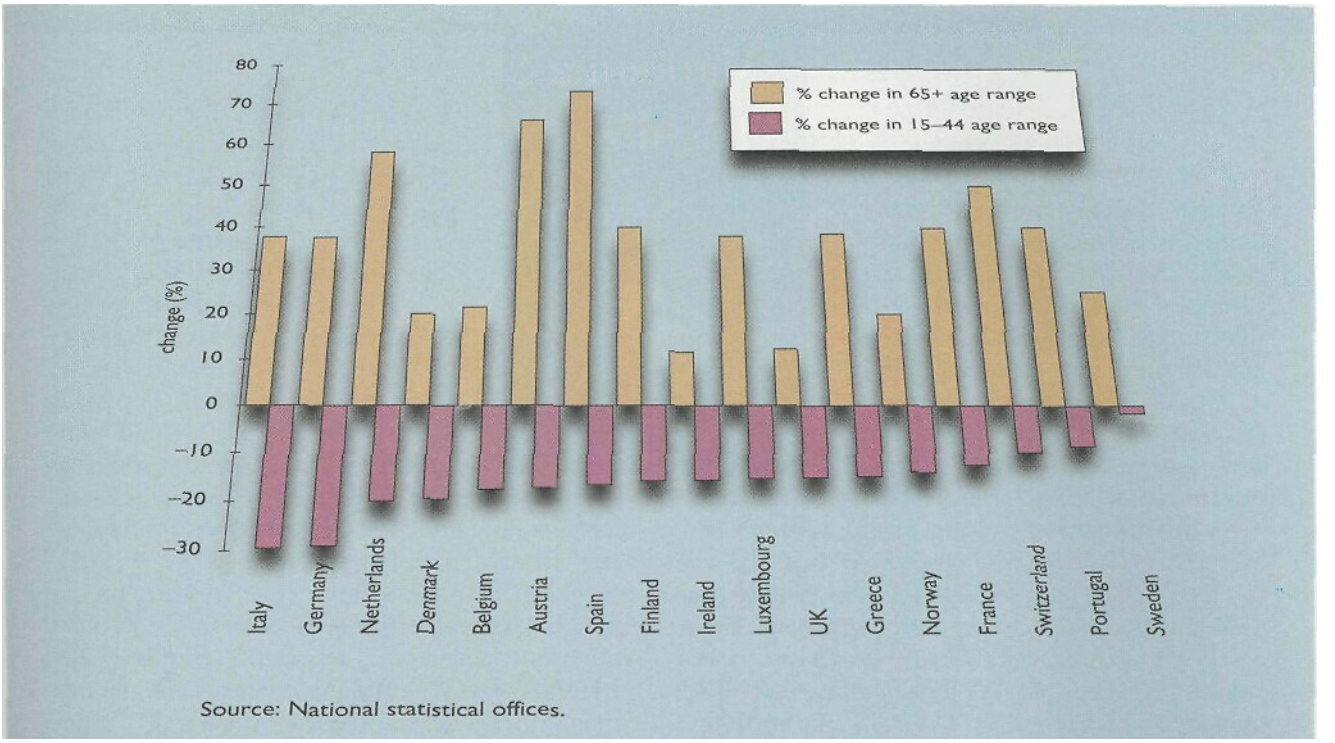


Figure 4.6 ageing **population:** forecast growth rates to the year 2020

Sweden, for example, one-person households now account for over 40 per cent of all homes. Between 1981 and 1991, there has been an upward trend towards single-person households (see Figure 4.7). In the United States, figures are comparable, with estimates putting the number at 47 per cent by the year 2000. These groups have their own special needs. For example, they need smaller apartments, Inexpensive and smaller appliances, furniture and furnishings, and food that is packaged in smaller sizes.[4]

• *Rising Number of Educated People*

As economies in eastern Europe and Asia develop, we may expect to see more money spent on education. The proportion of the population that is educated will rise and the population, as a whole, will become better educated. The rising number of educated people will increase the demand for quality products, books, magazines and travel,

In many developed and industrializing countries, the workforce is also becoming more white collar. The most growth comes in the following occupational categories: computers, engineering, science, medicine, social service, buying, selling, secretarial, construction, refrigeration, health service, personal service and protection.[5]

• *Increasing Diversity*

In the 1990s, efforts towards European integration have escalated. The EU now comprises 15 member states - France, Luxembourg, Italy. Germany, with East Germany on unification, Netherlands, Belgium, Denmark, Ireland, United Kingdom, Greece. Spain, Portugal, Sweden, Austria and Finland. The EC's enlargement

Marketing Highlight 4.2

"Third Agers' and 'Generation Xers'



Two of today's most important demographic groups are the 'Third Agers' and 'Generation Xers'. For example, the Henley Centre, a UK forecasting organization, draws attention to the emerging Third Agers. They will be 50-75 years old and will have more free time and money and higher expectations than their predecessors. They are brought up to value aspirations and self-fulfilment. They are now in their forties, but will represent the first mass leisure class. Unlike preceding generations, whose upbringing gave them a more frugal outlook, Third Agers were socialized in the 1960s, the era of expanding individual choices and economic growth. One implication is the rise in 'grey power' in western Europe. 'Grey power' has already manifested itself in the USA, where the postwar baby boom occurred a decade earlier than in Europe. The baby boom created a huge bulge in America's age distribution. As the 75 million or so baby boomers age, so the *US* average age climbs and, along with it, 'grey power'. The 37 million members of the American Association of Retired People represents a powerful lobby - and important new markets for leisure and education. The Henley Centre study argues that such dynamic consumers, who have both the time and monev, should already be the most sought-after target for the leisure industry. Time-use studies show that in the UK, for example, Third Agers already take part more widely in active leisure pursuits - long country walks, short-break holidays, visits to museums or historic buildings - • than younger people. They are also 'catching' their juniors in terras yf playing team sports, swimming and using sports centres, visiting cinemas and attending ovening classes. Participation rates for the 45-59-year-olds have risen sharply since 1986.

Some marketers think that focusing on the boomers has caused companies to overlook other important segments, especially younger consumers. Focus is shifting in recent years to a new group, the generation born between 1965 and 1976 - die 'Generation Xers'. Increasing divorce rates and higher employment for mothers have made them the first generation of latchkey kids. Whereas the boomers of the 1960s created a sexual revoJution, the Xers have lived in the age of AIDS. Having grown up during times of recession and corporate downsizing, they have developed a pessimistic economic outlook. As a result, the Xers are a more sceptical bunch, cynical of frivolous marketing pitches that promise easy success. They know better. The Xers buy lots of products, such as sweaters, boots, cosmetics, electronics, cars, fast food, beer, computers and

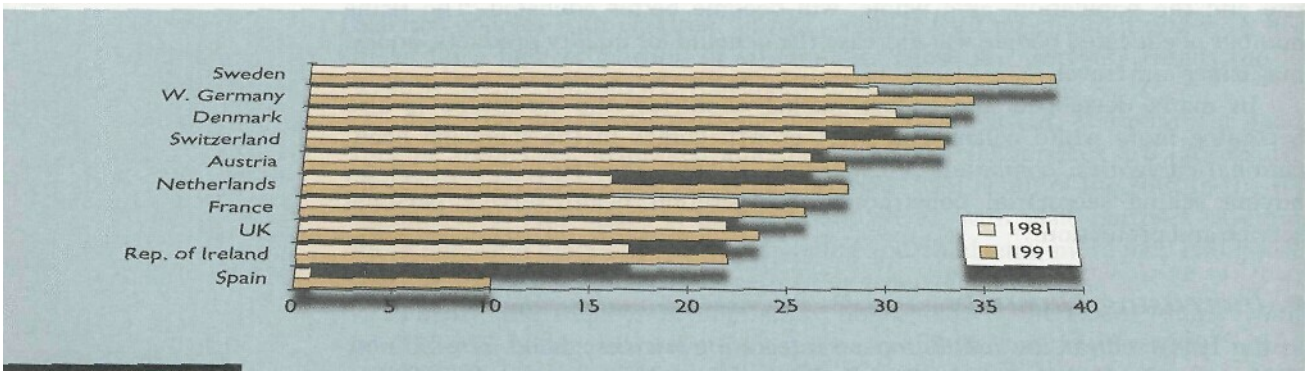


Figure 4.7 **The rise *of the* one-person household**

mountain bikes. However, their cynicism makes them more savvy Choppers. Their financial pressures make them value conscious and they like lower prices and a more functional look. **The** Generation Xers respond to honesty in advertising. They like irreverence and impudence and ads that mock the traditional advertising approach.

Generation Xers share new cultural concerns. They care about the environment and respond favourably to companies which have proven records of environmentally and socially responsible actions. Although they seek success, the Xers are less materialistic. They want better quality of life and are more interested in job satisfaction than in sacrificing personal happiness and growth for promotion. They prize experience, not acquisition.

Surveys on Asian youth culture highlight the emergence of the region's first 'children of plenty', its very own Generation X, teenagers and 20-somethings who have grown up knowing nothing but peace, dazzling economic growth and an ever-rising flood of consumer goods. Compared to their western counterparts, Asian Generation Xers stress the importance of family, jobs, marriage, saving for the future, respect for elders and other such traditional values. Broad generalizations are, of course, fraught with controversy, not least over the definition of what exactly constitutes Values'. And in a region as vast as Asia there are naturally many local variations, even exceptions. 'But one by one as we research the different topics, \ve find one thing in common ... the values they hoid in areas like family,' says Jacfcy Pang of the Hong Kong Federation of Youth Groups. 'They may mimic American trends - music and fashion - but they aren't like American kids,' echoes Ben Tan, of advertising agency Leo Burnelt in Kuala Lumpur. 'We have been as surprised as anyone by the results of our research.' concludes Jacky Pang.

The Generation Xers, as a whole, will have a big impact on the workplace and marketplace in the future. They arc poised to displace die lifestyles, culture and materialistic values of the baby boomers. By the year 2010, they will have overtaken the Third Agers as a primary market for almost every product category.

SOURCES: Jeff Giles, 'Centralisations X',Wero,STCf;ek (6 June 1994), pp. 62-9; Nicholas Zil) and John Robinson, The Gelieration X Difference', *American Demographics* (April 1995), pp. 24-9; 'Rook solid', *Far Eastern Rcannmio* Reui«e> (5 December 1996), pp 50-2; Dyan Mitchan, 'A more tolerant generation', *Fttrbes (8* September 1997), pp. 46-7; Barbara Beck, 'The luxury of longer life, a survey of the economics of ageing'. *The Ecanfirnist (21* January 1996), pp. 3-5; David Nicholson-Lord, 'Mass leisure olass is on th« way. say forecasters', Mtteptrtuienr (IS April 1994), p. 4; see also Leisure futures, vol. 1 (London: Henley Centre, 1994); James U. McNeal, 'Growing up in the market', *AmeritMn Demographics* {October 1992), pp. 46-50; Diane Crispell and William H. Frey, 'American maturity', ^American *Demographics* (March 1993), pp. .11-42; Melindcr Beck, 'The fieezer boom', in 'The 21st century family', a special issue *aiNewavieek* (Winter/Spring 1990). pp. 62-7.

programme is still high on politicians' agendas. Eastern and central European countries, including former Soviet bloc states, are seeking to participate in the EU, which, in the longer term, could become a reality.

The EU, in its present state, and in a potentially enlarged form, presents huge challenges for domestic and international marketers. We will discuss international marketing issues in more detail in Chapter 5. In general, marketers operating, in the vastly expanded EU must recognize the great diversity across member Mates. Unification strives to achieve harmonization of rules and regulations, which will affect business practices across the Union. Many marketers believe the single European market will lead to convergence in consumer tastes. Global advertising agencies like Saatchi & Saatchi and Young and Rubicam were strong supporters of the idea of the "Euro consinner'. However, consumer needs, values, beliefs, habits and lifestyles differ across individual country markets, just as spending power and consumption patterns arc likely to vary. Businesses will do

well to identify national and regional differences, and to develop appropriate marketing strategies that take on board this diversity. Where there are European consumers who display similar cultural values and tastes for particular goods and services, then pan-European strategies may be more cost-effective. For example, the internationalism of snob items, such as Kolex watches or Cartier jewellery, which appeal to a small number of like-minded consumers, or **high-fashion** purchases like Swatch watches and Benetton clothes, which pander to the younger generation of dedicated fashion followers, lend themselves to pan-European marketing or advertising.

In most markets, however, firms have found that the 'one sight, one sound, one sell' dictum loses out to the more effective strategy of customization. Even Coca-Cola, arch exponent of globalism, tailors the marketing of its drinks to suit different markets. Kronenhourg, France's most popular beer, is soid to a mass market with the eternal images of France, like cafes, boules and Citroen 2CVs. In the United Kingdom, Kronenbourg is presented as a drink for 'yuppies'. Unilever customizes its advertisements for Impulse, a body spray. In the UK, the handsome young fellow who gets a whiff of Impulse from the woman nearby presents her with a bunch of flowers. In the Italian version, Romeo offers the woman a rose.

Whether the Euroconsumer is a myth or reality is widely debated today. Marketers must address a marketing basic: identify consumer needs and respond to them. Converging lifestyles, habits and tastes may often not mean converging needs. Europe remains a pot-pourri of cultures and systems, which present immense marketing opportunities for sellers. Although soeial and demographic factors and the marketing strategics of multinational consumer goods companies may combine to make lifestyles of different European (and rising wealthy Asian) nations more alike, diversity will feature just as much as convergence in the new world economy. Companies that overlook diversity in favour of pan-European or .global strategies must carefully develop and execute their standardized approaches/' We discuss pan-European versus standardized marketing practices in greater depth in the next chapter.

Economic Environment

Economic **environment** Factors *that affevt connitincr buying potmer and spending patterns.*

Markets require buying power as well as people. The economic environment consists of factors that affect consumer purchasing power and spending patterns. Marketers should he aware of the following predominant economic trends.

Income Distribution and Changes in Purchasing Power

Global upheavals in technology and communications over the 1990s brought about a shift in the balance of economic power from the West (mainly North American, Canadian and western European nations) towards the rapidly-expanding economies of the Asian Pacific Rim. Many of the Asian 'tiger' economies, notably South Korea, Thailand, Malaysia, Indonesia and Singapore, were enjoying annual growth rates in excess of 7 per cent, compared to the 2-3 per cent found in western Europe and the USA. Official statistics suggest that, by 2010, purchasing power income per head in countries like Singapore and South Korea will exceed that of the United States. Economic growth projections suggest that Europe will drop down the economic rankings. Assuming annual growth in western Europe and the United States of 2.5 per cent, and 6 per cent in Asia as a whole, the share of world grows domestic product (C.DP) taken by Asian developing countries, including China and India, could rise to 28 per cent in 2010 from 18 per cent in 1990. Western Europe's share will fall to 17 per cent from 22 per

cent, while the United States will drop to 18 per cent from 23 per cent.[7] However, in June 1997, Asia's economic miracle came to an end. Economic and financial turmoil struck some of the fastest-growing countries in the region.

> The roots of the Asian economic crisis van' from country to country. Generally, the seeds of trouble lay in headlong economic growth and policies and practices that resulted in over-burdened financial systems. The Asian 'tiger' economies attracted floods of foreign investment which increased land and asset prices. Lending soared. Authorities embarked on huge, often economically questionable, infrastructure projects - new cities, railroads, highways, power stations - which brought little return on investment. The region's currencies were pegged to the US dollar, which had been appreciating in recent years. Country after country saw their currency depreciate as the crisis unfolded. Moreover, the region's exporters were gradually becoming uncompetitive. Many countries suffered from 'crony capitalism' in which authorities encouraged banks to lend to politically well connected businesses. Close neighbour, Japan, and the world's second biggest economy, has also become vulnerable to the crisis, as its financial institutions are big lenders to the rest of the region.[s]

Before the Asian financial crisis developed, it hod become almost an article of faith that the region would maintain perpetual growth. Business analysts believe that, where authorities are committed to appropriate reforms, recovery will be possible. Meanwhile, authorities must adopt measures to arrest further decline and to prevent the turmoil from spreading even wider.

Although there has been a narrowing of the wealth and living standards gap between the developed western and rising Asian countries in recent decades, the uncertain economic climate in the Asian economies has important implications for international marketers. They must determine how changing incomes affect purchasing power and how they translate into marketing threats and opportunities for the firm.

Where consumer purchasing power is reduced, as in countries experiencing economic collapse or in an economic recession, *value-far-money* becomes a key purchasing criterion. Marketers must pursue *vaktv-based marketing* to capture and retain price-conscious customers during lean economic times, unlike boom periods when consumers become literally addicted to personal consumption."Rather than offering high quality at a high price, or lesser quality at very low prices, marketers have to look for ways to offer the more financially cautious buyers greater value - just the right combination of product quality and good service at a fair price.[10]

Consumers with the greatest purchasing power are likely to belong to the higher sociocconomic groups, whose rising incomes mean that their spending patterns are 5ess susceptible to economic downturns than lower-income groups. So, marketers must determine a population's mcome *distribution.* The *upper* economic strata of a society become primary targets for expensive luxury goods, the *middle* income groups are more careful about spending, but can usually afford some luxuries sometimes, while the *lower* strata will afford only basic food, clothing and shelter needs. In some countries, an *underclass* exists - people permanently living on state welfare and/or below the poverty line - which has little purchasing power, often struggling to make even the most basic purchases.

Changing Consumer Spending Patterns

Table 4.1 shows how European consumer expenditure on different products varies. Generally, the total expenditures made by households tend to van' for

Table 4.1 European consumer expenditure by product, 1990 (% of total expenditures

	FOOD	Aix JOHOLIC DRINK	NON-ALCOHOLIC DRINK	TOBACCO	CLOTHING	FOOTWEAR	HOUSING
EU members							
Austria	16.8	2.3	0.7	1.9	8.8	2.3	17.8
Belgium	16.0	2.8	1.0	1.4	4.9	1.0	12.1
Denmark	14.8	3.1	0.6	2.9	4.7	0.7	19.7
Finland	16.6	3.3	0.5	1.7	4.1	0.8	14.3
France	15.1	1.9	0.5	1.0	5.5	1.1	12.2
Germany E	25.4	10.0	1.5	3.8	10.2	2.3	1.5
Germany W	17.3	2.3	0.6	1.7	7.5	1.6	15.6
Greece	41.8	2.2	1.0	2.5	6.4	0.8	10.3
Ireland	22.3	12.1	1.5	4.9	5.1	1.3	5.3
Italy	18.8	1.2	0.4	1.6	6.8	2.0	10.6
Luxembourg	13.7	1.4	0.6	4.7	5.6	0.6	11.9
Netherlands	15.1	1.1	0.4	1.8	5.0	1.7	11.7
Portugal	34.6	L5	0.2	1.3	4.9	1.5	8.9
Spain	24.4.	1.1	0.4	1.3	5.3	1.5	12.6
Sweden	15.2	2.7	0.4	1.9	5.4	1.0	17.6
United Kingdom	11.1	6.3	1.0	2.6	4.9	1.0	10.2
EfTA members							
Iceland	29.0	2.1	0.5	2.4	8.5		10.9
Liechtenstein	11.5	6.0	1.1	2.0	6.1	1.0	18.3
Norway	18.4	3.4	1.1	2.3	6.2	1.3	12.2
Switzerland	19-2	4.7	0.8	1.6	3.9	0.9	13.5
Eastern Europe							
Albania	24.0	5.0	1.8	2.2	12.4	1.4	4.8
Bulgaria	18.7	11.6	1.0	2.6	7.4	2.6	2.0
Czechoslovakia	29.9	9.5	1.9	5.8	6.3	1.4	3.1
Hungary	26.2	9.5	2.5	2.1	6.9	1.2	4.8
Poland	25.1	11.2		1.7	8.1	1.6	16.3
Romania	22.7	6.4	1.8	2.3	7.9	2.1	2.0
USSR	27.8	12.2	0.9	2.4	15.6	3.6	3.2
Yugoslavia	47.2	3.6	1.0	2.0	8.5	2.0	2.4
Others							
Cyprus	19.7	1.4	1.3	1.3	14.8	1.1	6.2
Gibraltar	31.0	1.1		1.0	9.8	2.0	13.5
Malta	26.1	4.5	3.7	3.4	R.I	2.2	4.3
Monaco	17.7	2.3	0.5	1.3	7.2	1.6	12.5
Turkey	32.9	1.2	2.7	9.5	4.7	1.8	9.0

SOURCE: National Accounts/Euromonitor estimates.

HOUSEHOLD FUELS	HOUSEHOLD GOODS & SERVICES	HEALTH	TRANSPORT	COMMUNICATIONS	LEISURE	OTHERS	TOTAL
5.8	7.5	5.2	14.5	1.9	5,9	8.8	100,0
4.2	12.4	11.2	11.8	1.0	10.2	10.0	100.0
6.3	6.7	1.7	13.8	1.3	9.3	14.4	100.0
3.4	7.1	3.6	15.9		9.5	19.2	100.0
6.8	8-2	9.3	14.8	2.1	7.4	14.1	100.0
0-8	12.1	4.0	2.0		6.2	20.2	100.0
4.1	9.8	5.2	15.0	1.7	10.5	7,2	100.0
3.2	8.3	3.1	9.9	1.7	4,0	4.7	100,0
5.4	7.1	1.5	10.0	1.3	9.9	12,3	100.0
3,8	8.9	6.4	11.9	1.1	9.2	17.2	100.0
7.5	8.5	6.7	16.4		3.0	19.5	100.0
5,5	8.0	12.2	9.7	1.3	9.9	16.6	100.0
	6.2	3.0	11.0	3.0	2.4	21.5	100.0
3.]	6.8	3.8	12.5	1.0	5.7	20.6	100.0
4.0	6,3	1.6	16.8		7.2	19.8	100.0
3.2	5.3	1.2	12.8	1.5	8.4	30.4	100.0
	11.4	6.7	8.8		9.0	10.8	100.0
3.6	6.0	12.6	11.8		14.0	5.9	100.0
7.0	7.0	4.1	12.5	1.8	9.2	13.5	100.0
4.5	5.0	11,2	11.3		9.9	13.4	100.0
4.0	9.8	3,6	6.9		5.2	18.9	100,0
2.6	14.1	3.0	8.3		6.9	19.2	100.0
3.2	16.2	6.7	8.6		4.6	2.7	100.0
2.6	6.8	6.1	9.0		13.5	8.7	100.0
2.5	6.6	7.7	8.4	0.3	8.6	2.0	100.0
0.9	5.5	4.0	4.1		6.4	33.9	100.0
3.8	8.0	2.7	2.9		8.3	8.6	100.0
9.0	4.4	4.1	8.6		4.8	2.4	100.0
2.0	11.1	2.4	17.1		5.4	16.2	100.0
	9.1	8.3	9.7		9.1	5.0	100.0
2.4	10.2	3.8	17.0		7.0	7.5	100.0
6.9	13.9	15.3	10.6		7.3	3,0	100.0
5.7	10.6	11.1	6.0		1.6	3.1	100.0

essential categories of goods and services, with food, housing and transportation often using up most household income. Marketers also want to identify how spending patterns of consumers at different income levels vary. Some of these differences were noted over a century ago by Ernst Engel, who studied how people shifted their spending as their income rose. He found that as family income rises, the percentage spent on food declines, the percentage spent on housing remains constant (except for such utilities as gas. electricity and public services, which decrease), and both the percentage spent on other categories and that devoted to savings increase. Engel's laws have generally been supported by later studies.

Engel's laws
Differences nfited over a century ago by Ernst Engel in haw people shift *thcii* ,spen *mg across load, housing, transportation, health cure, and other goods and services categories asfamily income* rises.

Changes in major economic variables such as income, cost of living, interest rates, and savings and borrowing patterns have a large impact on the marhet-place. Companies watch these variables by using economic forecasting. Businesses do not have to be wiped out by an economic downturn or caught short in a boom. With adequate warning, they can take advantage of chanees m the economic environment.

Natural Environment

naturalenvironment
Natural resources that are needed us inputs by affected by marketing

The natural environment involves the natural resources that are needed as inputs by marketers or that are affected by marketing activities. Environmental concerns have grown steadily during the past two decades. Protection of the natural environment will remain a crucial worldwide issue facing business and the public. In many cities around the world, air and water pollution have reached dangerous levels. Concern continues to mount about the depletion of the earth's ozone layer and the resulting 'greenhouse effect', a dangerous warming of the earth. And many of us fear that we will soon he buried in our own rubbish. Marketers should be aware of four trends in the natural environment,

• *Shortages ofRaw Materials*

Air and water may seem to be infinite resources, hut some groups sec long-run dangers. They warn of the potential dangers that propellants used in aerosol cans pose to the ozone layer. Water shortage is already a big problem in some parts of the world. Renewable resources, such as forests and food, also have to be used wisely. Companies in the forestry business are required to reforest timberlands in order to protect the soil and to ensure enough wood supplies to meet future demand. Food supply can be a critical problem because more and more of our limited farmable land is being developed for urban areas.

Non-renewable resources, such as oil, coal and various minerals, pose a serious problem. Firms making products that require these increasingly scarce resources face large cost increases, even if the materials do remain available. They may not find it easy to pass these costs on to the consumer. However, firms engaged in research and development and in exploration ean help by developing new sources and materials.

• *Increased Cost of Energy*

One non-renewable resource - oil - has created the most serious problem for future economic growth. The large industrial economies of the world depend heavily on oil. and until economical energy substitutes can be developed, oil will continue to dominate the world political and economic picture. Big increases in the price of oil during the 1970s, and dramatic events like the 1991 Gulf War that affect oil availability, have spurred the search for alternative forms of energy.



Different countries vary in their concern/or the environment. For *example, partly because of ecological devastation like [hat shnvan here informer East Germany, the German government* TIOTO *vigorously pursues environment quality.*

Many companies are searching for practical ways to harness solar, nuclear, wind and other forms of energy. In fact, hundreds of firms already offer products that use solar energy for heating homes and other uses. Others are directing their research and development efforts to produce high energy-efficient technologies to meet customers' needs. For example, the tyre company Michelin recently introduced its *energy* low-resistance tyres that are said to offer a 5 per cent reduction in fuel consumption. Car makers Ford, Volkswagen, Opel and Peugeot-Citroen have all produced a new generation of sophisticated eompact cars whose small dimensions and low weight make them the front-runners in the race towards the environmentalists' 'year-2000 holy grail" - fuel consumption of just 3 litres per 100km.[11]

• *increased Pollution*

Industry has been largely blamed for damaging the quality of the natural environment. The 'green' movement draws attention to industry's 'dirty work': the disposal of chemical and nuclear wastes, the dangerous mercury levels in the ocean, the quantity of chemical pollutants in the soil and food supply, and the littering of the environment with non-biodegradable bottles, plastics and other packaging materials.

Many companies, especially those at the 'grubbier' ends of manufacturing, often complain about the cost of fulfilling their obligations to 'clean up' regulations or to produce new greener technologies. On the other hand, more alert managers have adapted quickly to rising public environmental concerns, which have created marketing opportunities for firms (see Marketing Highlight 4.3).

Many firms are responding to public environmental concerns with more ecologically sensitive goods, recyclable or biodegradable packaging, improved pollution controls and more energy-efficient operations. Niche green markets, where environmentally sensitive consumers are prepared to pay a premium price for green benefits, have emerged in sectors ranging from cosmetics, toiletries and detergents to passenger cars. However, most consumers worldwide are more likely to make trade-offs between green advantages and product quality and

Marketing Highlight 4.3

Filthy Lucre



Some firms complain that Europe's tough environmental regulations are driving them out of business. Many others, however, are cleaning up. Environmental pressures are one firm's expensive obligation, hut another's chance for profit. Back in 1992, the San Diego (US)-based *Environmental Business Journal* reported that die market in western Europe for environmental goods and services was worth around 894 billion, only *MO* billion less than the market in the United States. But Europe's environmental industry is growing at 7 per cent a year. There are now over 16,000 environmental firms in Europe. The industry is attracting big players, including America's Waste Management, Asea Brown Boveri's Flakt, and Lurgi. which is part of Germany's Metallgesellschaft.

Germany is Europe's largest and toughest "environmental state'. Germany's environmental laws have often ended up as the EU's environmental policy. Germany spends 1.55 per cent of its GDP on environmental investment. It is also the world's leading exporter of environmental technology. The United States comes a close second. Every time the EU adopts a German-sponsored 'green' law, it creates export opportunities for both German and their rival environmental firms elsewhere in Europe. For example, a European directive will force Europe's big towns to have sewage treatment plants by 2000, with its small towns to follow by 2005, The primitive state of sewage treatment in some parts of Europe means lots of orders for new plants. Some big operators like France's Generates des Eaux, Lyonnaise des Eaux Dumez and Saur. Bouygues's **subsidiary,** have successfully expanded abroad, including the cough German market, by giving public authorities in European countries a one-stop sliop: that is, they finance, build and operate water-treatment plants.

Waste management - collecting, transporting and disposal of solid rubbish - accounts for just under .13 per cent of the total western Europe environment market, and is the biggest single market for environmental firms in the European Union. New recycling laws, particularly in Germany, are creating fresh opportunities for many companies.

The complexity of EU green directives and national laws also makes for a booming business in environmental consultancy, particularly in the areas of environmental auditing and risk management. Analysts predict that the green business will keep growing over the remaining decade. With it will grow clever companies that have learnt to turn trash into cash!

SOURCE: Adapted from 'Pollution: the money in Europe's muds', *The Ecantimist* (20 November 1993), pp. 109-10.

performance benefits in their purchasing decision. So, although environmental pressures upon businesses in the decade ahead are expected to escalate, firms must seek to balance both the ecological and performance benefit expectations of the mass of consumers.[1]-

- *Government Intervention in Natural Resource Management*

In most countries, industry has been pressured rather than persuaded to 'go green'. Environmental legislation has toughened up in recent years and businesses can expect this to continue in the foreseeable future. Recession in leading world economies over the early 1990s, however, forced governments to look at the potential of voluntary agreements with industry. The idea is to help industry meet environmental standards cost-effectively.

> A successful case is Holland's National Environmental Policy Plan (NEPP), which was first introduced in J 989 and set tight targets for pollution reduction. Some industries agreed to tougher pollution controls in return for greater government flexibility over their **implementation.** Although firms knew that failure to co-operate meant harsher laws would follow, the NEPP did provide a channel for government-industry dialogue and co-operation. Detailed plans were agreed with seetors accounting for 60-70 per cent of Holland's environmental pollution. Deals with oil refineries in Rotterdam helped to cut smog and sulphur dioxide emissions. Agreements with **packaging** firms led to a decline in the volume of municipal waste in 1992, the first time since 1945. Ammonia output also declined sharply,[u]

In most developed western nations, well-organized seetors, such as oils, chemicals, pharmaceutical^ and food, are more likely to reach common agreements with government agencies and their plans for environmental control. The joh, many argue, is still incomplete. Smaller firms and the least organized sector - households - are generally a long way away from signing up to total 'greenery'. For businesses and industries, environmental issues and government intervention are unlikely to vanish. Clever marketers should remain alert and proactive in the search for new green solutions to meet the world's environmental and natural resource dilemmas. Instead of opposing regulation, marketers should help develop solutions to the material and energy problems facing the world.

Technological Environment

technological environment
Forces *tliat create new technologies, creating* jictc *product and market opportunities.*

The **technological environment** is perhaps the most dramatic force now shaping our destiny. Technology has released such wonders as penicillin, organ transplants and notebook computers. It has also released such horrors as the nuclear bomb, nerve gas and the machine gun, and such mixed blessings as cars, televisions and credit cards. Our attitude towards technology depends on whether we are more impressed with its wonders or its blunders.

Every new technology replaces an older technology. Transistors decimated the vacuum-tube industry, xerography killed the carbon-paper business, ears and roads hurt the railways, and compact discs hurt vinyl records. When old industries fought or ignored new technologies, their businesses declined.

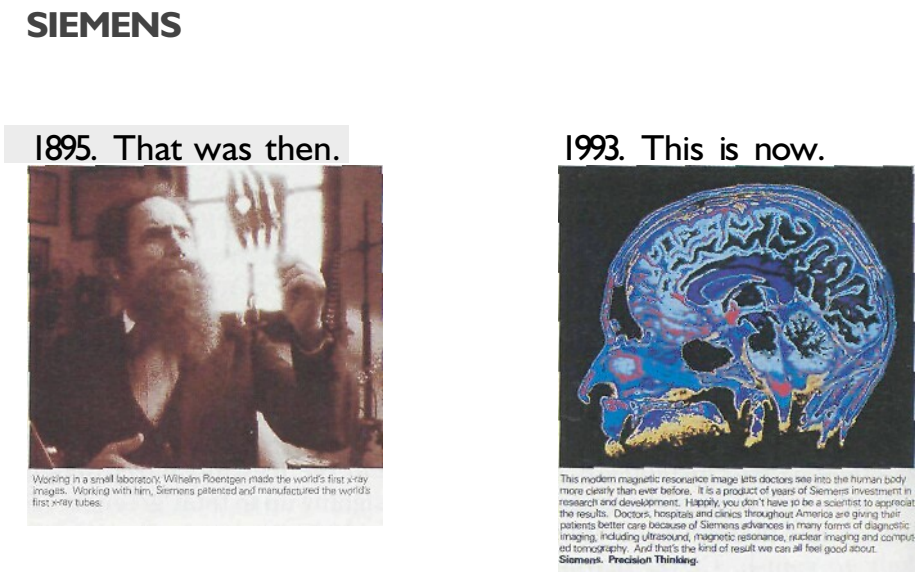
New technologies create new markets and opportunities. The marketer should watch the following trends in technology.

Fast Pace of Technological Change

Many of today's common products were not available a hundred years ago: televisions, home freezers, automatic dishwashers, electronic computers, contraceptives, earth satellites, personal computers, compact disc players, videoeassette recorders, facsimile machines, mobile phones. The list is unending! Companies that fail to anticipate and keep up with technological change soon find their products outdated. But keeping pace with technological change is becoming more challenging for firms today. *Technology life cycles* are getting shorter. Take the typewriter. The first-generation modern mechanical typewriter dominated the market for 25 years. Subsequent generations had shorter lives - 15 years for electromechanical models, 7 years for electronic versions and 5 years Tor first-generation microprocessor-based ones. Other examples of fast technological change are found. The average life of some computer software products, for example, is now well under one year.

Firms must track technological trends and determine whether or not these changes will affect their products' continued ability to fulfil customers' needs.

As t/ii's *Siemens ad suggests, research and development has changed considerably over [he years. Lone inventors have been replaced by research* teams *employed by large companies or other organizations.*



Technologies arising in unrelated industries can also affect the firm's fortunes. The mechanical watch industry was overtaken by manufacturers of electronic components seeking new applications and growth opportunities for their quartz technology. Businesses must assiduously monitor their technological environment to avoid missing new product and market opportunities.

• *High R&D Budgets*

Technology and innovations require heavy investments in research and development. It is not uncommon for pharmaeeutieals companies, for example, to spend £150-200 million to develop a new drug. High R & I) spending is also a feature of many industries including cars, communications, computers, aerospace, engineering, entertainment and consumer electronics. Some companies spend billions on R & D each year. A recent study showed that the international top 200 companies devoted an average 4,85 per cent of 1993 sales to R & D, General Motors of the United States was the world's biggest spender with a budget of more than $4 billion (£2.6 billion), followed by German engineering group Daimler-Benz, Ford Motor of the United States and Japan's Hitachi.[14]

In recent years, there has been a marked increase in collaborative technological research efforts between western governments and industries. In Europe, this niood spawned subsidized programmes, such as Esprit. Eureka and Jessi, and in the USA schemes such as Sematech and MCC. These programmes stemmed from two nifu'n concerns; first, the soaring cost of R & D and the difficulty, even for big companies, of mastering a wide range of technologies; and second, the increasing international competition, mainly from Japan, in electronics and related industries. There are mixed views on the success of these programmes, although collaboration has helped break down barriers between rival firms and stimulated the dissemination of know-how.[13]

• *Concentration on Minor Improvements*

As a result of the high cost of developing and introducing new technologies, many companies are tinkering - making minor product improvements - instead of

gambling on substantial innovations. The high costs and risks of commercialization i'ailure make firms take this cautious approach to their R & D investment. Most companies arc content to put their money into copying competitors' products, making minor feature and style improvements, or offering simple extensions of current brands. Thus much research is in danger of being defensive rather than offensive.

• *Increased Regulation*

As products become more complex, people need to know that they are safe. Thus, government agencies investigate and ban potentially unsafe products. In the EU and America, complex regulations exist for testing new drugs. The US Federal Food and Drug Administration, for example, is notorious for its strict enforcement of drug testing and safety rules. Statutory and industry regulatory bodies exist to set safety standards for consumer products and penalize companies that fail to meet them. Such regulations have resulted in much higher research costs and in longer times between new-product ideas and their introductions. Marketers should be aware of these regulations when seeking and developing new products.

Marketers need to understand the changing technological environment and the ways that new technologies can serve customer and human needs. They need to work closely with R & D people to encourage more market-oriented research. They must also be alert to the possible negative aspects of any innovation that might harm users or arouse opposition.

Political **Environment**

Marketing decisions are strongly affected by developments in the political environment. The **political** environment consists of laws, government agencies and pressure groups that influence and limit various organizations and individuals in a given society.

political environment *Lewes, government agencies and* pressure groups *that influence and limit various organizations and individuals in a given society.*

• *Legislation Regulating Business*

Even the most liberal advocates of free-market economies agree that the system works best with at least some regulation. Well-conceived regulation can encourage competition and ensure fair markets for goods and services. Thus governments develop *public policy* to guide commerce - sets of laws and regulations that limit business for the good of society as a whole. Almost ever;' marketing activity is subject to a wide range of laws and regulations.

Understanding the public policy implications of a particular marketing activity is not a simple matter. First, there are many laws created at different levels: for example, in the EU, business operators are subject to European Commission, individual member state and specific local regulations; in the USA, laws are created at the federal, state and local levels, and these regulations often overlap.

Second, the regulations are constantly changing - what was allowed last year may now be prohibited. In the single European market, deregulation and ongoing moves towards harmonization are expected to take time, creating a state of flux, which challenges and confuses both domestic and international marketers. They must therefore work hard to keep up with these changes in the regulations and [heir interpretations.

In many developed economies, legislation affecting business has increased steadily over the years. This legislation has been enacted for a number of reasons.

The first is to *protect companies* from each other. **Although** business executives may praise competition, they sometimes try to neutralize it when it threatens them. So laws are passed to define and prevent unfair competition. Anti-trust agencies and monopolies and mergers commissions exist to enforce these laws.

The second purpose of government regulation is to *protect* consumers from unfair business practices. Some firms, if left alone, would make shoddy products, tell lies in their advertising and deceive consumers through their packaging and pricing. Unfair business practices have been defined and are enforced by various agencies.

The third purpose of government regulation is to *protect the interests of society* against unrestrained business behaviour. Profitable business activity does not always create a better quality of life. Regulation arises to ensure that firms take responsibility for the social costs of their production or products.

New laws and their enforcement are likely to continue or increase. Business executives must watch these developments when planning their products and marketing programmes. Marketers need to know about the main laws protecting competition, consumers and society. International marketers should additionally be siware of regional, country and local laws that affect their international marketing activity.

• *Growth of Public Interest Groups*

The number and power of public interest groups have increased during the past two decades. In Chapter 2 we discussed a broad range of societal marketing issues. The pioneering efforts of Ralph Nader's Public Citizen group in the United States raised the importance of the role of public interest groups as watchdogs on consumer interests and lifted consumerism into a powerful social force. Consumerism has spilled over to countries in western Etirope and other developed market economies such as Australia. Hundreds of other consumer interest groups, private and governmental, operate at all levels - regional, national, state/county and local levels. Other groups that marketers neect to consider are those seeking to protect the environment and to advance the rights of various groups such as women, children, ethnic minorities, senior citizens and the handicapped. As we saw in the case of Nutricia's failed biotechnology project (see Marketing Highlight 4.1), companies cannot afford to ignore the views of powerful public interest groups.

• *Increased Emphasis on Ethics and Socially Responsible Actions*

Written regulations cannot possibly cover all potential marketing abuses, and existing laws are often difficult to enforce. However, beyond written laws and regulations, business is also governed by social codes and rules of professional ethics. Enlightened companies encourage their managers to look beyond what the regulatory system allows and simply to 'do the right thing'. These socially responsible firms actively seek out ways to protect the long-run interests of their consumers and the environment.

Increased concerns about the environment have created fresh interest in the issues of ethics and social responsibility. Almost every aspect of marketing involves such issues. Unfortunately, because these issues usually involve conflicting interests, well-meaning people can disagree honestly about the right course of action in a particular situation. Thus many industrial and professional trade associations have suggested codes of ethics, and many companies are now developing policies and guidelines to deal with complex social responsibility issues.

In Chapter 2, we discussed in greater depth public and social responsibility issues surrounding key marketing decisions, the legal issues that marketers should understand, and the common ethical and societal concerns that marketers face.

Cultural Environment

The cultural environment is made up of institutions and other forces that affect society's basic values, perceptions, preferences and behaviours. People grow up in a particular society that shapes their basic beliefs and values. They absorb a world-view that defines their relationships with others. The following cultural characteristics can affect marketing decision making. Marketers must be aware of these cultural influences and how they vary across societies within the markets served by the firm.

cultural environment *institutions and other forces that affect society's* basic *values, perceptions, preferences and behaviours.*

• *Persistence of Cultural Values*

People in a given society hold many beliefs and values. Their core beliefs and values have a high degree of persistence. For example, most of us believe in working, getting married, giving to charity and being honest. These beliefs shape more specific attitudes and behaviours found in everyday life. Core beliefs and values are passed on from parents to children and are reinforced by schools, religious groups, business and government.

Secondary beliefs and values are more open to change. Believing in marriage is a core belief; believing that people should get married early in life is a secondary belief. Marketers have some chance of changing secondary values, but little chance of changing core values. For example, family-planning marketers could argue more effectively that people should get married later than that they should not get married at all.

• *Shifts in. Secondary Cultural Values*

Although core values are fairly persistent, cultural swings do take place. Consider the impact of popular music groups, movie personalities and other celebrities on young people's hair styling, clothing and sexual norms. Marketers want to predict cultural shifts in order to spot new opportunities or threats. Such information helps marketers cater to trends with appropriate products and communication appeals.

The principal cultural values of a society are expressed in people's views of themselves and others, as well as in their views of organizations, society, nature and the universe.

PEOPLE'S VIEWS OF THEMSELVES. People vary in their emphasis on serving themselves versus serving others. Some people seek personal pleasure, wanting fun, change and escape. Others seek self-realination through religion, recreation or the avid pursuit of careers or other life goals. People use products, brands and services as a means of self-expression and buy products and services that match their views of themselves.

In the last dfccade or so, personal ambition and materialism increased dramatically, with significant marketing implications. In a 'me-society', people buy their 'dream cars' and take their 'dream vacations'. They spend more time in outdoor health activities G°gg[in]& tennis, etc.), in thought, and on arts and crafts. The leisure industry (camping, skiing, boating, arts and crafts, and sports) faces good growth prospects in a society where people seek self-fulfilment.

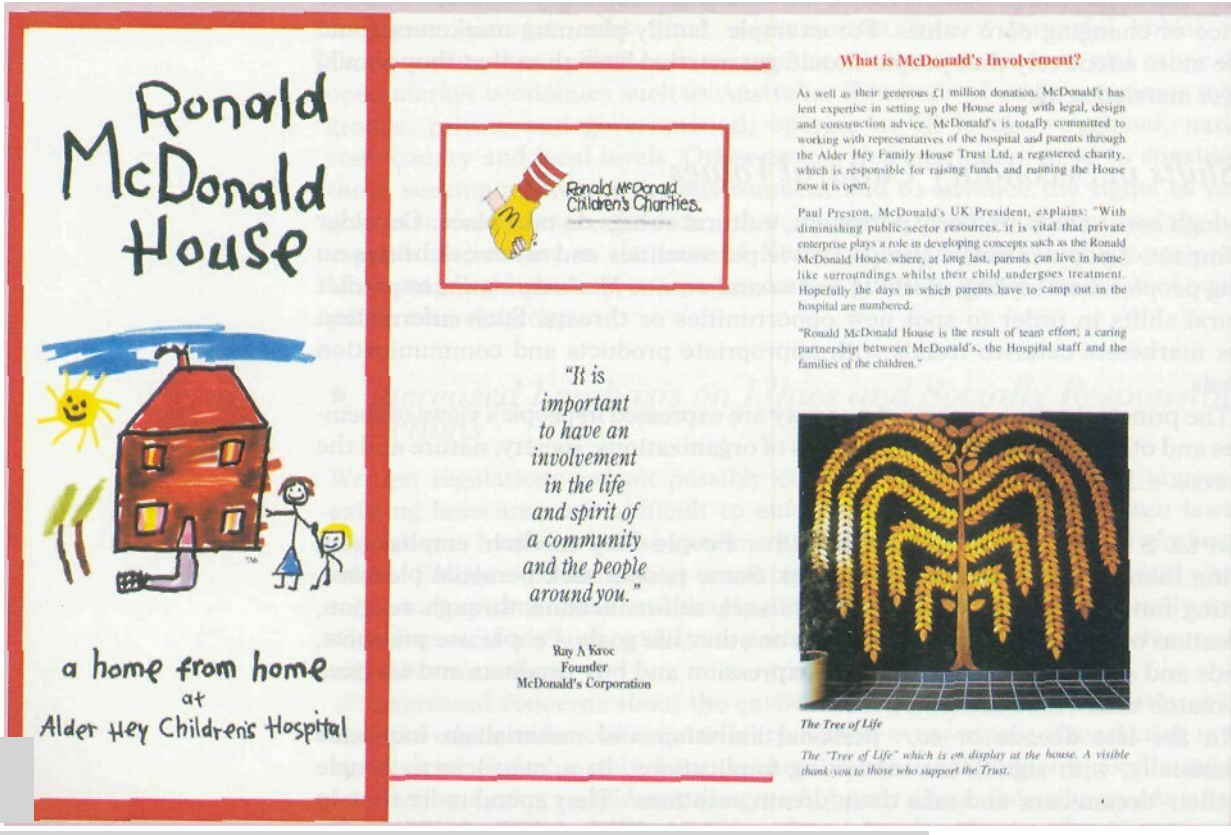
Marketing Highlight 4.4

Ronald McDonald Children's Charities: Playing a Role in LocalCommunities

Ronald McDonald Children's Charities (RMCC) was founded in 1984 in the United States. It was established in memory of Ray Kroc, founder of McDonald's Corporation, lie believed that 'It is important to have an involvement in the life and spirit of a community and the people around you.' This belief lives on in the McDonald's system and is evident in a variety of community programmes practised by McDonald's Che world over. In 1989, for example, RMCC was set up in the United Kingdom, and through the efforts of McDonald's Restaurants Limited, its staff, customers and suppliers, over S3 million h;is since been raised for a wide variety of charitable causes that help children.

RMCC grants have been awarded to programmes which help young people reach their full potential and make a real difference for children and their well-being. The 'Ronald McDonald House' is a cornerstone of RMCC. The first was built at Philadelphia in the United States in 1974, close to the Philadelphia Children's Hospital. When 2 child is taken seriously ill and has to spend some time in hospital, families are usually faced with the problem of where to stay to be close at hand. The Ronald McDonald House has a set number of beds for parents to stay overnight and a family accommodation block. This means that the family can be together again as a unit, while also providing a brief respite in a family environment.

There are now over 160 Ronald McDonald Houses in the United States, Canada, Australia,



McDonald's plays its role in die life and spirit ofthe surrounding local communities

Japan and Europe. Each House is a 'home away from home' with the feel, aesthetics and comfort of family living. Families are able to prepare their own meals, relax and rest in privacy or enjoy the company of others living in when they so desire. The House is the result of a team effort between the hospital doctors and staff, the parents of the children and McDonald's. Each House is run by a separate charitable trust set up to oversee fund raising and to manage the house. The boards of these trusts are made up of parents, hospital representatives and senior management of McDonald's. The trusts initiate their own fund-raising events. Throughout the year, McDonald's own restaurant staff are involved in local events to raise money for RMCC, and collecting boxes for donations from customers are placed in every restaurant. McDonald's Restaurants Limited, its franchisees and also its suppliers all donate to RMCC. Other recipients of money raised by RMCC include children's charities - such as hospitals, youth organizations, schools and many more worthy causes. •

McDonald's restaurants not only display posters and collecting boxes for the RMCC programme, but also provide customers with information leaflets to disseminate information about their community involvement. These leaflets also sometimes contain requests for funds and/or volunteers who may be interested in helping in specific campaigns. This type of eomniumcation effort is also designed to raise customers' as well as other local and general publics' awareness of Ray Kroc's philosophy of 'giving something back to the communities that give so much to us [McDonald's Corporation]'.

SOURCES: Tour questions answered', Ronald McDonald Children's Charities, London; The Public Relations Department, McDonald's Restaurants Limited, London.

PEOPLE'S VIEWS OF OTHERS. More recently, observers have noted a shift from a 'me-society' to a 'we-society', in which more people want to be with and serve others. Flashy spending and self-indulgence appear to be on the way out, whereas saving, family concerns and helping others are on the rise. A recent survey showed that more people arc becoming involved in charity, volunteer work and social service activities.[16] This suggests a bright future for 'social support' products and services that improve direct communication between people, such as health clubs, family vacations and games. It also suggests a growing market for 'social substitutes' - things like VGRs and computers that allow people who are alone to feel that they are not.

PEOPLE'S **VIEWS** *OV* **ORGANIZATIONS.** People van' in their attitudes towards corporations, government agencies, trade unions, universities and other organizations. By and large, people are willing to work for big organizations and expect them, in turn, to carry out society's work. There has been a decline in organizational loyalty, however. People are giving a little less to their organizations and are trusting them less.

This trend suggests that organizations need to find new ways to win consumer confidence. They need to review their advertising communications to make sure their messages are honest. Also, they need to review their various activities to make sure that they are coming across as 'good corporate citizens'. More companies are linking themselves to worthwhile causes, measuring their images with important publics and using public relations to build more positive images (see Marketing Highlight 4.4).

PEOPLE'S VIEWS OK SOCIETY. People vary in their attitudes toward their society - from patriots who defend it, to reformers who want to change it, and

Knvirunmental marketing: here Hewlett Packard attempts to market its high quality technology •while promoting a good cause - the protection of endangered wildlife



malcontents who want to leave it. People's orientation to their society influences their consumption patterns, levels of savings and attitudes toward the marketplace.

In the affluent and industrializing Asian nations, consumers aspire to achieve the high living standards and lifestyles of people in the more advanced western countries. The display of conspicuous consumption and fondness for expensive western brands - the common label for achievement and westernization - are highly acceptable behaviour. Consumer patriotism, for example, is not an issue, since locally made goods are often viewed as inferior or less desirable than foreign imported brands. By contrast, in the western developed countries, the late 1980s and early 1990s saw an increase in consumer patriotism. European consumers reckoned that sticking to locally produced goods would save and protect jobs. Many US companies also responded to American patriotism with 'made in America' themes and flag-waving promotions, such as Chevrolet is 'the heartbeat of America', Black & Decker's flag-like symbol on **its** tools, and the textile industry's 'Grafted with Pride in the USA' advertising campaign, which insisted that 'made in the USA matters."

PEOPLE'S VIEWS OF NATURE. People vary in their attitudes towards the natural world. Some feel ruled by it, others feel in harmony with it and still others seek to master it. A long-term trend has been people's growing mastery over nature through technology and the belief that nature is bountiful. More recently, however, people have recognized that nature is finite and fragile - that it can be destroyed or spoiled by human activities.

Love of nature is leading to more camping, hiking, boating, fishing and other outdoor activities. Business has responded by offering more hiking gear, camping equipment, better insect repellents and other products for nature enthusiasts. Tour operators are offering more tours to wilderness areas. Food producers have

found growing markets for 'natural' products like natural cereal, natural ice cream, organically farmed produce and a variety of health foods. Marketing communicators are using appealing natural backgrounds in advertising their products.

PEOPLF/S VIEWS OF THE UNIVERSE. Finally, people vary in their beliefs about the origin of the universe and their place in it. While the practice of religion remains strong in many parts of the world, religious conviction and practice have been dropping oif through the years in certain countries, notably in the United States and Europe where, for example, church attendance has fallen gradually. As people lose their religious orientation, they seek goods and experiences with more immediate satisfactions. During the 1980s, people increasingly measured success in terms of career achievement, wealth and worldly possessions. Some futurists, however, have noted an emerging renewal of interest in religion, perhaps as part of a broader search for a new inner purpose. Starting in the 1990s, they believe, people are moving away from materialism and dog-eat-dog ambition to seek more permanent values and a more certain grasp of right and wrong. The 'new realists', found mainly in the developed western markets, reflect a move away from overt consumerism. However, in many markets such as India, China and south-east Asia, society's value systems place great importance on economic achievement and material possession. The values of these 'enthusiastic materialists' are also shared by the developing markets of Europe, such as Turkey, and some Latin American countries.[18]

Responding to **the** Marketing **Environment**

Many companies view the marketing environment as an 'uncontrollable' element to which they must adapt. They passively accept the marketing environment and do not try to change it. They analyze the environmental forces and design strategies that will help the company avoid the threats and take advantage of the opportunities the environment provides.

Other companies take an environmental management perspective.[19] Rather than simply watching and reacting, these firms take aggressive actions to affect the publies and forces in their marketing environment. Such companies hire lobbyists to influence legislation affecting their industries and stage media events to gain favourable press coverage. They run 'advertorials' (ads expressing editorial points of view) to shape public opinion. They take legal action ami file complaints with regulators to keep competitors in line. They also form contractual agreements to control their distribution channels better.

environmental management perspective *A management perspective in which the firm takes aggressive* actions to *affect the publics and forces in its marketing environment rather than simply* •*watching it and reacting to it.*

Marketing management cannot always affect environmental forces. In many cases, it must settle for simply watching and reacting to the environment. For example, a company would have little success trying to influence geographic population shifts, the economic environment or important cultural values. But whenever possible, clever marketing managers will take a *proactive* rather than *reactive* approach to the marketing environment.

Summary

All companies operate within a *marketing environment.* This environment consists of all the actors and forces that affect the company's ability to transact effectively

with its target market. The company's marketing environment can be divided into the microem'ironmeiit ;md the macroenvironment.

The *rnicmenvironment* consists of five components. The first is the company's *internal environment* - its departmental and managerial structure, which affects marketing management's decision making. The second component is the marketing channel firms that co-operate to create value. These include the firm's suppliers and marketing intermediaries (middlemen, physical distribution firms, financial intermediaries, marketing services .'agencies). The third component refers to the five types of *market* in which the company ean sell; the consumer, producer, reseller, government and international markets. The *competitors* facing the company make up the fourth component. The final component is the gnnip of *publics* that have an actual or potential interest in or impact on the organization's ability to achieve its objectives. These constituencies include financial, media, government, citizen action, local, general and internal publics.

The company's *macroenvironment* consists of primary forces that shape opportunities and pose threats to the company. These forces Include demographic, economic, natural, technological, political and cultural forces.

In many developed western and Asian countries, the *demographic environment* presents problems with the challenges of changing age and family structures, a population that is becoming better educated and increasing diversity. The *economic environment* shows changing patterns of real income and shifts in consumer spending patterns. The *natural environment* has pending shortages of certain raw materials, growing energy costs, higher pollution levels, more government intervention in natural resource management and higher levels of citizen concern and activism about these issues. The *technological environment* reveals rapid technological change, unlimited innovation opportunities, a need for high R & 0 budgets, concentration on minor improvements rather than big discoveries, and growing regulation of technological change. The *political environment* shows increasing business regulation, the rising importance of public interest groups and increased emphasis on ethics and socially responsible actions. The *cultural environment* suggests long-term trends towards a 'we-soeiety', less organizational loyalty, increasing patriotism find conservatism, greater appreciation for nature and a search for more meaningful and enduring values.

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Discussing the Issues

I. Select a sports anil leisure footwear company. What micro environmental trends will affect the success of the company in the decade ahead? What marketing plans would you make to respond to these trends?

Marketing Highlight 4.2 noted the growing importance of two demographic groups, the 'Third Agers' and 'Generation Xers'. If you were in charge of marketing in a consumer healthcare company, how would you deal with the potential opportunities presented hy these two consumer groups?

Pressure groups, lobbyists and public interest groups play an important role in defending society's interests. Select one such group you arc familiar with and describe its cause. Suggest ways in which goods Or services providers targeted by the group might satisfactorily address die demands or pressures imposed by the group.

Younger customers are becoming more concerned about the natural environment. How would this trend afteot a company that markets plastic sandwich bags? Discuss some effective responses to tliis trend.

5. A large alcoholic beverage marketer is planning to introduce an 'adult soft drink' - a socially acceptable substitute for stronger drinks that would be cheaper and lower in alcohol than wine. What cultural and other factors might affect the success of this product?

6. Some marketing goals, such as improved quality, require strong support from an internal public - a company's own employees. But surveys show that employees increasingly distrust management and that company loyalty is eroding. How can a company market internally to help meet its goals?

Applying llie Concepts

Changes in the marketing environment mean that marketers must meet new consumer needs that may be quite different - even directly opposite - from those in the past. You can track changes in the marketing environment by looking at how companies modify their products.

- Make a list of the products you encounter in one day that claim to be 'low' or 'high' in some ingredient, such as low-tar cigarettes or high-fibre cereal.
- Write down similar products that seem to offer the opposite characteristics.
- In each case, which product do you think came first? Do you think that this is an effective response to a changing marketing environment? Why? Why not?

The political environment can have a direct impact on marketers and their plans. Thinking about a recent major political environmental change in a country of your choice, consider the following:

- Name three industries that will probably have their marketing plans and strategies affected by the political changes.
- For each of the industries that you named, list three potential strategies to help adapt to the coming changes in the political environment.
- Although environmental changes appear likely, arc they certain? How should companies plan for unsettled conditions?

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Case 4

Shiseido: **Rethinking the Future**

'WE NEED TO RETHINK WHAT a human is,' observes Seigo Matsouka, a consultant and conference leader, as he begins a four-day conference for 30 Shiseido division managers. Shiseido is Japan's largest cosmetics company. Yet its managers and the managers at many other Japanese companies worry that Japan's hierarchical business structure and its emphasis on consensus-based decision making will not serve their companies well in the future. Although Japanese companies have done well at improving existing products, they have not done as well at developing new products and **markets.** Thus, they need to stimulate their managers to think creatively, something they have not previously expected from their managers.

Why are successful Japanese companies suddenly so **concerned?** Consider Korika Shida, *n* 21-year-old student who is shopping at an upmarket retail store in a chic Tokyo shopping district. As Norika examines a tube of Shiseido's expensive lipstick, she turns up her nose at the price. 'I find good colours at places like this,' she sniffs. 'Then I go and buy the same product at a discount store.' Welcome to the new Japan, Even in a country known for its loyal, demanding customers, Japanese managers are learning that consumers have minds of their own. Changing consumer behaviour will require new marketing approaches.

Shiseido was the first firm to introduce western-style toothpaste to Japan - in 1888! It also opened Japan's first soda fountain in 1902. However, Shiseido developed its competitive advantage in the 1920s. During this period of high inflation, Shiseido worked out a unique arrangement with retailers. The retailers agreed to sell *only* Shiseido's cosmetics in exchange for a commitment that Shiseido would buy back any unsold cosmetics. With this understanding, Shiseido became both manufacturer and wholesaler, and developed a network of 25,000 Japanese retailers that sold its products exclusively. These shops represent about 50 per cent of all cosmetics and **pharmaceutical** outlets in Japan. The system allowed Shiseido to control distribution and develop a pricey image. Shiseido took this distribution channel and its high prices to annual sales of over 500 billion yen by 1990.

In April in 1991, partly in response to international trade pressure, Japan lifted its retail price controls on cosmetics, drugs and other small products priced under about £7. In other product markets, such deregulation had increased distribution costs and allowed foreign companies to challenge Japanese firms in their home market. However, Shiseido had already learned to contend with foreign competition. Western cosmetics companies, such as Clinique Laboratories, had earlier gained a 7 per cent share of the Japanese market by selling **through** leading department stores that traditional Japanese cosmetics firms avoided. Shiseido countered this threat by developing 'CL Shops' - cosmetic counselling centres, where

employees provided more detailed advice to customers in fashionably redesigned retail settings.

Deregulation had also caused dramatic price cuts and fostered the rise of discount stores in other product markets. In cosmetics, entrepreneurs like Yukio Iliguchi responded by founding discount stores like Kawachiya Shuhaii (jompany. Before Shiseido cut off his supply, **Higuohl** drew crowds of shoppers by selling Shiseido products at a 30 per cent discount. **Higuchi** persisted by arguing that the belief 'that quality only comes at a high price is weakening'. Further, he noted, 'cosmetics will have to become cheaper as consumers become wiser'. Most Japanese observers agree. They note that consumers want competition and they want discount stores. Even supermarkets are increasingly introducing cheap, private-label cosmetics. Although new to Japan, these consumer buying and retailing trends are already well established in the USA and many western European markets.

Such changes represent a major shift that has left the previously well-cosseted Japanese consumer-product companies and retailers badly shaken. Shiseido has been responding to these changes in the environment on two fronts. First, it is cutting costs and refocusing on lower-priced cosmetics. Recently, it opened a highly automated factory that uses robots to carry out almost all the steps in making cosmetics. The plant produces as many cosmetics as one of Shiseido's factories, but with a third of the staff.

Second, Shiseido is looking for more growth overseas as its domestic market saturates and there are limited opportunities to expand home sales. It already has 21 subsidiaries and six factories in 30 countries. The company's goal is to increase international sales by 50 per cent to 100 billion yen by 1997.

In early 1994, the company shifted its marketing strategy in key overseas markets, particularly the USA, focusing more on skin care products and on splashy new print advertising. It renegotiated new locations in many urban centre shopping locations and refurbished its sales counters to project a 'new image', with more eye-catching displays that explained Shiseido's advanced skin-care programme. Shiseido also began to launch new brands for men and more new fragrances for women. Shiseido's managers in the USA noted that their refocusing efforts were on target with changes in that market. Industry observers point out that more and more executives from packaged-goods companies have taken over cosmetic company marketing programmes. They are discarding the sexy models in glamorous locales in favour of scientific-sounding claims. Ads like this *one* are becoming increasingly common: 'In just 21 days, fine dry lines and wrinkles are reduced by over 38 per cent'. Competitors are also stepping up the use of promotions (e.g. coupons, money-back guarantees) in order to gain new trials and sales.

A US executive suggests that these marketing changes reflect increasing consumer savvy. 'A consumer in the nineties is as smart as you can get,' one notes. 'She reads the labels, she understands how ingredients work, she wants products that truly perform.' Another executive adds that some of the industry's changes are in response to consumers who are more value-conscious. 'Even people with high incomes are very price-conscious.' These observations are echoed by one of Shiseido's European managers attending the conference. 'You can't sell something that they don't believe in. But it's not just about scientific claims, coupons or fancy sales counters either. We have to be chic and high-tech and not charge the earth at the same time; consumers want to feel good about themselves, but they don't want to be told they will wake up with bunches of wrinkles if they don't use these products!'

It appears that Norika Shida may not be much different from consumers in Los Angeles or London. But can Japanese cosmetic companies like Shiseido repeat Japanese successes in the global car and consumer electronics markets? Some analysts argue that western consumers see Japanese products as technically advanced and reliable, but short on 'soul'. That image is good for stereos, but not for body products. Besides, Shiseido has a tough tight ahead in markets abroad, where global brands, such as Revlon, L'Orcal, Estee Lauder, Christian Dior, Chanel, Clinique and Clarins and many others, including private labels, are already well entrenched.

Can cosmetic companies like Shiseido turn whimsical beauty products into natural, high-tech, essential products? The ageing structure of the population in many of its markets is already thrusting traditional cosmetic companies into turmoil. Do older consumers still want the same cosmetics that 20-year-old models promote? Can it succeed by stressing skin care? Will consumers continue to buy their cosmetics in department and speciality stores, or will they join the trend towards buying cosmetics in mass-merehandising stores? How are channels changing in the company's target markets and how should it respond to these changes? Shiseido is spending almost 4 per cent of its sales on R & D, about double the amount that many of its western rivals spend. Is this the right strategy?

As Shiseido's executives struggle with these questions and try to understand their customers and markets, and how these are evolving, Seigo Matsouka repeats, 'So, what does it mean to be human?'

QUESTIONS

1. What are the key environmental forces that have impacted on Shiseido's cosmetic business in the last decade?
2. Why should Shiseido's executives gain a deeper understanding of consumers' characteristics and how these are changing?
3. Evaluate the company's response to these changes.
4. What marketing recommendations would you make to Shiseido as it seeks to increase sales in overseas markets?
5. What are the emerging market trends?
6. How might these impact on Shiseido's business in the future?

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5

The Global Marketplace

CHAPTER OBJECTIVES

After reading this chapter, you should be able to:

Discuss how the economic, political-legal and cultural environments affect a company's international marketing decisions.

Describe three key approaches to entering international markets.

Explain the primary issue of deciding on the global marketing programmes and whether to standardize or adapt their marketing mixes for international markets.

Distinguish among the three main ways companies manage their global marketing organizations.

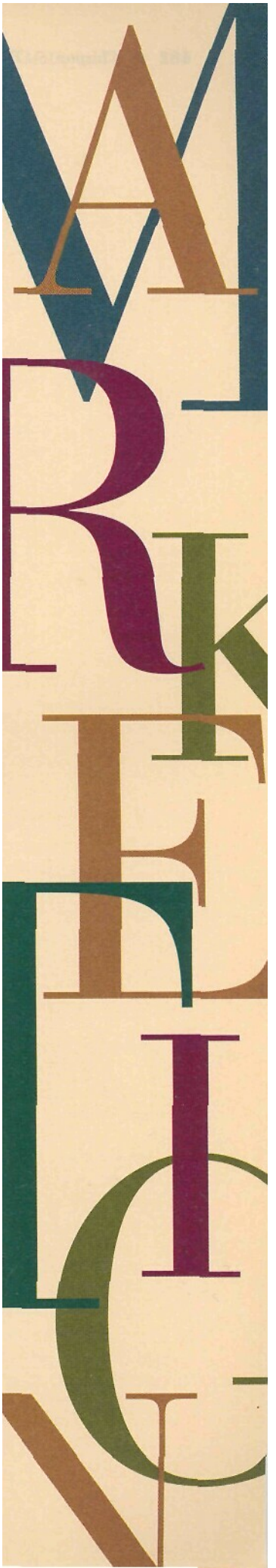


Preview Case

McDonald's; Breaking into the South African Market

MCDONALD'S OPERATES OVER 21,000 FAST-FOOD restaurants in 104 countries. Its golden arches overlook piazzas and shopping malls from Moscow to Manila. And it's also the world's most famous trademark - in 1996, it was rated the world's top brand by Intcrbrand, a consultancy, beating Coca-Cola into second place.

In recent years, faced with greater competition in the United States, the company has increasingly relied on overseas markets as a source of profits. Its forays into international markets had generally been successful. In 1995, as part of its overseas empire building, McDonald's nuide its first venture into sub-8aharan Africa, the last frontier of emerging markets. Like many



American multinationals, McDonald's had long had its eye on the South African market, but waited until the end of apartheid before it felt ready to enter. It had, however, registered its world famous trademark in South Africa as early as 1968. In 1993, a year before South Africa's first non-racial general election, McDonald's finally decided to press ahead with an investment in the country.

However, by the time the first McDonald's restaurant opened in 1995, it was clear to the American giant that it was entering a rather unusual market. For years, behind the shelter of sanctions and its own protective tariffs, South Africa had spawned a first-world consumer industry. Its fast-food companies had built up strong local brands specifically catering to South African tastes. The major foreign-owned operators included KFC (with 320 outlets) and Wimpy (220 outlets), but the remaining operators were primarily home grown. The established ones included Nando (a Portuguese-style spicy chicken burger chain with 105 restaurants in South Africa), Qiicken Lickeri. with 275 outlets, and Steers, which runs 215 burger restaurants. The company also discovered that a local trader had applied both to register the 'McDonalds' trademark for his own use, and to have the American company's rights to the trademark withdrawn (its trademark registration had technically expired). McDonald's instantly filed a case against the trader, and applied to re-register the trademark for itself.

As one of the world's leading brands, McDonald's was plainly associated with the trademark around the globe and the company could reasonably expect the South African courts to protect it from lookalikes. Although its trademark registration had expired in the country, McDonald's argued, under a clause in South African law, that 'special circumstances' had prevented it entering the market: namely, trade sanctions against South Africa and pressure from the anti-apartheid lobby in America,

When the case came to the Supreme Court, in October 1995, things did not turn out quite the way McDonald's had expected. Three eases, in fact, were heard at the same time. Two were brought by South African traders, Joburgers Drive-inn Restaurant and Dax Prop, each of which already ran a fast-food restaurant under the name 'McDonalds' and each of which wanted to deprive McDonald's of the right to trade under that name. The third case was brought by McDonald's, which was suing the other companies for using and imitating its brand.

The cases rested on two questions. One was whether McDonald's was a 'well-known murk'. If it was, then the company would be instantly entitled to protection from imitation by local traders, and die impostors would have to pack up shop. The second was whether McDonald's claim of 'special circumstances' could be justified.

For McDonald's managers, the answer to the first question was self-evident. Though they recognized that South Africa had a relatively sophisticated fast-food industry of its own, the idea diat such a famous global brand might not be well known on the southern tip of Africa seemed preposterous. Two market-research surveys conducted in South Africa confirmed that the brand was indeed well known. The judge presiding in the Supreme Court case, however, argued that the surveys were conducted among whites living in posh suburbs and could 'by no stretch of the imagination be regarded as representative of the entire South African population', 76 per cent of which is black. The judge threw McDonald's case out.

What of the second question, concerning the firm's claim that 'special circumstances' had kept it out of South Africa's market? McDonald's had first registered its trademark in South Africa in 1968, and then renewed it at

regular intervals until 1985. Under South African law as it stood at the time, a company lost its right to the trademark it it' languished unused on the books for five years, unless there was a good reason. Again, the judge did not believe that 'special circumstances' - pressure from anti-apartheid groups and sanctions - were the real reasons that McDonald's had left its trademark unused for so long: 'there is no explanation for the failure to commence business in South Africa,' he declared, 'other than the fact that South Africa simply did not rank on McDonald's list of priorities'.

These legal setbacks were temporary. McDonald's was allowed to press ahead with opening restaurants while it prepared its case for the Appeal Court. In 1996 the American burger chain won this second battle: the Appeal Court. In essence, applied a less strict test of what it meant to be well known in South Africa, and accepted the evidence in the two surveys because it thought that whites represented McDonald's *target* markets.

The case was a harbinger of the sort of trouble that McDonald's was to experience throughout South Africa. But, McDonald's had not given up so easily. The firm continued to invest in opening new outlets after that. At the end of 1997, it operated 35 restaurants in the country - a small-fry, though, compared to the 337 it runs in Brazil. It has scored well against local rivals in slick service and a studied appeal to children. However, there are still worries that McDonald's is treating its South African market as if it were uniform. It offers its standard worldwide menu — hamburgers of even' imaginable size, with a few chicken products as alternatives. Some of its loeal managers have expressed how odd the choice is given that the majority of local black consumers tend to favour chicken, which is cheaper than red meat. White consumers, by contrast, tend to be beef-obsessed. They argue that 'politically correct' McDonald's seems unwilling to acknowledge, in the overt way that its local rivals do, the point that the split between beef hamburgers and chicken has as much to do with race as with products, McDonald's judged that the South African market was not different enough to merit product adaptation from the start. It would wait instead to see how well the standard McDonald's menu went down.

McDonald's experience in the market is a stark reminder of the challenges **facing** companies seeking to penetrate new country markets. Even the most powerful, established, global brands from developed countries can hit a number of unexpected barriers to entry into a foreign market. Importantly, the company cannot expect to trample all before it in developing or emerging country markets — particularly when local consumers can choose established local alternatives. If the owner of the world's leading brand encounters such troubles, companies with a less well-known trademark must think twice before venturing into foreign markets.[1]

When deciding to take advantage of an international marketing opportunity, firms should consider a number of questions.

QUESTIONS

You should attempt these questions only after **completing** your reading of this chapter. International **marketing** is more than simply taking what products or services are successful at home and exporting to a foreign market. It requires huge investment and long-term commitment to the target market, cultural sensitivity, and a willingness to adapt one's product and marketing strategies. Tailoring the firm's offering to suit target customer needs cannot be over-emphasized. Once the firm learns to do this, overseas markets can be lucrative and a recipe for success.

1. What are the attractions of international market expansion?
2. What might be the risks attached to expanding into a foreign or emerging market?
3. How can these risks be minimized?
4. Outline the key lessons we can draw from McDonald's experience in die South African market.
5. What criteria must the firm consider when deciding on which country-market to enter?
6. What constitutes an effective marketing programme for the target country market?

Introduction

This chapter discusses the importance of global marketing and explains the key elements of the planning process: analyzing international market opportunities; deciding whether or not to go abroad; establishing market entry mode; allocating resources; developing the marketing plan; organizing for international marketing; implementing the marketing strategy; and evaluation and control.

Companies pay little attention to international trade when the home market is big and teeming with opportunities. The home market is also much safer. Managers do not need to learn other languages, deal with strange and changing currencies, face political and legal uncertainties or adapt their products to different customer needs and expectations. This has been the attitude of many western companies, which saw little need to sell in overseas markets because their domestic market alone seemed to offer attractive opportunities for growth.

Today, however, die business environment is changing and firms cannot afford to ignore international markets. The increasing dependency of nations around die world on each other's goods and services has raised awareness among companies of die need for a more international outlook in their approach to business. International markets are important because most firms are geared towards growth and so must seek new opportunities in foreign countries as their domestic markets mature. As international trade becomes more liberalized, firms are facing tougher foreign competition in the domestic market. They must develop the ability to fight off competitors on tlieir own home ground, or to exploit business opportunities in foreign markets.

Furthermore, time and distance are shrinking rapidly with the advent of faster communication, transportation and financial flows. Products developed in one country are finding enthusiastic acceptance in other countries. Across western Europe and North America, names such as Toyota, Sony and Toshiba have become household words in the same way McDonald's, Toys '*fl*' Us, Philips and IKEA are familiar names to most young consumers in Asian countries like Japan, Singapore find Hong Kong.

Thus, as global competition intensifies, local companies that never thought about foreign competitors suddenly find these competitors in their own back-yards. The firm that stays at home to play it safe not only misses the opportunity to enter other markets, but also risks losing its home market.

Consider, for example, Japanese victories over western producers in ninny sectors - motorcycles, cars, cameras, consumer electronics, machine tools,

photocopiers. These markets used to be the stronghold of US, German and British companies in the 1970s, but are now dominated by .lapanese manufacturers. The latter are not insulated from foreign competitors either. Increasing competition from lower-cost newly industrializing countries (NIGs) in the Far East, notably South Korea and Taiwan, are posing a big threat to established Japanese firms in traditional industries like steel, chemicals and heavy machinery.

In the United States, American firms are fighting off aggressive assaults by international European companies: Die's successful attacks on Gillette and Nestle's gains in the coffee and confectionery markets are a reflection of the growing level of international competition in 'safe' home markets. In the European Union (Ell), foreign firms' direct investment is on the increase and ititra-Union flows of investment in all kinds of business sectors - cars, clothing, retailing, financial services - are particularly active. Many sophisticated and aggressive foreign companies also see the emerging eastern European economies as longer-term opportunities. So, more than ever, firms must learn how to enter foreign markets and increase their global competitiveness.

Although some companies would like to stem the tide of foreign imports through protectionism, this response would be only a temporary solution. Suppressing a free flow of foreign imports would lead to fewer choices for the consumer and higher prices for indigenously produced goods. In the long run, it would raise the cost of living and protect inefficient domestic firms. It also means that consumers' needs and wants would not be met effectively and efficiently. A better solution is to encourage more firms to learn to make the world their market.

The importance of internationalization is also reflected by the fact that most governments run an export promotion programme, which tries to persuade local companies to export. Denmark pays more than half the salary of marketing consultants who help small and medium-size Danish companies get into exports. Many countries go even further and subsidize their companies by granting preferential land and energy costs - they even supply cash outright so that their companies can charge lower prices than do their foreign competitors.

Today the pressure on firms operating in global industries is not just to export to other countries, but to strive to be a global firm. A global industry is one in which the strategic positions of competitors in given geographic or national markets are affected by their overall global positions, A global *firm,* therefore, is one that, by operating in more than one country, gains research and development, production, marketing and financial advantages in its costs and reputation that are not available to purely domestic competitors,[2] The global company sees the world as one market. It minimizes the importance of national boundaries, and raises capital, sources materials and components, and manufactures and markets its goods wherever it can do the best job. For example, Ford's 'world truck' sports a cab made in Europe and a chassis built in North America. It is assembled in Brax.il and imported to the United States for sale. Thus global firms gain advantages by planning, operating and co-ordinating their activities on a worldwide basis. These gains are a key reason behind recent global restructuring programmes undertaken by leading German car producers, BMW and Mercedes-Benz. Global marketing is concerned with integrating or standardizing marketing actions across a number of geographic markets. This does not rule out forceful adaptation of the marketing mix to individual countries, but suggests that firms, where possible, ignore traditional market boundaries and capitalize on similarities between markets to build competitive advantage.

Because firms around the world are globalizing at a rapid rate, domestic firms in global industries must act quickly before the window closes on them. This does not mean that small and medium-size firms must operate in a dozen countries to

global **industry**
An industry in which the strategic positions *of competitors in given geographic or national markets are affected by their overall globed* •*positions,*

global **firm**
A firm that, by operating in more than one country, gains R & D, production, marketing and financial advantages in its costs and reputation that are not available to purely domestic competitors.

global marketing
Marketing that is concerned toit/i *integrating* or *standardizing marketing actions across different geographic markets.*

succeed. These firms can practise global nichernanship. The world, however, is becoming smaller and every company operating in a global **industry** - whether large or small - must assess and establish its place in world markets.

Firms that confront international competitors in their existing markets must ask some basic questions; What market position should we try to establish in our country, in the geographic region (e.g. Europe. North America, Asia, Australasia) and globally? Who will our global competitors he and what are their strategies and resources? Where should we produce or source our products? What strategic alliances should we form with other firms around the worldV

This chapter surveys the global marketplace and addresses the important decisions that firms have to make in international marketing planning. Each decision will be discussed in detail. First, however, let us take a look at the risks in doing business abroad.

Risks in International Marketing

Although the need for companies to go abroad is greater today than in the past, so are the risks. Managers muse anticipate the risks and obstacles in doing business in foreign markets. Several complex problems confront companies that 'go global'.

High Foreign Country Debt

High debt, inflation and unemployment in several countries have resulted in highly unstable governments and currencies, which limit trade and expose firms to many risks. Debt-laden and/or currency-starved countries are often not able to pay despite their willingness to purchase. The inability of poorer countries, for example in eastern Europe, to pay by normal (cash) methods becomes a serious obstacle for supplying companies.

Exchange Rate Volatility

The level of a country's exchange rate affects the company's competitiveness in the foreign market. A weak pound will favour exports of British goods. A strong exchange rate intensifies the level of competition the firm faces at home. For European companies whose countries are members of the Exchange Rate Mechanism (ERM), much of Che uncertainty is removed from fluctuating exchange rates. On the one hand, this is favourable for companies doing a great portion of their international business in the EU. On the other, however, the ERM does impose constraints on company decisions, such as productivity levels and government policy (e.g. in its flexibility to reduce interest rates).

Foreign Government Entry Requirements

Companies often face constraints imposed by the foreign or 'host' country government. Some of these market entry conditions relate to a variety of working practices including: degree of control (ownership) allowed; the hiring of local nationals; local content rules; the percentage of output exported; and the amount of profits that can be taken from the country. India, China, Mexico, Brazil and

many African countries maintain formal, and often strict, entry conditions, while more advanced countries, such as Japan and the United States, impose strict 'quality' criteria.

Costs of Marketing Mix Adaptation

Although the international firm gains from economies of scale in production, these must be weighed against the higher costs of product modification, distribution and communication expenditures in overseas markets. For example, the complex, multilayered distribution system traditionally used in Japan, together with high Japanese product quality expectations and expensive media costs, is a considerable barrier to market entry for many foreign firms.

Other Problems

War, terrorism and corruption are other dangers that confront international businesses. The number of localized conflicts in eastern Europe is predicted to increase as a result of die resurgence in nationalism and ethnie rivalries in the post-cold war 'new world order[1]. Previous hostage-taking episodes in the Middle East and the widely publicized murders of western businessmen in Turkey, Shanghai (China) and Russia highlight a problem that international companies have long been aware of. The problem of widespread corruption in some countries, where officials often award contracts to the highest briber, not the lowest bidder, also presents a dilemma to many western businesspeople, particularly where anti-corruption principles are well laid down in their firm's own business charter. The firm must therefore establish clear guidelines for their staff who have to do business in countries where corruption is an increasing problem. These guidelines should help them decide whether or not to bid for business, in the first instance, and, if so, where and when to draw the line.

The difficulties associated with doing business in foreign markets, however, should not deter firms from engaging in international marketing. Rather, these risks and problems must be identified by managers and planned for. Like all marketing activities, the chance of success is far higher when obstacles are anticipated rather than reacted to.

The rest of this chapter is devoted to examining the important international marketing decisions that firms make. Figure 5.1 presents a framework for analysis, planning, implementation and control in relation to international marketing. The eight dimensions shown are useful for identifying the keys to foreign market success. Each dimension will be discussed in turn.

Analysis of International Market Opportunity

Deciding Whether or Not to Go Abroad

Doing international business successfully requires firms to take a market-led approach. A critical evaluation of why firms enter foreign markets shows that, in many cases, the practice of international business falls short of the market-led approach essential for long-term success. Firms must consider the factors that draw them into the international arena.

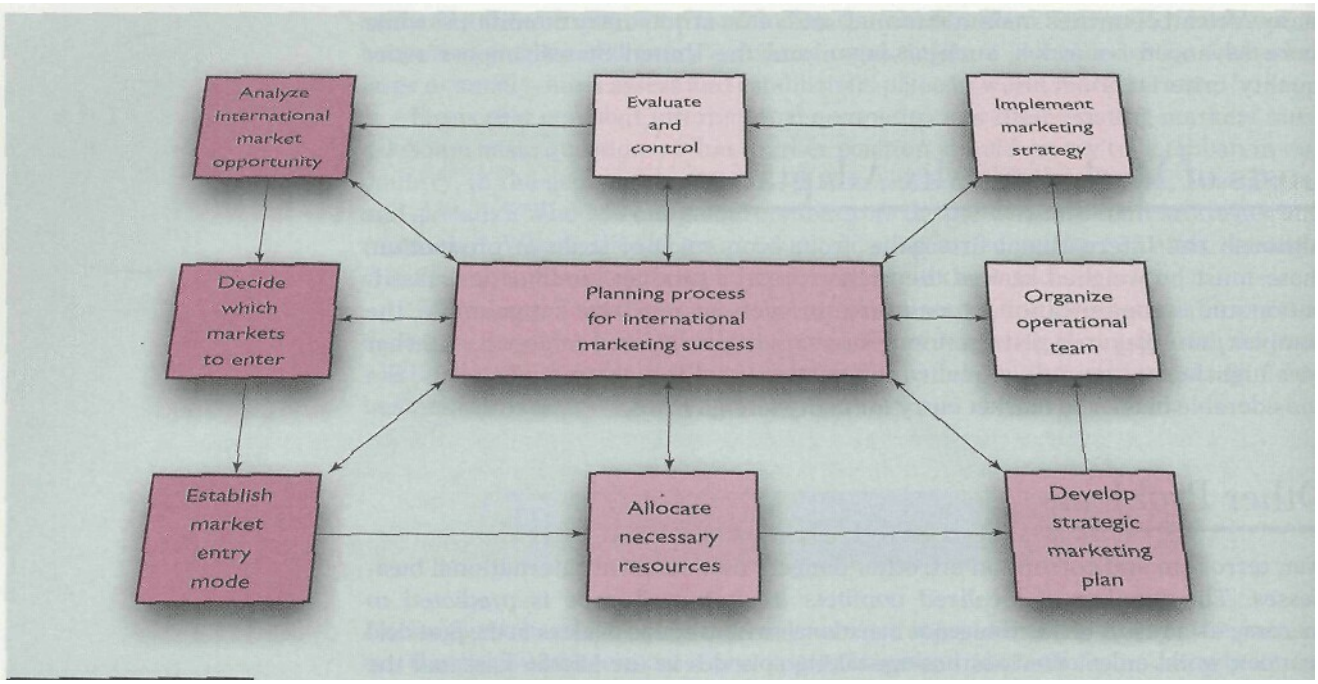


Figure 5.1 **International marketing planning model**

A surprisingly large proportion of sales to foreign markets are made in response to *chance orders* coming either from customers who are international players or from other sources such as foreign buyers **attending** a domestic exhibition. Such 'passive exporting' is not international marketing, **although** it contributes to international trade. It does not associate with the central principle of creating customer value and market targeting, there is little assessment of critical factors for competitive success, and it is unlikely to build a long-term market position,

Limited domestic growth and/or intense *domestic competition* is a key reason why firms enter foreign markets and was a prime motivator behind the Japanese companies' overseas expansion programme during the 1970s and 1980s. In practice, many firms quickly suspend foreign market activity when the domestic economy improves or when they fail to make money in the overseas operation. Finns driven to exporting because of domestic recession often fail to anticipate the wider external constraints to doing business in a foreign market and tend to take a short-term orientation to international marketing.[3]

Furthermore, companies that are struggling to survive at home are highly unlikely to successfully take on and beat sophisticated competitors in foreign markets. The domestic market must be secured first before going abroad and it should be maintained thereafter. Japan's top two car **manufacturers,** Toyota and Nissan, are arch rivals at home. They took this rivalry overseas and in the process have raised the level of competitive activity to new heights in North America and Europe, while striving to remain strong performers in their home base.

Geographic market diversification to reduce country-specific risk - that is, the risk of operating in only one country, due to different political-economic cycles - is a popular reason behind firms' international expansion drive. Firms must understand that market needs may be strikingly different, even for apparently similar products, and that different management skills and approaches are needed for different country markets. So, managers must weigh the costs and barriers to global diversification against the benefits of risk reduction.



Asia; a growing market. Thin Hongkong-Bank ad reinforces die region's potential, and illustrates /lote the bank can meet the needs of its international customers.

Firms spread the costs of production over more units if output is expanded for overseas markets. While economies *of scale* give firms a strong incentive to expand into foreign markets, the firm must also take on board additional administration, selling, distribution and marketing co.sts. A 'cost-led' approach or a 'selling orientation' in international marketing is unlikely to lead to long-term success. Without *H* marketing-led orientation, where customers' needs are identified and satisfied, and die firm's marketing mix adapted for the foreign market, the international business activity of the firm is unlikely to flourish.

In summary, firms enter overseas markets for profits and/or survival. But firms must not confuse exporting with international marketing. The latter is about taking a long-term perspective of foreign market potential and relentlessly adopting a market-led approach to identifying, anticipating and satisfying the needs of customers in target international markets. Before going abroad, the firm must weigh the risks and question its ability to operate globally. Can the company learn to understand the preferences and buying behaviour of customers in other country markets? Can it offer competitively attractive products? Will it be able to adapt to other countries' business cultures and to deal effectively with foreign nationals? Do the company's managers have the requisite international experience? Has management considered the impact of foreign regulations and political environments? International marketing is really about exploiting market opportunities based upon sound environment and specific market analyses.

Understanding the Global Environment

Before deciding whether or not to sell abroad, a company must thoroughly understand the international marketing environment. That environment has changed a



Many companies have made the world their market: opening the megaxtore in Milan (top left) and Virgin megagtares m *London, Los Angeles, Vienna and Tokyo.*

great deal in the last two decades, creating both new opportunities and new problems. The world economy has globalized. First, world trade and investment have grown rapidly, with many attractive markets opening up in western and eastern Europe, Russia, China, the Pacific Rim and elsewhere. Official sources suggest that world trade in goods grew by 8 per cent in volume terms and FDI rose some 40 per cent over 1996 alone. In tact, during the 1990s, international trade has grown faster titan world output.[4] There has been a growth of global brands in motor vehicles, food, clothing, electronics and many other categories. The number of global companies has grown dramatically. While the United States' dominant position in world trade has declined, other countries, such as Japan and Germany, have increased their economic power in world markets (see Marketing Highlight 5.1). The international financial system has become more complex and fragile. In some country markets, foreign companies face increasing trade barriers, erected to protect domestic markets against outside competition. There has also been increasing concern among members outside the European Union that 'Fortress Europe' presents greater harriers to penetrating the EU markets. Japanese car plants, for example, have been attracted to the United Kingdom by the thought that they can by-pass the EU's restrictions on imports of Japanese cars.

tariff
A tax levied by a government against certain imported products. Tariff are designed to raise revenue or to protect domes tic firms.*

quota
A limit on the amount of goods that an importing country *will accept in certain product categories; it is designed to conserve on foreign exchange and to protect local industry and employment.*

• *The international Trade System*

The company looking abroad must develop an understanding of the international trade system. When selling to another country, the firm faces various trade restrictions. The most common is the tariff, which is a tax levied by a foreign government against certain imported products. The tariff may be designed either to raise revenue or to protect domestic firms: for example, those producing motor vehicles in Malaysia and whisky and rice in Japan, The exporter also may face *a* quota, which sets limits on the amount of goods the importing country will accept

in certain product categories. The purpose of the quota is to conserve foreign exchange and to protect local industry and employment. An embargo is the strongest form of quota, which totally bans some kinds of import.

Firms may face exchange controls that limit the amount of foreign exchange and the exchange rate against other currencies. The company may also face non-tariff trade barriers, such as biases against company bids or restrictive product standards that favour or go against product features.[5]

At the same time, certain forces help trade between nations. Examples are the General Agreement on Tariffs and Trade (replaced by the World Trade Organization in 1993) and various regional free trade agreements.

embargo
A ban on the import of a certain product.

exchange **controls**
Government limits on the amount of its country'K foreign exchange smith other countries and on its exchange rate against other currencies.

non-tariff trade barriers
Non-mrmetary barriers to foreign products, such UK biases against a foreign company's bidn or product standards that go against«foreign company's product features.

• *The General Agreement, on Tariffs and Trade/ Word Trade Organization*

The General Agreement on Tariffs and Trade (GATT) is an international treaty designed to promote world trade by reducing tariffs and other international trade barriers. There have been eight rounds of GATT talks since its inception in 1948, in which member nations reassess trade barriers and set new rules for international trade. The first seven rounds of negotiations reduced average worldwide tariffs on manufactured goods from 45 per cent to around 4 per cent in industrial countries.

The most recent GATT round, the Uruguay round, ended in 1993. Although the benefits of the Uruguay round will not be felt for many years, the new accord should promote robust long-term global trade growth. It reduces the world's remaining manufactured goods tariffs by 30 per cent, which could boost global merchandise trade by up to 10 per cent, or $270 billion in current US dollars, by the year 2002.

The Uruguay round did much more than cut tariffs on goods. It heralded a big institutional change, creating the World Trade Organization (WTO) as a successor to GATT. WTO now boasts 132 members. It also introduced three big changes to world trade rules. First, it began to open up the most heavily protected industries: agriculture and textiles. Second, it vastly extended the scope of international trade rules to cover services as well as goods. New issues, such as the use of spurious technical barriers and health regulations to keep out imports and the protection of foreigners' 'intellectual property', such as patents and copyright, were addressed for the first time.

The third big change brought by the Uruguay round was the creation of a new system for settling disputes. In the past, countries could (and sometimes did) break (5ATT rules with impunity. Under the new system, decisions can be blocked only by a consensus of WTO members. Once found guilty of breaking the rules, and sifter appeal, countries are supposed to mend their ways. Under the WTO international trade issues continue to be addressed. As the new WTO builds up its credibility, more and more countries, including China, arc wanting to join/'

Regional Free-Trade Zones

In recent years, we have seen the growth of regional free-trade zones or economic communities - groups of nations organized to secure common goals in the regulation of international trade. One such community is the European Union, which aims to create a single European market by reducing physical, financial and technical harriers to trade among member nations.[7]

Other free-trade communities exist. In fact, almost every member of the WTO is also a member of one or more such communities. And, of the one

World-Class Marketing: The Japanese

Marketiri

Highlight

Few dispute that the Japanese have performed an economic miracle since the Second World War, In a very short time, they have achieved global market leadership in many industries: motor vehicles, watches, cameras, optical instruments, steel, shipbuilding, computers and consumer electronics. They have made strong inroads into tyres, chemicals, machine tools and financial services, and even designer clothes, cosmetics and food. Some credit the global success of Japanese companies to their unique business and management practices. Others point to the help they get from Japan's government, powerful trading companies and banks. Still others say Japan's success was based on low wage rates and unfair dumping policies.

In any ease, one of the main keys to Japan's success is certainly its skilful use of marketing. The Japanese came to the United States to study marketing and went home understanding it better than many US companies do. They know how to select a market, enter it in the right way, build market share and protect that share against competitors. Having practised and seen how well it works in the US market, the Japanese came to Europe with the same game plan.

Selecting markets. The Japanese work hard to identify attractive global markets. First, they look for industries that require high skills and high labour intensity, but few natural resources. These include consumer electronics, cameras, watches, motorcycles and pharmaceuticals. Second, they prefer markets in which consumers around the world would be willing to buy the same product designs. Finally, they look for industries in which the market leaders are weak or complacent.

Entering markets. Japanese study teams spend several months evaluating a target market and searching for market niches that are not being satisfied. Sometimes they start with a low-priced, stripped-down version of a product, fike cameras and radio receivers. At other times, they start with a product that is as good as the competition's but priced lower, such as radios and televisions, or with a product of higher quality or incorporating new features, as in the case of cars and photocopiers.

The Japanese line up good distribution channels in order to provide quick service. They also use effective advertising to bring their products to the consumers' attention. Their basic entry strategy is to build market share rather than early profits, and they are often willing to wait as long as a decade before realizing their profits.

Building market share. Once Japanese firms gain a market foothold, they begin to expand their market share. Money is poured into product improvements and new models so that they can offer more and better products than the competition does. They spot new opportunities through market segmentation, develop markets in new countries, and work to build a network of world markets and production locations.

Protecting market share. Once the Japanese achieve market leadership, they become defenders rather than attackers. Their defence strategy is continuous product development and refined market segmentation. Their philosophy is to make 'tiny improvements in a thousand places'.

Recently, some experts have questioned whether Japanese companies can sustain their push towards global marketing dominance. They suggest that tfie Japanese emphasis on the long-term market share over short-term profits and their ability to market high-quality products at low prices have come at the expense of their employees, stockholders and communities. They note that, compared to western firms, Japanese companies work their employees longer hours, pay their stockholders lower dividends, and eontribute less to community and environmental causes. Other analysts, however, predict that Japan's marketing success is likely to continue.

In America and Europe, western firms that have survived the Japanese onslaught are fighting back by adding new product lines, pricing more aggressively, streamlining production, buying or making components abroad and forming strategic partnerships with foreign companies. With the help of a weakened Japanese economy, a soaring yen and strong political trade pressures, western companies are winning back market share in industries ranging from automobiles and earthmovers to semiconductors and computers. Many companies are also gaining ground in Japan.

US firms, for example, hold leading market shares; Coke leads in soft drinks (60 per cent share), Schick in razors (71 per cent), Polaroid in instant cameras (66 per cent), and McDonald's in fast food. Procter & Gamble markets the leading brand in several categories, ranging from disposable nappies and liquid laundry detergents to acne treatments.

A growing number of European companies have successfully penetrated the daunting Japanese market. Success, however, has not been limited to large companies like Glaxo or those with well-established marques. For example, Teknek Electronics, a small British company which makes a precision machine that cleans sheet materials in the printed circuit industry, successfully entered the Japanese market despite its chief competitor in the market being a Japanese machine. Solid State Logic, a relatively young British company that makes professional audio equipment, has made significant progress within 20 months of setting up its subsidiary in Japan. In the consumer market, Foseco, a speciality chemicals maker, sold its Sedex filters at a loss for one year in Japan while it set up local production to meet intense domestic price competition. It emerged from the trauma with 55 per cent of the Japanese market, and a reduction in production costs that enabled it to bring its own sales price down by 30 per cent. Foseeo Japan now sells three times as many different types and sizes of Sedex filter as any Fosceo company.

The success of western companies in Japan stems largely from the firms' willingness to meet the Japanese market on its own, highly competitive terms. The key ingredients for success are: not treating the Japanese market as any other market; a high-L]uality or latest technology product; a high level of commitment to - invariably meaning a high level of investment in - the market; an ability to respond efficiently to specific market segment needs; and an understanding of the specific business culture. For most consumer products, tying up with a local distributor or partner is critical. Understanding the complex distribution system with its layers of wholesalers, and having the patience to handle it, are crucial in Japan because it is difficult to get products on the shelves by directly approaching the retailer. A strong marketing plan, encompassing intensive and aggressive advertising, and close co-operation with wholesalers and retailers, is also essential, not only to reach and impress the consumer, but also to convince the wholesaler and the retail buyers that the firm is serious about its product

In fact, very similar ingredients are found in western and Japanese overseas marketing success recipes. These all point to one outstanding dimension - superior marketing - as reflected in the firms' focus on market needs, sustained commitment to product and market development, and environmental, particularly cultural, sensitivity.

This suggests that the broad principles for success in international marketing are not country specific, but readily transferable to other national players.

SOURCES; See Peter Doyle, John Saunders and Veronica Wong, 'Competition in global markets: a case study of American *mid* Japanese competition in the British market', *Journal of International Business Studies,* 23, ,1 (1992), pp. 419-42; Miehiyo Xakamoto, 'British companies reap benefits (it Japanese markets'. *Financial* '/fines *(8* May 1991), p. 6; Miehiyo XakamoEO, 'Use the system, win shelf space', *Financial* Times (16 February 1994), p. 19; Philip Kotler, Liam F;ihey and Somkid Jatusripitak, *The Neva Competition* (Englewood Cliffs, NJ: Prentiee Hall, 1985); Vernon R. Alden, 'Who says you can't crack Japanese markets?', *Harvard* Business /Jews* (January-February 1987), pp. 52-6, Ford S. Worthy, 'Keys to Japanese success in Asia', Fortune (7 October 1991), pp, 157-60; 'Why Japan must change', *Fortune* (9 March 1992), pp. 66-7.



Income distribution: Even poorer countries may have small but wealthy segments. Although citizens of Budapest. Hungary have relatively loiv annual incomes, well-dressed shoppers flock to elegant stores like this one, stocked with luxury goods.

hundred or so free-trade arrangements listed by the WTO, over half have come into being in the 1990s (see Marketing Highlight 5,2).

• *Economic Environment*

The international marketer must study each country's economy. Two economic factors reflect the country's attractiveness a.s a market: the country's *industrial structure* and its *income distribution.*

The country's industrial structure shapes its product and service needs, income levels and employment levels. Four types of industrial structure should be considered:

1. *Subsistence economies.* In a subsistence economy, the vast majority of people engage in simple agriculture. They consume most of their output and barter the rest for simple goods and services. They offer few market opportunities.
2. *Raw-rnaterial-exporting economies.* These economies are rich in one or more natural resources, but poor in other ways. Much of their revenue comes from exporting these resources. Examples are Chile (tin and copper), Zaire (copper, cobalt and coffee) and Saudi Arabia (oil). These countries are good markets for large equipment, tools and supplies, and trucks. If there are many foreign residents and a wealthy upper class, they are also a market for luxury goods.
3. *Industrializing economies.* In an industrializing economy, manufacturing accounts for 10—20 per cent of the country's economy. Examples include China, the Philippines, India and Brazil. As manufacturing increases, the country needs more imports of raw textile materials, steel and heavy machinery, and fewer imports of finished textiles, paper products and motor vehicles. Industrialization typically creates a new rich class and a small but growing middle class, both demanding new types of imported goods. In China, for example, people with rising disposable income want to spend on items such as fashion, video recorders, CD players and instant coffee.

4. *Industrial* economies. Industrial economies are large exporters of manufactured goods and investment funds. They trade goods among themselves and also export them to other types of economy for raw materials and semi-finished goods. The varied **manufacturing** aetivities of these industrial nations and their large middle class make them rich markets for all sorts of goods. Asia's newly industrialized economies, such as Taiwan, Singapore, South Korea and Malaysia, fall into this eategory.

The second economic factor is the country's income distribution. The international marketer might find countries with one of five different income distribution patterns: (1) very low family incomes; (2) mostly low family incomes; (3) very low/very high family incomes; (4) low/medium/high family incomes; and (5) mostly medium family incomes.

However, even people in low-income countries may find ways to buy products that are important to them, or sheer population numbers can counter low average incomes. Also, in many cases, poorer countries may have small but wealthy segments of upper-income consumers:

> In the US the first satellite dishes sprang up in the poorest parts of Appalachia .., The poorest slums of Calcutta are home to 70,000 VCRs. In Mexico, homes with colour televisions outnumber those with running water. Remember also that low average-income figures may conceal a lively luxury market. In Warsaw (average income: 02,500) well-dressed shoppers flock to elegant boutiques stocked with Christian Dior perfume and Valentino shoes ... In China, where per capita income is less than S600, the Swiss company Rado is selling thousands of its 81,000 watches."

Thus, international marketers face many challenges in understanding how the economic environment will affect decisions about which global markets to enter and how.

Political-Legal Environment

Nations differ greatly in their political-legal environments. At least four political-legal factors should be considered in deciding whether to do business in a given country: attitudes towards international buying, political stability, monetary regulations and government bureaucracy. We will consider each oi' these in turn.

ATTITUDES TOWARDS INTERNATIONAL BUYING. Some nations are quite receptive to foreign firms, and others are quite hostile. Western firms have found newly industrialized countries in the Par East attractive overseas investment locations. In contrast, others like India are bothersome with their import quotas, currency restrictions and limits on the percentage of the management team that can be non-nationals.

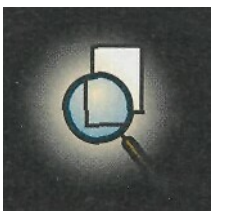
Switzerland remains a difficult market for many imports as protectionism, mainly in the form of technical barriers, is rampant, and the cantonical governments remain reluctant to buy anything outside their borders.[4]

In Poland, Slovakia and the Czech Republic, after an initial infatuation with all things 'western', a backlash has started as national pride reasserts itself and consumers begin to resent the commercial advance from the West.[10]

POLITICAL STABILITY. Governments change hands, sometimes violently. Even without a change, a government may decide to respond to new popular feel-

Marketing Highlight 5.2

Regional Free-Trading Groups: Blocking Up



The growth of regional trade arrangements has excited keen controversy in recent years. More than 100 have been formed, 29 since 1992, and almost all the roughly 130 members of. the World Trade Organization belong to one or more of them. Figure 1 shows the main regional trade groups.

More recently, the EU, 11 southern Mediterranean governments and the Palestine National Authority launched the 'Euro-Mediterranean partnership' zone, which creates a new trading bloc. Goods made in countries such as Morocco and Turkey will gain free access to the single European market.

By 2010 it is envisaged that the Mediterranean basin will be open for reciprocal free trade in most manufactured goods and services ~ creating a trading bloc to rival the North American Free Trade Agreement ;md the Asia-Pacific Economic Co-operation forum.

In Asia, the fashion for regionalism is in the ascendant. One example is die recent push for a free-trade area embracing the seven-member Association of South East Asian Nations. Another is the Asia Pacific Economic Go-operation forum, two thirds of whose 18 members arc Asian,

By lowering barriers between national markets, such groupings can make life easier for exporters - provided they operate inside the club. If they are outsiders, however, they risk facing continued discrimination and - where regional trade arrangements overlap - confusion.

Enthusiasts say regional groupings promote free trade by acting as building blocks, which can eventually unite. But sceptics fear the more likely result will be to fragment the global economy into mutually exclusive, possible warring, blocs.

Regionalism is undoubtedly posing another *type* of challenge to the world trade system, in the form of proliferating rules and regulations. For instance, 22 of the 24 regional agreements being analyzed by the WTO contain their own anti-dumping provisions, 18 have provisions relating to subsidies, 19 deal with competition policy and 12 have their own disputes settlement procedures. Some experts fear this trend could undermine the WTO's rules-based system by encouraging the spread of regional regulations that conflict with it. It is hard to be sure just how serious a risk this is, because of the weakness of procedures for vetting whether regional groups are compatible with WTO rules.

These problems are finally starting to be addressed. A formal WTO committee is examining regional trade arrangements. However, developing firm and workable disciplines, which command support from all WTO members, will take many years. Much work is still needed to clarify countries' often differing interpretations of the GATT/WTO rules on regional trade agreements and to define more precisely areas of incompatibility. Furthermore, the new committee seeks to set up effective procedures for reaching decisions and for reviewing regularly the operation of existing regional arrangements. Where these are found inconsistent with WTO rules, some mechanism will be needed to ensure they fail back in line.

CK.S: Paul Magjausson, ""Free trade": They can hardly wait', *Business Week* (14 September 1992), pp. 24-5; Andrew Hilton, 'Mythology, markets, and the emerging Europe', *Harvard Business Revieiv* [November-December 1992), pp. 50-4; Larry Armstrong, 'NAFTA isn't out, but it sure is down', Business *Week (22* March 1993), pp. 30-1; Guy do Jonquieres, 'Ruilding blocks or warring blocs?', *Financial Times, FT Exporter,* 11 (Spring 1996), p. 3; Jon Marks. 'New kids on the Eurotrading bloc'. *Financial Times, FT Exporter,* 11 (Spring 19%), p. 7.

ings. The foreign company's property may be taken, its currency holdings may be blocked, or import quotas or new duties may be set. International marketers may find it profitable to do business in an unstable country, but the unsteady situation will affect how they handle business and financial matters.

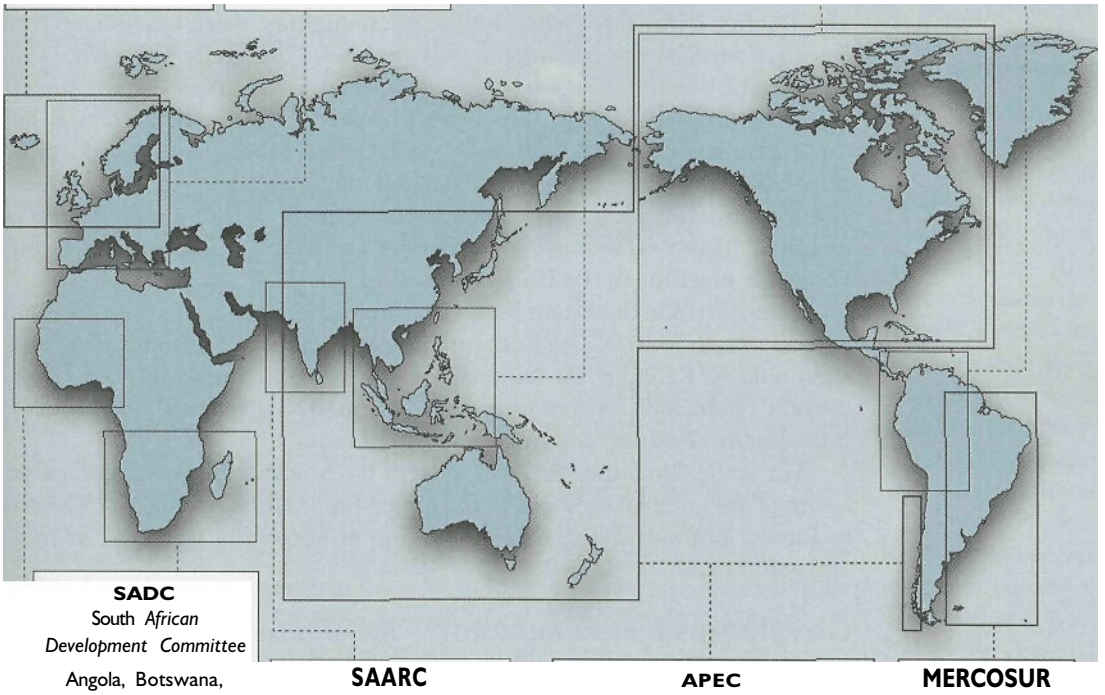


FIGURE 1 THE MAIN REGIONAL TRADE GROUPS

MONETARY REGULATIONS Sellers want to take their profits in a currency of value to them. Ideally, the buyer can pay in the seller's currency or in other world currencies. Short of this, sellers might accept a blocked currency - one whose removal from die country is restricted by the buyer's government - if they

can buy other goods in that country that they need themselves or can sell elsewhere for a needed currency. Besides currency limits, a changing exchange rate, as mentioned earlier, creates high risks for the seller.

Most international trade involves cash transactions. Many Third World and former Eastern bloc nations do not have access to hard currency or credit terms to pay for their purchases from other countries. So western companies, rather than lose the opportunity of a good deal, will accept payment in kind, which has led to a growing practice called countertrade. Countertrade is nothing new and was the way of doing business before money was invented. Today it accounts for about 25 per cent of all world trade.

uounterlrade
International trade involving Che direct or inilirect exchange of goods/or other goods instead of cash. Forms include barter compensation (buyback) and counterpurchase.

Countertrade takes several forms. *Barter* involves the direct exchange of goods or services. For example, British coal mining equipment has been 'sold' for Indonesian plywood; Volkswagen cars were swapped for Bulgarian dried apricots; and Boeing 747s, fitted with Rolls-Royce engines, were exchanged for Saudi oil. Another form is *compensation* (or *buyback),* whereby the seller sells a plant, equipment or technology to another country and agrees to take payment in the resulting products. Thus, Goodyear provided China with materials and training for a printing plant in exchange for finished labels. Another form is *counterpurchase.* Here the seller receives full payment in cash, but agrees to spend some portion of the money in the other country within a stated time period. For example, Pepsi sells it syrup to Russia for roubles, and agrees to buy Russian vodka for reselling in the United States.

Countertrade deals can be very complex. For example, Daimler-Benz recently agreed to sell 30 trucks to Romania in exchange for 150 Romanian jeeps, which it then sold to Ecuador for bananas, which were in turn sold to a German supermarket chain for German currency. Through this roundabout process, Daimler-Benz finally obtained payment in German money.[11]

For some firms the bartering system has worked. However, companies must be aware of the complexities and/or the limits: Rank Xerox, trying to sell high technology to Russia, not surprisingly drew the line at accepting payment in racing camels and goat horns!

GOVERNMENT BUREAUCRACY. A fourth factor is the extent to which the host government runs an efficient system for helping foreign companies: efficient customs handling, good market information and other factors that aid in doing business. A common shock to western businesspeople is how quickly barriers to trade disappear if a suitable payment (bribe) is made to some official (see Marketing Highlight 5.3).

• *Cultural Environment and Building Cultural Empathy*

Each country has its own traditions, norms and taboos. The seller must examine the way consumers in different countries think about and use certain products before planning a marketing programme. The cultural barriers in target country markets must be identified. Culture is defined simply as *the learned distinctive way of life of a society.* The dimensions of culture include: the social organization of society (e.g. the class system in the United Kingdom, the caste system in India, the heavy reliance on social welfare in Sweden or the lack of it in Japan); religion (ranging from the Islamic fundamentalism of Iran to the secular approaches of western countries sxieh as the United Kingdom); customs and rituals; values and attitudes towards domestic and international life; education provision and literacy levels; political system; aesthetic systems (e.g. folklore, music, arts, literature); and language.

culture
The set *of basic values, purt_-eptiim.s, wants and behaviours learned by a member of society from family and other important institutions.*

Culture permeates the lifestyles of customer targets and is manifested through the behavioural patterns of these customers. Culture and people's general

Muviour influence the customer's actions in the marketplace, which, in turn, impact upon the firm's marketing decisions. There are often surprises. For mniple, the average Frenchman uses almost twice as many cosmetics and aids as does his wife. The Germans and the French cat more packaged,

Marketing Highlight 5.3



To Bribe or Not?

In Germany, the tax office gives tacit approval to backhanders: bribes are tax-deductible. The exact extent of the corruption is not known, but experts reckon that in the German public sector contracts alone, the volume is at least DM20 billion a year. Such corruption is rarely exposed to the public, of course, but in Germany it is by all accounts a widespread and profitable affair. It starts out at local council level and goes on up the chain.

There have been a few sensational cases in the past 20 years. The Flick affair revealed in the 1980s the substantial payments an industrialist made to Germany's main political parties. In another case, Eduard Swick, a Bavarian businessman, was alleged to have paid leading members of the Bavarian government, including the late president Franz Josef Strauss, in return for help in his buttie with tax collectors. Outside government circles, the most spectacular corruption case has been the Herzklappen affair, whereby doctors were alleged to have colluded with manufacturers in overcharging health insurers for heart valves.

In Germany, a company can offset any bribes it makes as a necessary business expense. All the finance authorities ask for is the name of the recipient of the bribe. The information is not used specifically to track down the corrupt official - who, by taking the bribe, is actually breaking the law - but simply to ensure that he or she declares the money received on his or her tax return.

Unlike domestic corruption, the bribery of people in a foreign country is not an offence in Germany. Moreover, German companies are not alone in adopting this practice. Only in the t'niied States, which passed the Foreign Gorrupt Practices Act in 1977, are such payments illegal. Not surprisingly, the US Department of Trade complains of unfair competition when confronted with these modes of working by European companies, especially in developing countries.

Naturally, there are German parliamentary members who want to see changes. Ingomar Hanchler, a Social Democratic member of parliament, argued that corruption damages free competition and subverts the market economy while also encouraging monopolies, which can pay most. But there are those who disagree, saying that bribery is a necessary vehicle for business. Outlawing it would damage German firms in the international market and threaten jobs. The federation of German industry, the BD1, also challenges the view that bribes should be considered corrupt, maintaining that unusual payments are not bribes at all, but an essential expense and marketing cost.

What would *a* keen British businessperson hoping to invest in a deprived east German town do to get fast entry into this market? Well, one such British businessman hoping to invest in the town of Potsdam, near Berlin, did the unthinkable (by German standards!):

> The British businessman was confronted with an unusual offer from a local politician. Pay DM25,000 consultancy fee to a law company, the politician told him, and your case will be dealt with quickly and to your satisfaction. Needless to say, the British executive knew the official bad connections with the law firm in question and what the money was for and where it was going. lie chose not to pay the 'consultancy fee', in refusing, he was probably an exception. He also did not get to invest in the town of Potsdam.

SOURCE: Frederick Stiidemann, 'A land where bribes are *tax*-dediitiiible'. *The Eurupean* (17-23 June 1994), p. 3.

branded spaghetti than do Italians. Italian children like to eat chocolate bars between slices of bread as a snack. Women in Tanzania will not give their children eggs for fear of making them bald or impotent. A good example of cultural differences is the case of a Scandinavian company wishing to sell baby clothes in Belgium. It discovered its clothes were virtually unsaleable because, in most regions, clothes for baby girls are trimmed with blue and those for baby boys with pink.

Business norms and behaviour also vary from country to country. The unwary business executive needs to be briefed on these factors before conducting business in another country. Mistakes due to laek of understanding of foreign business behaviour affect business relations greatly. Here are some examples of different global business behaviour:

- In face-to-face communications, Japanese business executives rarely say 'no' to the western business executive. Thus westerners tend to be frustrated and may not know where they stand. Where westerners come to the point quickly, Japanese business executives may find this behaviour offensive.
- In France, wholesalers don't want to promote a product. They ask their retailers what they want and deliver it. If a foreign company builds its strategy around the French wholesaler's co-operation in promotions, it is likely to fail.
- When British executives exchange business cards, each usually gives the other's card a cursor;' glance and stuffs it in a poeket for later reference. In Japan, however, executives dutifully study each other's cards during a greeting, carefully noting company affiliation and rank. They hand their card to the most important person first.
- In the United Kingdom and the United States, business meals are common. In Germany, these are strictly social. Foreigners are rarely invited to dinner and such an invitation suggests a very advanced association. The opposite applies in Italy where entertaining is an essential part of business life (guests should offer to pay but, in the end, should defer to their Italian host). In France, watch out. There are two kinds of business lunch - one for building up relations, without expecting anything in return, and the other to discuss a deal in the making or to celebrate a deal afterwards. Deals, however, should be concluded in the office, never over a lunch table.
- Shaking hands on meeting and on parting is common in Germany, Belgium. France and Italy. Ignoring this custom, especially in France, causes offence. In France, it is advisable to shake hands with everyone in a crowded room.

The key to success for the international marketer lies in assiduously researching and coming to terms with a country's culture. The firm must build *cultured empathy* and overcome the cultural differences with a view to establishing long- J term market position. Cultural empathy is achieved in a number of ways:

- *Acquire in-company knowledge and experience.* This is a slow and arduous approach, but it does provide a lasting means for understanding foreign culture.
- *Continuous market research.* The firm should undertake market research for general background information as well as commission more specific research for individual projects.
- *Visit foreign country and customers.* This is invaluable for developing first-hand knowledge of customers and markets. Such activities also build

goodwill, clearly show the firm's commitment to the markets served and yield valuable feedback to the company's home base.

Hire *local personnel.* Local personnel may be employed to speed up information gathering. This bus been the approach used by many Japanese multinational firms in overseas markets. Sound local market knowledge helps to develop marketing strategies that are better geared to local requirements and conditions.

i'st distributors/agents. Firms may gain inside information from local distributors or agents who are familiar with the marketplace. Baskin Robhin's, an American ice-cream maker, relied on its sales agent, a subsidiary of the military-run China Satellite Launch and Tracking Control Group, for its knowledge of how to work the Chinese bureaucracy in order to bring its US-made ice cream through customs.[1"]

Joint-ventures and strategic alliances. Firms accelerate the process of building cultural sensitivity through a joint venture or alliance with a host country company. The Japanese market, as mentioned earlier, is noted for its complex distribution system. To succeed foreign firms are advised to form strategic partnerships with loeal Japanese firms and to get to grips with the 'chosen people' problem.[0] The typical Japanese businessman, like many of his western counterparts, regards his own culture as the world's most nearly perfect. Thus, when foreigners are on Japanese turf, they would do well to learn, respect and observe as many local customs as possible.

Build language skills. Language is an essential part of a country's culture. It is important to distinguish between the cultural and technical aspects of language. The technical characteristics are easily learnt and readily available in translation dictionaries and language courses. The cultural empathy derives from a deep understanding of the language and its use in both the verbal anci non-verbal forms.[11] A lack of cultural understanding of language leads to errors in translation which ean be, at best, embarrassing to both parties and, at worst, offensive to the host client/customer (see Marketing Highlight 5.4).

Deciding which **Markets** to Enter

DefiningInternationa)MarketingObjectives and Policies

The company should define its international *marketing objectives* and *policies.* First, it should decide what *volume* of foreign sales it wants. Most companies start small when they go abroad. Some plan to stay small, seeing foreign sales as a small part of their business. Other companies have bigger plans, seeing foreign business as equal to or even more important than their domestic business. Second, the company must choose *koi& many* countries it wants to market in. Generally, it makes better sense to operate in fewer countries with deeper penetration in each. Third, the company must decide on the types of country to enter. A country's attractiveness depends on the product, geographical factors, income and population, political climate and other factors. The seller may prefer certain country groups or parts of the world.

Marketing Highlight 5.4



Mind Your Language

Here are some examples of careless translations which make an international marketer look downright foolish to foreign customers:

A delicate pair of characters in the Chinese-language version of Microsoft's flagship Windows 95 operating system threatened to scramble the company's long-term plans for China. Things looked had for Microsoft when Beijing offices discovered the phrase 'communist bandits' embedded in the Windows 95 Chinese-character selection system - which, to make matters even more dicey, was designed *hi* Taiwan. Reports began to circulate that Chinese Public Security Officers were visiting computer users in Beijing demanding that they turn in their disks, and that authorities were considering a total ban on Windows 95. The reports tuned out to be false. Microsoft had moved quickly to head off a potential disaster, sending a group of top officials to Beijing for a hasty series of meetings. The two sides agreed temporarily to halt sales of Windows 95 in China, and Microsoft promised to send corrective diskettes to all licensed users that will scratch 'communist bandits' and other offending phrases from the system. Such fleet footwork is part of Microsoft's new conciliatory approach on the mainland. It's a big change from the situation three years ago. when Beijing nearly barred the company from its markets for selling Taiwan-designed programmes that differed from Beijing's standards. In that nearly disastrous episode, Microsoft ultimately acquiesced after a series of angry exchanges.

- When Coca-Cola first entered China, it provided shopkeepers with point-of-sale signs printed in English. This error was exacerbated when the shopkeepers translated the signs into their own calligraphy as 'Bite the wax tadpole'. Today the characters on Chinese Coke bottles translate as 'happiness in the mouth', which is an improvement on the 'Coke adds life' theme in the Japanese market, which translates into 'Coke brings your ancestors back from the dead'.

- Rolls-Royce avoided the name Silver Mist in German markets, where Mist means 'manure'. Sunbeam, an electricnl appliances manufacturer, entered the German market with its Mist-Stiek hair-curling iron. Not surprisingly, the Germans had little use for a 'manure wand'.

Careless blunders are soon discovered and amended. They may result in little more than embarrassment for the marketer. Countless other, more subtle errors, however, may go undetected and damage the brand's performance in less obvious ways. Consequently, the international company must carefully screen its brand names and advertising messages to avoid those that might harm sales, make the product look silly or, worse, offend consumers in specific markets.

SOURCE: Mate Forney, Dimon Fluently antl Emily Thornton, 'A matter of wording', *Far Eastern* Economic *Review* (10 October 1996). pp. 72-3.

After listing possible international markets, the company must screen and rank each one on several factors, including market size, market growth, cost of doing business, competitive advantage and risk level. The goal is to determine the potential of each market, using indicators like those shown in Table 5.1 All aspects of the product concept should be considered in relation to these indicators. The key determinant is whether or not the product is accepted in the proposed country markets and the investment is profitable. Then the marketer

Table 5.1 **Indicators of market potential**

1. *Demographic characteristics*
   Size of population
   Rate of population growth
   Degree of urbanization
   Population density
   Age structure and composition of the population
2. *Geographic characteristics*
   Physical size of a country
   Topographical characteristics
   Climate conditions
3. *Economic factors*
   GNF per capita
   Income distribution
   Rate of growth of GNP
   Ratio of investment to GNP

Source: Susan P. Douglas, G. Samuel Craig *and* Warren Keegan, 'Approaches no assessing international marketing opportunities for small and medium-sized business'. Columbia *Journal of World* Business (Fall 1982). pp. 26-32.

must decide which markets offer the greatest long-run return on investment (see Marketing Highlight 5.5),

Establishing Market Entry Mode

Once a company has decided to market in a foreign country, it must determine the best mode of entry. Its choices arc exporting, joint venturing and direct investment. Figure 5.2 shows these routes to servicing foreign markets, along with the options that each one offers. As we can sec, each succeeding strategy involves more commitment and risk, but also more control and potential profits.

Importing

exporting
faltering a foreign market by sanding products and felling chem through international marketing intermediaries (indirect exporting) or through the company's own department, branch, or safes representatives or agents (direct exporting).

The simplest way to enter a foreign market is through exporting. The company may passively export its surpluses from time to time, or it may make an active commitment to expand exports to a particular market. In either case, the company produces all its goods in its home country. It may or may not modify them for the export market. Exporting involves the least change in the company's product lines, organization, investments or mission.

- *Indirect Exporting*

Companies typically Start with indirect exporting, working through independent home-based international marketing intermediaries. Indirect exporting involves

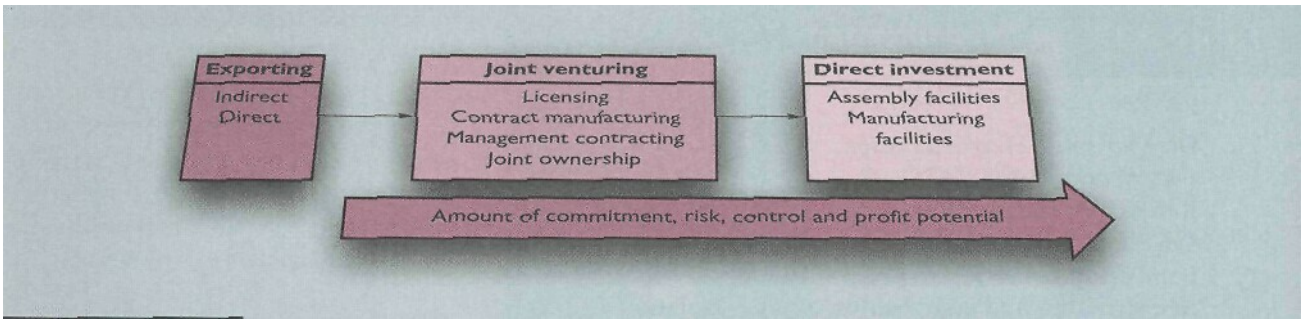


Figure 5.2 **Market entry strategies**

less investment because the firm does not require an overseas sales force or set of contacts. It also involves less risk. These home-based intermediaries - export merchants or agents, co-operative organizations, government export agencies and export-management companies - bring know-how and services to the relationship, so the seller normally makes fewer mistakes.

- *Direct Exporting*

Sellers may eventually move into direct exporting, whereby they handle their own exports. The investment and risk are somewhat greater in this strategy, but so is the potential return. A company can conduct direct exporting in several ways. It can set up a domestic export department that carries out export activities. Or it can set up an overseas sales branch that handles sales, distribution and perhaps promotion. The sales branch gives the seller more presence and programme control in the foreign market and often serves as a display centre and customer service centre. Or the company can send home-based salespeople abroad at certain times in order to find business. Finally, the company can do its exporting either through foreign-based distributors that buy and own the goods or through foreign-based agents that sell the goods on behalf of the company in exchange for an agreed fee or commission.

joint venturing
Entering foreign, markets by joining withforeign companies to produce or market a product or service.

licensing
A method of entering a foreign market in 'which the company enters into an agreement with a licensee in theforeign market, offering the right to use a mamtfauturing process, *trademark, patent, trade* secret *or other item of-value for a fee or royally.*

Joint Venturing

A second method of entering a foreign market is joint venturing — joining with foreign companies to produce or market the products or services. Joint venturing differs from exporting in that the company joins with a partner to sell or market abroad. It differs from direct investment in that an association is formed with someone in the foreign country. There are four types of joint venture: licensing, contract manufacturing, management contracting and joint ownership.

- *Licensing*

Licensing is a simple way for a manufacturer to enter international marketing. The company enters into an agreement with a *licensee* in the foreign market. For a fee or royalty, the licensee buys the right to use the company's manufacturing process, trademark, patent, trade secret or other item of value. The company thus gains entry into the market at little risk; the licensee gains product-ion expertise or a well-known product or brand name without having to start from scratch.

Coca-Cola markets internationally by licensing bottlers around the world and supplying them with the syrup needed to produce the product. Tokyo Disneyland is owned and operated by Oriental Land Company under licence from the Walt Disney Company. Licensing has potential disadvantages, however. The firm has less control over the licensee than it would over its own production facilities. Furthermore, if the licensee is very successful, the firm has given up these profits, and if and when the contract ends, it may find it has created a competitor.

• *Contract Manufacturing*

contract manufacturing
A joint venture in which a company contracts •with manufacturers in a foreign market to produce the product.

Another option is contract manufacturing. The company contracts with manufacturers in the foreign market to produce its product or provide its serviec. Many western firms have used this mode for entering Taiwanese and South Korean markets.

The drawbacks of contract manufacturing are the decreased control over the manufacturing process and the loss of potential profits on manufacturing. The benefits are the chance to start faster, with less risk, and the later opportunity either to form a partnership with or to buy out the local manufacturer.

• *Management Contracting*

management contracting
A joint venture in •which the domestic firm supplies the management know-ho-na to a foreign company that supplies the capital; the domestic firm exftorts management services rather than products.

Under management contracting, the domestic firm supplies management know-how to a foreign company that supplies the capital. The domestic firm exports management services rather than products. Hilton uses this arrangement in managing hotels around the world. Management contracting is a low-risk method of getting into a foreign market, and it yields income from the beginning. The arrangement is even more attractive if the contracting firm has an option to buy a share in the managed company later on. The arrangement is not sensible, however, if the company can put its scarce management talent to better uses or if it can make greater profits by undertaking the whole venture. Management contracting also prevents the company from setting up its own operations for a period of time.

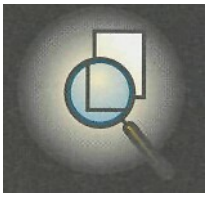
• *joint Ownership*

joint ownership
A joint venture in 'which a company joins investors in a foreign market to create a local business in i&hich the company shares joint ownership and cuntrol.

Joint-ownership ventures consist of one company joining forces with foreign investors to create a local business in which they share joint ownership and control. A company may buy an interest in a local firm, or the two parties may form a new business venture. Joint ownership may be needed for economic or political reasons. A foreign government may require joint ownership as a condition for entry. Or the firm may lack the financial, physical or managerial resources to undertake the venture alone. British Telecom's joint venture with MCI, America's number two long-distance carrier, is a case in point. Similarly, France Tel6com and Deutsche Bundespost Telekom joined forces with Sprint, the third largest US long-distance telephone company, which paved the way for the two European telephone operators into the deregulated US market, as well as expanding the collaborators' opportunity to run a global telecommunications network.

Joint ownership has certain drawbacks. The partners may disagree over investment, marketing or other policies. To enjoy partnership benefits, collaborators must clarify their expectations and objectives and work hard to secure a win-win outcome for all parties concerned.

Marketing Highlight 5.5



China's **Beer Market**

Many mass marketers dream of selling to China's 1 billion people. Some think of the market less elegantly as 2 billion armpits. To foreign brewers, though, the market is mouths, and the People's Republic is espeeially enticing. China's beer market is worth around 100 billion rerunimbi ($12 billion). At annual sales of 155 million hectolitres (1994), it is already the second largest in the world, behind the USA with 212 million hectolitres. By 2000, China is expected to surpass America to be the world's biggest beer market in volume, albeit still smaller in value terms.

Although Che Chinese drink less than 10 litres of beer per head a year, compared with Germany's record 144 litres per head, die actual size of the population offers attractive prospects. Since the early 1990s, foreign brewers have piled into China, signing some 50 joint ventures worth S500 million by the beginning of 1997. But only a few are making money in China. Many others are losing millions in what has emerged into a crowded and cut-throat market. International heavyweights such as Australia's Foster's lost $13.8 million alone in China in the first half of 1997. Others, like Singapore-based Asia Pacific Breweries, clocked up losses of over $4.6 million in the same period. Filipino beer giant San Miguel Breweries reported a S25 million loss from international operations in 1996, mainly because of marketing costs and investment in new capacity in China. The US Anheuser Busch, the world's largest brewer, has yet to work the Chinese market.

The problems are several. First, there are still a iot of players coming in, but unless they started with a small investment, China will be a cash strain for many years to come. Second, foreign brewers failed to anticipate the resilience of local producers. In the past the market was dominated by some 800 coddled, small local breweries. Although almost 200 have already closed under competitive pressures, the cheap local brews proved more lasting than expected. Well-off Chinese drinkers were not at all loyal when choosing among the plethora of newcomers. Third, according to Quo Yingxin, chairman of the government-affiliated province Brewers' Association, many foreign joint ventures sit on their heels after buying into old breweries arid changing the brand to their own. Most brewers counter that they have spent millions to improve marketing and distribution, but that they had underestimated the difficulties of reaching consumers in such a vast and fractured country. Germany's Beck's did overcome the odds by offering distributors free delivery trucks to meet targets.

The Dutch brewing giant Ileineken has outstripped its western counterparts in the emerging Chinese markets. The company, a 'Goliath' compared to Beck's and the Danish Carlsberg, enjoys an outstanding cash position, and has remained extremely profitable despite the recession in Europe. During the 1990s, Ileineken has stuck to a two-pronged strategy - consolidation and strengthening of its position in Europe combined with expansion in other emerging markets, particularly Asia. In 1996 lleineken's chairman. Karel Vuursteen, said that during the latter half of the 1990s, Heineken would invest DflSOO million inAsia.

Its main route into this vast market has been through acquiring stakes in local companies. Ileineken recognized the problem of fickle, non-loyal and price-driven Chinese consumers. The low-price 'downmarket' sector is where 85 per cent of all beer (about two-thirds of ali beer money) changes hands. The biggest-selling beer in Shanghai, for example, is Reeb, sold at a rock-bottom price of around 20 pence a ean. And, guess what? Thailand's Charoen Pokphand and Heineken have made a mint out of Reeb since investing in the factory in 1989. By contrast, the foreign brewers all positioned in the premium sector of the market.

lleineken's latest projects include building its own breweries in China as well as in Cambodia, Myanmar (formerly Burma) and Indonesia, markets that have seen a 250 per cent growth during the 1990s. But Ileineken is going slowly and steadily. According to lioel Gooskens, a Heineken analyst at Van Meer James Capel, the company

will build up its capacity and distribution network through cheap local brands. But expensive brands will be introduced gradually and will pay oft' in the longer term. The potential is there as the standard of living in China is rising to attractive levels for western food and beverages.

lleineken believes its unrivalled track record in countries such as Africa gives it more knowledge about brewing abroad than any of its competitors. Anheuser-Busch is primarily operating in the American and Latin American markets. Others, like Carlsberg and Beck's are too small to rival Heineken in a big place like China. With a foothold gained in Asia's largest market, Heineken looks set to conquer the region's other promising markets.

Although Heineken s decision to exploit the Chinese beer market was straightforward - the sheer size of China's population - we can stil! question whether market size alone is reason enough for selecting China. The company must also consider other factors: Will the Chinese government be stable and supportive? Does China provide for the production and distribution technologies needed to produce and market Heineken products profitably? Will their products fit Chinese tastes, means and lifestyles? What resources are required? Should the firm expand uuickly or slowly?

For many foreign brewers in China, once giddy at the prospect of a huge and thirsty market, China has become a cash strain. Mounting losses mean that many now look to seale back and change strategy. Those with the resources and the commitment will have a better chance of surviving.

SOURCES: Barbara Smit, 'Heineken sets out to quench China's thirst', *The European* (22-8 April 1994), p. 20; Bruce Oilley, 'Gone flat', Far Eastem Economic Kecitti' (18 September 3997), pp. 54-5; Barbara Smit, 'Heineken satisfies its thirst for expansion', *The European* (7-13 March 1996), p. 32.

[1]1 ecu = US81.08 = Dfl 2.2,1 (Netherlands Guilder)

Direct **Investment**

The biggest involvement in a foreign market comes through direct investment - the development of foreign-based assembly or manufacturing facilities. If a company has gained experience in exporting, and if the foreign market is large enough, foreign production facilities offer many advantages:

direct investment Entering *a foreign market by developing foreign-based assembly or manufacturing facilities.*

1. The firm may have lower costs in the form of cheaper labour or raw materials, foreign government investment incentives and freight savings.
2. The firm may improve its image in the host country because it creates jobs.
3. Generally, a firm develops a deeper relationship with government, customers, local suppliers.and distributors, allowing it to adapt its products better to the local market.
4. Finally, the firm keeps full control over the investment and therefore can develop manufacturing and marketing policies that serve its long-term international objectives.

The main disadvantage of direct investment is that the firm faces many risks, such as restricted or devalued currencies, declining markets or government takeovers. In some cases, a firm has no choice but to accept these risks if it wants to operate in the host country.

There are therefore direct and indirect ways of entering a foreign market. The important point is to note that entry mode decisions are dependent on market conditions and die firm's product characteristics, objectives and capabilities. The

Licensing: Tokyo Disneyland is oinned and operated by the Oriental Land Co., Ltd, (a Japanese development company), under license from Walt Disney Company.



British construction machinery maker JCB initially faced severe problems in the French market. It recognized that these stemmed from using manufacturers' agents (that Is, independent intermediaries) which sold the product but did not provide the service support needed for competitive success in this market. Fortunately, it responded in time. It set up a company-owned, full service distribution network and was rewarded by a large increase in market share and healthy profits.

To summarize, there arc three alternative routes for entering foreign markets. It is useful to note that these are not mutually exclusive options. Neither should a linear progression - from engaging in exporting, through setting up joint ventures to direct investment - be assumed. Firms seeking to market goods and services in a foreign market should evaluate the alternative modes of entry and decide upon the most cost-effective path that would ensure long-term performance in that market.

A (locating Necessary Resources

To build successfully a strong market position in a foreign country, the firm must be prepared to allocate necessary resources to the planned expansion. Building a strong brand image and channel networks is a difficult and highly expensive undertaking for any company. The investment needed to achieve international brand recognition, even in Europe alone, is enormous. When the Japanese firm Canon launched its first photocopier in the United States, it spent $15 million on TV advertising, a third of its K & D budget for the year. It has been calculated that, to create 20 per cent brand awareness across Japan, the United States and West Germany costs $1 billion. The ratio between investment in product development,

manufacturing or service delivery and worldwide marketing is often 1:10:100. Too many companies get this ratio reversed, and so often underestimate the costs of doing business abroad. This, together with their expectation of early high returns on investment, which are often unlikely, explains why firms all too readily withdraw from foreign markets before establishing a firm market presence.[15]

Exploiting international marketing opportunities also requires a strong commitment from the company. It took European dairy products producers a good 20 years to build up a market for their products in Japan, A lack of commitment to a foreign market is a significant reason for poor exporting performance.'" In emerging markets, such as China and Russia, many international firms have learnt that it is a long haul as they battle against the myriad problems in their markets. Rec.-ill, too, the preview ease highlighting McDonald's fight to build a presence in the South African market. The costs of prising open new foreign markets are generally high. Successful companies expect not only to invest huge sums of money in marketing and distribution, but also to set realistic timeseales for achieving market objectives. Britain's Inchcape, one of Coca-Cola's bottlers, invested over £77 million in opening three plants in Russia in the late 1990s. It does not expect to be making money yet. The costs are higher and the timing of getting things done longer than anticipated. Take construction - local builders are used to building walls a metre thick, but lack the speed of western firms. Then mere is distribution. In a Russian winter, Coca-Cola will freeze on the back of the lorry. It means having to use heated trucks and railway wagons, and the state of the roads means that a lorry can take a week to complete a 1,000-kilomctre journey. Then there is the bureaucracy, which dampens the pace when even minor work has to be secured from a multitude of local, regional and national departments.

The demonstrable commitment to the foreign market cannot be overstated. It must come from the senior levels of management and be communicated throughout the company. Target customers in foreign countries must also be convinced that this commitment is lasting. Buyers of capital goods or expensive durable items feel more secure and happier to adopt a brand that is here to stay and enjoys strong service and after-sales support.

Developing a Strategic Marketing Plan

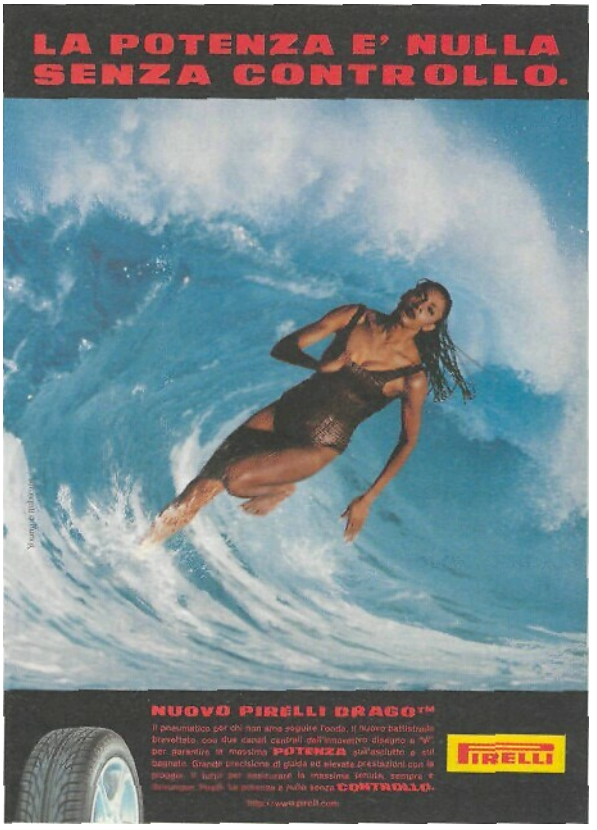
The marketing programme for each foreign market must be carefully planned. Managers must first decide on the precise customer target or targets to be served. Then managers have to decide how, if at all, to adapt the firm's marketing mix to local conditions. To do this requires a good understanding of country market conditions as well as cultural characteristics of customers in that market. We have already addressed the need for cultural sensitivity. This section will discuss reasons for standardization versus adaptation for the global market before highlighting specific international marketing mix decisions.

standardized marketing mix
An international marketing strategy for using basically the same product, advertising, distribution channels and other elements of the marketing mix in all the company's iniernacujnal markets.

Standardization or Adaptation for International Markets?

Atone extreme are companies that use a standardized marketing mix worldwide. Proponents highlight several reasons for global standardization.

Tins Italian execution of a Pirelli campaign allows the global application of many of today's ads.



HOMOGENEOUS NEEDS AND PREFERENCES. The presence of homogeneous needs among customers permits the building of global brands such as Levi jeans and Nike sports shoes. In these cases, the 'home culture' has been successfully exported to mass markets abroad, where consumers share a similar attraction to the cult image that Levi portrays and the 'just do it' attitude that Nike extols. The success of Ilaagcn-Dazs is another case in point. The product has a long history in North America. Under a new, aggressive management team, it was successfully launched in Japan and Europe. Throughout these markets, Haagen-Dazs uses a standard marketing approach: high quality, high price, selective distribution outlets and sexual imagery. Similar examples can be found for niche products, especially luxury goods: Carder jewellery, Roles watches, Royal Doulton fine china, Mikimoto pearls and Louis Vuitton luggage are all marketed in the same way to consumers showing similar preferences for the exclusive image that these brands portray across the globe.

CONSUMER MOBILITY- A larger number of people are travelling more widely, thus allowing more products to be marketed to them on a global basis. Kodak film, for example, is sold worldwide in its distinctive yellow box and the emphasis upon wide availability is similar across markets. Travellers can expect to find Novotel hotels across Europe to offer similar standards of service and food.

ECONOMIES OP SCALE/EXPERIENCE. In many industries, cost advantages are essential for competitive success when operating on a global scale. Economies are derived from discounts from bulk purchases and/or sharing R & D, marketing, production and managerial resources among different markets. A

standardized marketing programme reduces costs even further, letting companies offer consumers higher-quality and more reliable products at lower prices.

> Gillette Sensor's worldwide launch is a good case of how the firm derived scale economies from a standardized global approach. The Sensor took ten years to develop. It represented a breakthrough in wet-shave technology. It was essentially a niche product. To recuperate funds already spent on the product's development and launch, it needed high unit sales, so had to be marketed globally. Gillette identified three cultural universals (attributes that transcend national cultures) associated with wet shaving: comfort, closeness of shave and safety. The company exploited these; in a common communications campaign — 'the best a man can get'. The worldwide launch was a phenomenal success. So successful was the Sensor campaign that its effects spilled over into a new, complementary product - the Shaving Gel - which enjoyed raised awareness and sales!

cultunil universals *Cultural characteristics and attributesfound across a wide range of cultures: that is, features which transcend national cultures.*

TECHNOLOGICAL FEASIBILITY. In product sectors where the technological processes are homogeneous, standardization becomes a prerequisite for market success. For simple technologies like the production of mouldings, toys, paint, hand tools and so forth, it makes sense to standardize the product as much as possible to keep costs down. This is also the thinking behind Coca-Cola's decision that Coke should taste about the same around the world and Ford's production of a 'world car' that suits the needs of most consumers in most countries. At the other extreme is an adapted marketing mix. In this case, the producer adjusts the marketing mix elements to each target, bearing more costs but hoping for a larger market share and return. Nestle, for example, varies its product line and its advertising in different countries. The rationale for marketing mix adaptation is the reverse of the reasons given for standardization. Most important are the disparities among different country markets.

adapted marketing **niix** *An international marketing strategy for adjusting the marketing mix elements to each international target market, hearing more costs but hoping for a larger market, share and return.*

DIVERSITY. Proponents of adaptation argue that consumers in different countries vary greatly in their geographic, demographic, cconomic'and cultural characteristics. Differences in the following factors suggest the need to adapt the firm's product offering for international markets: product preferences; uses and conditions of product use; customer needs, perceptions and attitudes; consumers' shopping patterns; income levels and spending power; the country's laws and regulations; user/customer skills or education; competitive conditions; advertising laws; and media availability. In the single European market, many argue that the 'Euroconsumer' is a myth. Marketers are advised to identify carefully differences that do exist across national markets and tailor products and services to suit local tastes and preferences. The dictum 'different strokes for different folks' is still very much the way of business in international marketing.

The decision about which aspects of the marketing mix to standardize and which to adapt should be taken on the basis of target market conditions. Firms are often unwilling to modify their product offering for foreign markets because of 'cultural arrogance'. German and American machine-tool manufacturers, for example, saw their world market shares dive over the 1980s due, in part, to their reluctance to adapt products and marketing approaches in the face of changing customer needs in their home and foreign markets. 'What's good for Germany is good enough for the world market' was the view typifying a large proportion of German machine-tool producers which formed the focus of a study into international marketing strategies in the UK market. This cultural arrogance has been termed the 'self-

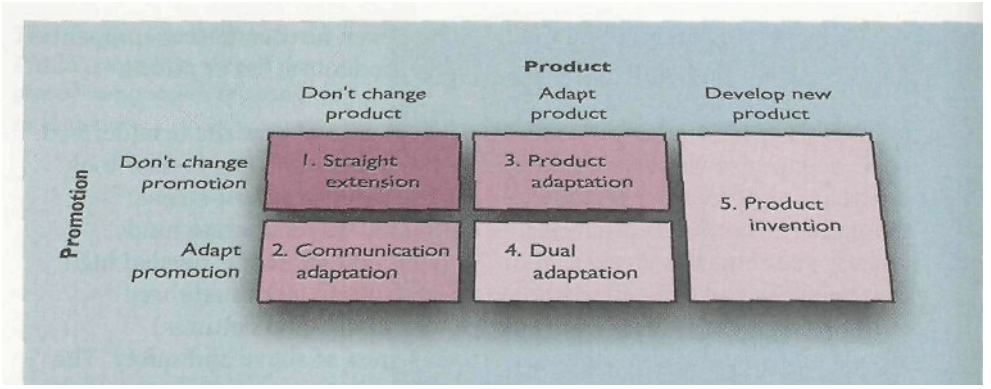


Figure 5.3 **Five international product and promotion strategies**

reference criterion' and has been a significant factor in accounting for poor export performance.[17]

The question of whether to adapt or standardize the marketing mix has been much debated in reeent years. However, global standardization is not an all-or-nothing proposition, but rather a matter of degree. Companies should look for more st*an*dardization to help keep down costs and prices and to build greater global brand power. But they must not replace long-run marketing thinking with short-run financial thinking. Although standardization saves money, marketers must make certain that they offer what consumers in each country want.[18]

Many possibilities exist between the extremes of standardisation and complete adaptation. For example, Coca-Cola sells virtually the same Coke beverage world-wide, and it pulls advertisements for specific markets from a common pool of ads designed to have cross-cultural appeal. However, the company sells a variety of beverages created specifically for the taste buds of local markets, with prices and distribution channels varying widely from market to market.

Let us now examine marketing mix decisions with regard to global marketing planning.

Product

Five strategics allow for adapting product and promotion to a foreign market (see Figure 5.3).[w] We first discuss the three product strategies and then turn to the two promotion strategies.

Straight product extension
Marketing a product in a foreign market without any change,

product **adaptation**
Adapting a product Co meet local conditions or wants in foreign markets.

Straight product extension means marketing a product in a foreign market without any change. Straight extension has been successful in some cases. Coca-Cola, Kellogg cereals, Heineken beer and Black & Decker tools are all sold successfully in about the same form around the world. Straight extension is tempting because it involves no additional product-development costs, manufacturing changes or new promotion. But it ean be costly in the long run if products fail to satisfy foreign consumers.

Product adaptation involves changing the product to meet local conditions or wants. For example, Philips began to make a profit in Japan only after it reduced the size of its coffee makers to fit into smaller Japanese kitchens and its shavers to fit smaller Japanese hands. The Japanese construction machinery maker, Komatsu, had to alter the design of the door handles of earth movers sold in Finland: drivers wearing thick gloves in winter found it impossible to grasp the door handles, which were too small (obviously designed to fit the fingers of the

average Japanese, but not the double-eladded ones of larger European users!). Campbell serves up soups that match unique tastes of consumers in different countries. For example, it sells duck-gizzard soup in the Guangdong Province of China; in Poland, it features flaki, a peppery tripe soup. And IBM adapts its world-wide produet line to meet local needs. For example, IBM must make dozens of different keyboards - 20 for Europe alone - to match different languages. *Marie Claire,* the glossy women's magazine with a social conscience, launched its Russian edition on 1 March 1997. *Marie Claire* now has editions in 27 countries from South Korea to Turkey, providing a turnover for the group in 1995, the last available figure, of Ftr8S4 million (US&156m). The key *to Marie Claire's* success has been its ability to adapt its editorial content to the country in which it appears. In the ease of the Russian market, it acknowledges that it is a country where people still read a lot, so it is important to have long articles. As well as local stories, the magazine sticks to the usual *Marie Claire* formula with articles taken from other editions. The fashion pages, however, use local models and clothes, and the cover girl in the first Russian edition, for example, is Russia's top model.[2]"

Product invention consists of creating something new for the foreign market. This strategy can take two forms, it might mean reIntrodueing earlier product forms that happen to be well adapted to the needs of a given country. For example, the National Gash Register Company rcintroduced its crank-operated cash register at half the price of a modern cash register and sold large numbers in the Orient, Latin America, and Spain, Or a company might create a new product 10 meet a need in another eountry. For example, an enormous need exists for low-cost, high-protein foods in less developed countries. Companies such as Quaker Oats, Swift and Monsanto are researching the nutrition needs of these countries, creating new foods, and developing advertising campaigns to gain product trial and acceptance. Produet invention can be costly, but the pay-offs are worthwhile.

product **invention**
Creating new products or services for foreign markets.

Promotion

Companies can either adopt the same promotion strategy in different countries or change it for «ach local market.

Consider advertising messages. Some global companies use a standardized advertising theme around the world. Pirelli, the tyre maker, used a visually stun-ning commercial featuring US Olympic sprint star Carl Lewis, running across the Hudson river in New York, scaling the Statue of Liberty and leaping off it to land on the top of the Chrysler Building. There is no dialogue and no voice-over, but the message - power with control - is universally clear. The visual message and die choice of an easily identifiable city (New York) meant that the message could transeend national and cultural boundaries and just one ad could be screened around the world. Sometimes the copy may be varied in minor ways to adjust for language differences. In Japan, for instance, where consumers have trouble pronouncing 'snap, crackle, pop', in the Kellogg's advertisement, the little Rice Krispies creatures say 'patchy, pitchy, putchy'. Colours are also changed some-times to avoid taboos in other countries. Black is an unlucky colour for the Chinese, white is a mourning colour in Japan, and green is associated with jungle sickness in Malaysia. Even names must be changed. In Sweden, Ilelene Curtis changed the name of its 'Every Night Shampoo' to 'Every Day' because Swedish consumers usually wash their hair in the morning. Kellogg's also had to rename 'Bran Buds" cereal in Sweden, where the name roughly translates as 'burned fanner'.

Other companies follow a strategy of communication adaptation, fully adapting their advertising messages to local markets. Kellogg's ads in the United

communi cation adaptation
A global communication strategy offully adapting advertising messages to local markets.

Global companies like British Ain&tiys are at the forefront in finding common threads among the world's consumers.



States promote the taste and nutrition of Kellogg's cereals versus competitors' brands. In France, where consumers drink little milk and eat little for breakfast, Kellogg's ads must convince consumers that cereals are a tasty and healthy breakfast.

Media also need to be adapted internationally because media availability varies from country to country. TV advertising time is very limited in Europe, for instance, ranging from four hours a day in France to none in Scandinavian countries, where print advertising is preferred to TV ads. Advertisers must buy time months in advance, and they have little control over air times. The types of print media also vary in effectiveness. For example, magazines are a popular medium in Italy and a minor one in Austria. Newspapers are national in the United Kingdom, but are only local in Spain.

Companies adopt a dual adaptation strategy when both the product and communication messages have to be modified to meet the needs and expectations of target customers in different country markets. For example, the French food multinational, Danone, not only had to bring its products closer to consumer tastes, but also adapted advertising messages to suit the Japanese market, the company recognized that Japanese consumers preferred yoghurt drinks with less sugar, a milder taste and less acid in the fruit flavours; they also preferred smaller packages than their American and European counterparts. Moreover, advertising messages emphasizing these drinks as healthy options do not work as effectively as in some western countries because Japanese consumers do not distinguish between western Health food and junk food.

Price

Companies also face many problems in setting their international priees.

Regardless of how companies go about pricing their products, their foreign prices will probably he higher than their domestic prices. A Gucei handbag may sell for ,880 in Italy and £160 in Singapore. Why? Gucci faces a price escalation problem. It must add the cost of transportation, tariffs, importer margin,

wholesaler margin and retailer margin to its factory price. Depending on these added costs, the product may have to sell for two to five times as much in another country to make the same profit. For example, a pair of Lcvi's jeans that sells for S30 in the United States typically fetches 863 in Tokyo and S88 in Paris.

Another problem involves setting a price for goods that a company ships to its foreign subsidiaries. If the company charges a foreign subsidiary too much, it may end up paying higher tariff duties even while paying lower income taxes in that country. If the company charges its subsidiary too little, it can be charged with *dumping* - that is, pricing exports at levels less than their costs or less than the prices charged in its home market. Since the 1980s the EU has aggressively increased the use of anti-dumping measures against imports ranging from electronics components to raw materials. For example, the FU imposed anti-dumping duties of as much as 96.8 per cent on imports of broadcasting cameras made by some Japanese companies. The duties were imposed after an investigation by the European Commission, following complaints by BTS, part of Philips, and Thomson Broadcast of France (Europe's only makers of studio video cameras), found that Japanese exporters had, through unfair pricing, increased their share of the EU studio market from 52 per cent in 1989 to 70 per cent in 1992. European producers' share had fallen from 48 per cent to 30 per cent over this period.[21]

Last but not least, many global companies face a *grey* market. For example, Minolta sold its cameras to Hong Kong distributors for less than it charged German distributors because of lower transportation costs and tariffs. Minolta cameras ended up selling at retail for £80 in Hong Kong and £170 in Germany. Some Hong Kong wholesalers noticed this price difference and shipped Minolta cameras to German dealers for less than the dealers were paying their German distributor. The German distributor couldn't sell its stock and complained to Minolta. Thus a company often finds some enterprising distributors buying more than they can sell in their own country, then shipping goods to another country to take advantage of price differences. International companies try to prevent grey markets by raising their prices to lower-cost distributors, dropping those that cheat, or altering the product for different countries.

Distribution Channels

The international company must rf'ke a '*whole-channel* view of the problem of distributing products to final consumers. Figure 5.4 shows the three main links between the *seller* and *the final buyer.* The first link, the *seller's headquarters organisation,* supervises the channels and is part of the channel itself. The second link, *channels between nations,* moves the products to the borders of the foreign nations. The third link, *channels within nations,* moves the products from their foreign entry point to the final consumers. Some manufacturers may think their job is done once the product leaves their hands, but they would do well to pay more attention to its handling within foreign countries.

Another difference lies in the size and character of retail units abroad. Whereas large-scale retail chains dominate the British and US markets, most retailing in the rest of Europe and other countries is done by many small independent retailers. The variety of anecdotes that we have offered, in relation to the penetration of Japanese markets by western firms, suggests that getting to grips with a country's distribution structure is often crucial to achieving effective market access. The firm must therefore invest in acquiring knowledge about each foreign market's channel features and decide on how best to break into complex or entrenched distribution systems (see Marketing Highlight 5.6).

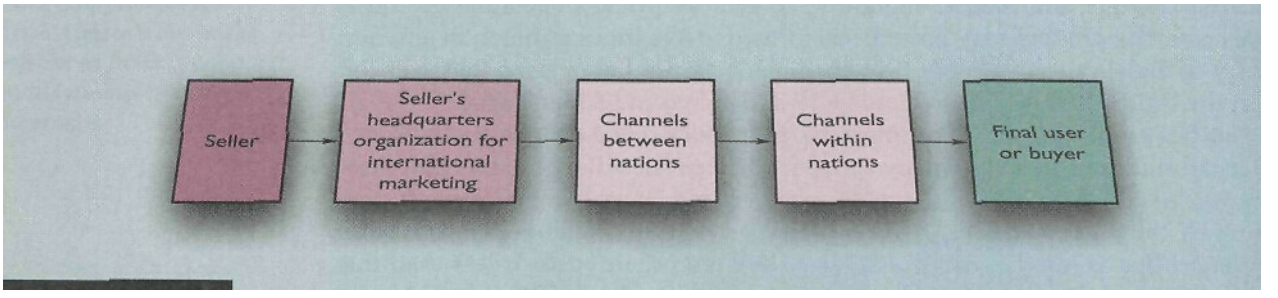


Figure 5.4 **Whole-channel concept for international marketing**

Organizing an Operational Team and Implementing a Marketing Strategy

The key to success in any marketing strategy is the firm's ability to implement the chosen strategy. Because of the firm's distance from its foreign markets, international marketing strategy implementation is particularly difficult. The firm must have an organization structure that fits with the international environment. It has to be flexible to implement different strategies for the various markets it operates in.

Companies manage their international marketing activities in at least three different ways. Most companies first organize an export department, then create an international division and finally become a global organization.

export department *A/arm uf international marlteting organisation that comprises a sales manager and afew assistants* waftosejob is *to organise the shipping out of the company's goods 10 foreign markets.*

Export Department

A firm normally gets into international marketing by simply shipping out its goods. If its international sales expand, the company organizes an export department with a sales manager and a few assistants. As safes increase, the export department can then expand to include various marketing services, so that it can actively go after business. If the firm moves into joint ventures or direct investment, the export department will no longer be adequate.

international division *Aform of international marketing organisation in which tin: division handles alt of the firm's international activities. Marketing, manufac Curing, research, planning and specialist staff are organised into operating units according to geography or product groups, or as an international subsidiary' responsible for its* own *sales and profitability.*

International Division

Many companies get involved in several international markets and ventures. A company may export to one country, license to another, have a joint-ownership venture in a third and own a subsidiary in a fourth. Sooner or later it will create an international division or subsidiary to handle all its international activities.

International divisions are organized in a variety of ways. The international division's corporate staff consists of marketing, manufacturing, research, finance, planning and personnel specialists. They plan for and provide services to various operating units. Operating units may be organized in one of three ways. They may be *geographical* organizations, with country managers who are responsible for salespeople, sales branches, distributors and licensees in their respective countries. Or the operating units may be '*world product groups,* each responsible for worldwide sales of different product groups. Finally, operating units may be *international subsidiaries,* each responsible for its own sales and profits.

GlobalOrganization

Several firms have passed beyond the international division stage and become truly global organizations. They stop thinking of themselves as national marketers that sell abroad and start thinking of themselves as global marketers. The top corporate management and staff plan worldwide manufacturing facilities, marketing policies, financial flows and logistical systems. The global operating units report directly to the chief executive or executive committee of the organization, not to the head of an international division. Executives are trained in worldwide operations, not just domestic or international. The company recruits management from many countries, buys components and supplies where they cost the least, and invests where the expected returns are greatest.

global organization
Affirm of international organization whereby top corporate management and staff plan worldwide manufacturing or operational facilities, marketing policies, financial flatus and logistical systems. The global operating unit reports directly to the chief executive, not to an international divisional head.

Moving into the twenty-first century, major companies must become more global it' they hope to compete. *As* foreign companies successfully invade the domestic market, domestic companies must move more aggressively into foreign markets. They will have to change from companies that treat their foreign operations as secondary concerns, to companies that view the entire world as a single borderless market.[22]

More intensely competitive international markets suggest that global firms must place a premium on organizational flexibility. GFT, the Italian firm, is the world's biggest manufacturer of designer clothes, covering expensive 'labels' such as Emanuel Ungaro, Giorgio Armani, Valentino and Baulmer. The company's international expansion required extreme flexibility in managing organizational change. The tension the firm faced mirrors the dilemma confronting most global firms today:

> For GFT, globalisation is not about standardisation; it is about a quantum increase in complexity. The more the company has penetrated global markets, the more sustaining its growth depends on responding to myriad local differences in its key markets around the world.[23]

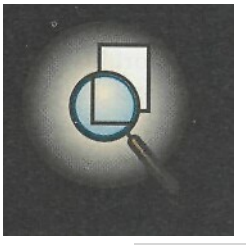
Organising for effective international marketing is a considerable challenge that besets multinational firms of any size. The tension between *centralization* and *decentralization* is a very tight one. On the one hand, managers must agree upon the key strategic decisions and activities to centralize. On the other, they must give as much autonomy as possible to local staff who are close to market conditions. There is no one correct combination of centralized-deeentralized organization. It is important to heed the maxim, '*Think global, act local*'. The organinational structure varies according to the firm's circumstances and over time. The firm must ensure that its structure fits with its international environment, while at the same time having the internal flexibility required to implement its strategic goal.J*

Percy Barnevik, chief executive officer of the Swiss-Swedish group Asea Brown Boveri, best sums up the real complexity of international business organizations. He describes the need to have a structure that leverages the firm's core technologies, gains scale economies and still maintains local market position and responsiveness:

> ABB is an organization with three internal contradictions. We want to be global and local, big and small, radically decentralized with centralized reporting and control. If we can resolve those contradictious we create real organizational advantage.

Marketing Highlight 5.6

Xerox: Filing up Eastern European Markets



Back in 1993, Xerox was faced with growing competition from companies that were keen to exploit the emerging eastern European markets. Xerox realized it had to improve its brand image and to develop a marketing campaign that would work across many cultures, one that would be successful in all the ten countries where it operated through a network of 200 dealers, overcoming problems of diverse languages, cultures and infrastructures.

On researching the marketplace, Xerox found that advertising media in most eastern European countries was not at the same level as media in the West. For many, marketing was still a novelty. Xerox faced a tough challenge - how it could best communicate with its customers. Working with business-to-business agency Aspen, the Xerox team identified key Xerox brand messages and customer attitudes towards the product.

In the rest of the world, Xerox was known as a company that could provide solutions for creating documents. Market research highlighted the fact that people were buying machines for different reasons in eastern Europe. When choosing a printer in the West, a consumer would consider the quality ol' print and how easy the machine was to network and update. Tn an eastern European market, a customer's aim was to get a printer; whether it could be networked and serviced were not issues that were much thought about.

As Xerox was more expensive, people had to be given reasons to pay more. Management concentrated on the core values of Xerox - reliability, quality of product, after-sales service back-up, a wide network of suppliers and medium- lo long-term value for money. The campaign devised used press and posters as weil as TV in Moscow. Rlana Foley, marketing communications manager at Xerox, explains some of the considerations: 'We had to pick up elements of the advertising to suit individual countries. Everything had to be adapted to suit local media. Aspen designed ads that were illustrated with strong pictures expressing clear messages emphasized by simple copy lines. For example, one double-page press ad told businesses how to find their nearest Xerox dealer by showing a list of names and addresses. Under-

Evaluation and Control of Operations

Any number of problems can beset the marketing plan, from unexpected competition to outbreak of war. The firm must be sensitive to such occurrences. Its flexibility to respond to environmental shocks determines its long-term success. As such, (he firm must evaluate the outcome of its marketing plans, analyze progress and variances from target goals and objectives, and take control actions where needed.

It is important to note that the model of planning decisions taken by international marketing managers, as discussed above, is an iterative process. The activities must be undertaken continually to ensure environmental sensitivity and effective strategy implementation.

Summary

Companies today can no longer afford to pay attention only to their domestic market, no matter how large it is. Many industries are global industries, and those

ncath this, it told them how to find competitors' dealers by showing a pair of binoculars. Another ad focused on Xerox's reliability. This showed a skyscraper of paper standing behind a Xerox machine with the line "Only Xerox has to pass this simple test.'

Aspen brought over 20 marketing managers from eastern Europe to take them through the basics of advertising and marketing strategy. The intention was to underline what it is that makes Xerox good value, and the manager's role in putting this across. They were provided with enough information and materials to create mail-shots to go out to locally sourced customer lists. The packs followed a standard direct marketing format, containing a leaflet, covering letter and incentives to try out Xerox products. The marketing managers' training also included advice about how to organize local door-to-door distributions. This may seem an unusual approach for Xerox, but the dealers in eastern Europe were small businesses operating separately, so it was important that individual operators communicated one cohesive Xerox image.

There were striking differences between how Xerox dealers in eastern Europe and the UK operated. In Moscow one dealer was situated In a flat 14 floors up. Some dealers operated from teashops. In Warsaw it was different again: there were more showrooms, but in one there was a machine actually being repaired in the middle of the shop. There was little point following a standard point-of-sale approach. A modular solution was devised with blocks of point-of-sale materials, including leaflet dispensers, stickers and pens, for dealers to choose the items that best suited their needs.

The success of the campaign, from advertising through to Xerox branding, was one factor that led to Xerox achieving an SO per cent sales growth in almost every European country in 1994. The increased sales were also due to economic growth in these countries, and an increase in the number of Xerox dealers.

The branding of dealers was particularly successful. Since the initial exercise that began in 1993, all Xerox dealers (which now total 400) have received new branding kits to reflect Xerox's latest image. This is recognizable by its use of a big red 'X' logo. Management believes today's marketing campaigns in eastern Europe must, however, use different approaches from the ones that succeeded just a few years ago. This is to keep up with the rapidly evolving market.

Soillif.'E: Daney Parker, 'The X files', *Marketing Week* (8 March 1996), pp. 73-4.

firms that operate globally achieve lower costs and higher brand awareness. At the same time, *global -marketing* is risky because of variable exchange rates, unstable governments, protectionist tariffs and trade barriers, and several other factors. Given the potential gains and *risks* of international marketing, companies need to adopt a systematic approach to making international marketing decisions. We examined eight components of international marketing planning.

First, a company must *analyze* the *international market opportunity* open to it. To do this managers must understand the *global marketing environment,* especially the *international trade system.* The company must assess each foreign market's *economic, political-legal* and *cultural characteristics.* The company decides whether to go abroad based on a consideration of the potential risks and benefits. Second, it has to *decide which country markets* it wants to *enter.* The decision calls for determining the volume of foreign sales - assuming there is high product *potential* - and how many countries to market in, having weighed the probable rate of return on investment against the level of risk. Third, the company must *decide how to enter* each chosen market - whether through *exporting, joint venturing* or *direct investment.* Many companies start as exporters, move to joint ventures and finally make a direct investment in foreign markets. Increasingly, however, firms - domestic or international — use joint

ventures and even direct investments to enter a new country market for the first time.

Fourth, the firm must *allocate necessary resources* to secure a foothold initially, and then to build a strong position in the market. Fifth, the firm must develop its *strategic marketing plan,* which must take stock of the level of *adaptation* or *standardization* appropriate for all elements of the marketing mix - *product, promotion, price* and *distribution channels.* Next, the company has to *organise its operational team* to achieve effective *strategy implementation.* The firm may adopt different organizational structures for managing international operations. Most firms start with an *export department* and graduate to an *international di'oiHion.* A few become *global organizations,* with worldwide marketing planned and managed by the top officers of the company, who view the entire world as a single borderless market. Finally, managers should continually *evaluate* their international marketing programmes. Plans should be monitored and *control* procedures applied, when needed, to secure desired.performance.

Key Terms

Ad a peed marketing mix 211
Communication adaptation 213
Contract manufacturing 205
Countertrade 198
Culture 198
Cultural universals 211
Direct investment 207
Embargo 191
Exchange controls 191
Export department 216
Exporting 203
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Product adaptation 212
Product invention 213
Quota 190
Standardized marketing mix 209
Straight product extension 212
Tariff 190

Discussing the Issues

1. With all the problems facing companies tbat 'go global', why arc so many companies choosing to expand internationally? What arc the advantages of expanding beyond the domestic market?
2. When exporting goods to a foreign country, a marketer may be faced with various trade restrictions. Discuss the effects these restrictions might have on an exporter's marketing mix: (a) tariffs; (b) quotas; and (c) embargoes.
3. When Honda first introduced its luxury executive car - the Legend - into the European market in the mid-1980s, other European luxury car producers (e.g. Jaguar, Mercedes, BMW) were 'not impressed'. Some even went so far as to declare; that: 'Honda's mass market appeal is no comparison; we are operating in die premium sector'. In 1990, Toyota, another established mass-market car producer, launched its luxury brand - the Lexus - which seized leadership from rival, Honda, and out-competes the Legend. The Lexus is also becoming a noteworthy marque among prestigious labels like Mercedes and BMW. Discuss the Japanese strategy of loug-tcrni commitment to international markets. What are the key lessons for European companies seeking to internationalize? How applicable arc these lessons to companies such as Ileinekeu (see Marketing Highlight 5.5), Xerox (see Marketing Highlight 5.6) and MeDonahfs (sec preview

case), seeking to establish their brands in emerging markets?

4, Imported products are usually more expensive, but not always: a Nikon camera is cheaper in London than in Tokyo. Why arc foreign prices sometimes higher and sometimes lower than domestic prices for exports?

5. 'Dumping' leads to price savings to the consumer. *Why* do KU and US governments make dumping illegal? Is the use of anti-dumping duties an effective means of dealing with the problem? What are the disadvantages to the consumer of dumping by foreign firms?

6. Which type of international marketing organization would you suggest for the following companies: (a) Xerox selling a wide range of photocopying and document processing systems across the globe; (b) a US **manufacturer** of toys, marketing its products in Europe; and (c) Eriksson selling its full line of mobile telephones in the Far East?

Applying the Concepts

1. Go to a large elcctronies and appliance store that sells products such as televisions, stereos, hairdryers and microwave; ovens. Pick one or two product categories to examine.
   - Make a list of brand names in the category and classify each name as being cither 'your home country' or 'foreign'. How did yon decide whether a brand was 'home' or 'foreign'?
   - Look at where these different brands were manufactured. Are any of the 'home' brands manufactured abroad and are any of the 'foreign' brands made locally? *What* does this tell you about how much international marketing is being done? Is 'global' a better term to describe some of these brands?

   Entertainment, including movies, television programmes and music recordings, is America's second largest export category - only aircraft is larger,
   - Go to your college library and find several foreign magazines, local pictures, stories or ads featuring American entertainers. Study what you find. Look at the size and layout of the stories, and see if you can understand basically what is being said. Does American entertainment seem to be interesting or important to people in Europe or the rest of the world? What, if anything, do you think is appealing to them?
   - India has the largest movie industry in the world, yet few Indian films are ever shown in Europe. Why do you think this is so? Suggest some ways that Indian movie companies might make a bigger impact in Europe.

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Case 5

Procter & Gamble: Going Global in Cosmetics

PROCTER & GAMBLE, THE MULTINATIONAL company- known for its household products Daz, Fairy, etc., has decided to expand its cosmetics business. The question is: can the firm that has got us to Pamper-away our babies wetness, Crest-away our cavities and Tide-away the grime in our clothes now get us to make up our faces?

Step 1 Diversifying

P & G's aggressive chairman, Edwin L. Artzt, thinks it can. The company tiptoed into the skin-care business in 1985 when it bought the Oil of Ulay skin-care line. Under Artzt's leadership, P & G then drove headlong into the cosmetics business. In 1989 it bought Noxell Corporation and its Cover Girl and Clarion brand cosmetics lines for $1.3 billion,

A Baltimore pharmacist had founded Noxell in 1917 to sell little blue jars of a sunburn remedy he later named Noxzema skin cream. In the early 1960s, Noxell launched the Cover Girl Jine with a foundation cream designed

to conceal acne. It used famous models to advertise the product and eventually became the best-selling mass-market eosmetics brand in the United States, overtaking Maybelline in 1986. Noxell had also been successful with its 1987 launch of Clarion, a line of moderately priced, mass-market eosmetics for sensitive skin. However, to develop its new businesses, as with its expensive Clarion introduction, Noxell had to take money from its Cover Girl and Noxzema marketing budgets. Consequently, in the late 1980s, these established brands were in danger of fading,

Artxt saw the opportunity to strengthen Noxcll's marketing support with P & G's considerable resources while at the same time providing P & G with new growth opportunities outside its stable of mature products. Artzt also recognized that cosmetics carried high gross margins and resisted recessions. In 1990 P & G obtained 47.7 per cent of its £24.08 billion in total sales from personal-care products. About one-half of these wales came from paper products, including diapers. Another 32.2 per cent of its total sales came from laundry and cleaning products: 13.4 per cent from food and drinks and 6.7 percent from pulp and chemicals.

After acquiring Noxell, Artzt turned P & G's marketers loose. They quickly redesigned Cover Girl's packaging, giving it an elegant look, but retained the brand's budget pricing strategy. P & G also sped up new product development. It hacked these changes with a 58 per cent increase in advertising, spending $47.5 million on Cover Girl in the first nine months of 1990 alone. Ads spotlighted famous models of various ages who featured a more natural look. By 1991 Cover Girl's market share had increased to 23 per cent, up from 21 per cent in 1986. Meanwhile Maybelline's share had fallen to 17 per cent, down from 19 per cent in 1986.

Step 2 **Going** International

P & G realized that it could not rest on its success. The cosmetics industry was changing, and P & G would have to change if it wanted to become a serious contender. Consumers were deserting department stores in droves, looking for distinctive brands offered by speciality clothing chains and cosmetics boutiques, such as The Body Shop. Analysts believed that women were tired of being assaulted as they entered department stores' cosmetics sections. Women wanted to buy cosmetics where they bought other items, which was increasingly in speciality shops. As a result, department store cosmetics sales were declining and mass merchandiser shares were increasing. The Cover Girl brand also faced problems. For example, the Cover Girl name suggested that the brand was for young, glamorous women, giving the line a built-in problem when appealing to career women, housewives and older women. In addition, Cover Girl generated 90 per cent of its sales in the United States, whereas the rest of the industry was increasingly going global. For these reasons, Artzt went shopping again.

At the same time, New York financier Ronald Perelman had decided that he might need to sell Revlon, his beauty-products company. Perelman had bought Revlon in 1985 for SI.83 billion, following a bitterly hostile takeover. However, Perelman had used junk bonds to finance this and other deals, and found himself facing large debt repayments that caused a cash squeeze. As a result, Perelman considered selling some or all of Revlon's brands, including Max Factor and Almay cosmetics, Charlie and Jontou perfumes, and Flex shampoo.

Several big firms besides P & G expressed an interest in Revlon. Like P & G, these other companies wanted to expand their cosmetics businesses through acquisitions. Unilever, the Anglo-Dutch multinational, began buying US personal-care brands in 1989. As a result of its Faberge and Elizabeth Arden

acquisitions, Unilever held the no. 3 spot behind Estec Lauder and L'Oreal in sales at US department store cosmetics counters. Unilever had worldwide personal-care sales *of* §4,7 billion in 1990. Gesparal, SA owned the majority of Cosraair's L'Oreal, which had 1989 worldwide revenues of $5.3 billion. In turn. Nestle, the Swiss food conglomerate, owned 49 per cent of Gesparal.

P & G was especially interested in Revlon's Max Factor and Betrix lines, because 80 per cent of their sales were outside the United States. These two brands would fit well with P & G's other lines and give the company a good basis to compete for a bigger share of the *Bid* billion worldwide cosmetics and fragrance business. In April 1991, Artzt announced that P & G would pay $1.1 billion for the two Rcvlon lines, which together captured $800 million in sales. Artzt decided not to buy Revlon's other big brands, which sold at higher prices in department stores.

It turned out, however, that Artzt had more in mind than simply buying lines that would give P & G an international presence. He also saw opportunities to use the new brands' distribution and marketing networks to speed Cover Girls transition from a US brand to an international brand. Max Factor and Bctrix gave P St. G immediate access to Europe and Japan. Before the acquisitions, P & G had no cosmetics or fragrance sales in Japan and only *2* million in Europe. After the acquisition, P & G had annual sales of S237 million in Japan and $340 million in Europe. About 75 per cent of Max Factor's $600 million sales came from outside the United States, whereas all of Betrix's $200 million came from other countries. One analyst estimated that P & G had shortened by three years the time it would have taken to go global with its US brands.

Just as the Max Factor and Betrix lines helped P & G, so acquisition by P & G helped those two brands immensely. Betrix, especially, had learned that it took deep pockets to compete in the international cosmetics business. It achieved about 62.5 per cent of its sales in its home market, Germany, with the remainder coming from Switzerland. Spain, Italy and Sweden. Betrix wanted to crack the French market, but had not been successful against powerful L'Oreal, the dominant market leader, and P & G's marketing muscle could not help Betrix to force its way into the French market. Betrix's main brands were the mid-priced Ellen Betrix women's skin-care products and cosmetics and Henry M. Betrix men's toiletries. Its Eurocos Cosmetic subsidiary sold upmarket cosmetics under the Hugo Boss and Laura Biagiotti brand names.

Step 3 Reviving Max Factor in the US Market

P & G felt that it could make Max Factor more competitive in the USA now that it was not under Revlon's umbrella. As it had done with Cover Girl, P & G quickly learned Max Factor's business and plotted strategies to improve its performance. P & G's managers questioned Max Factor's use of actress Jaclyn Smith as a spokesperson. They revamped Max Factor with new products and technological improvements and strengthened the brands promotion and advertising support.

Revkm, however, did not stand still after selling Max Factor to P & G. It hired a new management team for its Revlon brand, cut its manufacturing costs and introduced a $200 million advertising barrage that featured a jazzy 'Shake Your Body' message.

Both firms realized that they had to find ways to attract younger women, including teenagers, without alienating older customers. Mass-market sales, such as sales through drug stores and discount shops, grew only 2 per cent in 1991, compared with 6 per cent in 1990. Changing consumer demographics and shopping habits seemed to account for this slowdown. Ageing

baby boomers had decided to invest in skin-care products and were buying fewer cosmetics like mascara, nail polish and lipstick.

These changes meant that attracting younger women had become even more important if the cosmetics companies were to revive sales growth. One college student suggested that she could understand the companies' interest in younger consumers. She felt that younger women often wanted to look older and might even use more cosmetics than they needed. 'Putting on make-up', she added, 'is a big part of growing up.' An industry consultant noted that 'Younger women are constantly changing and reapplying their nail polish, something older women don't do,'

Yet the companies faced problems in attracting younger customers. First, there were fewer younger women than baby boomers. Second, all cosmetics manufacturers were fighting for shelf space and the attention of younger buyers. One analyst noted: 'There are simply too many manufacturers and too many products chasing too few customers. Competition was intense.' The analyst continued: 'Even at the prestige end of the mass market, L'Oreal had dropped its emphasis on quality and had begun emphasizing having fun to lure more young customers.' Additional competition was coming from department store product lines, speciality shops, direct marketers such as Avon and home shopping networks.

As a result, P & G's cosmetics sales remained flat in 1991 at *$722* million; and its market share slipped slightly to 34 per cent, down from 34.4 per cent in 1990. Revlou's share increased to 22.5 per cent, up from 2(1.4 per cent in 1990, Even with the slowdown, however, P & G remained the USA's largest seller of cosmetics sold through drug and mass merchandise stores, P & G admitted that it was still learning the cosmetics business. It faced distribution problems, being slow to fill orders and slow to deliver promised new products. In addition, the company had consolidated its cosmetics sales force. Its salespeople now sold al! three lines - Cover Girl, Clarion and Max Factor. Some distributors argued that P & G was expecting too much from a single salesperson. The product lines were simply too wide to expect one person to know much about all the products. P & G countered that the new system would reduce the number of salespeople with whom retailers had to deal.

Step 4 Going Global

Most recently, P & G has decided to overhaul the Max Factor line and launch its first simultaneous worldwide product introduction. The company introduced the new Max Factor line during the spring of .1993. The new products feature more elegant styling and more colours. The initial range was eye shadows, blushes and lipsticks. In 1994 it will introduce foundations, face powders and mascaras.

All of these products will be the same, no matter where in the world P & G sells them. Previously, P & G had used different products and strategies in different markets, often using local manufacturers. In Japan, for example, the Max Factor line had consisted primarily of skin-care products sold at high prices in department stores. Max Factor had accounted for 28 per cent of Revlon's Japanese sales of 8507 million in 1990. However, the brand had not kept up with changing Japanese lifestyles and tastes, and it was steadily losing market share. Kao Corporation and Shiseido Company were emerging as powerful competitors in the Japanese market. In Europe, P & G sold Max Factor products in chain stores and pharmacies at lower prices.

The new line would feature similar styles, colours and images across all international markets. Packages are a deep-blue colour with gold trim. The products, come in a variety of colours to meet the needs of women with

differing skin tones. P & G has also revised its in-storc displays. To support such changes, it will increase prices to between 8 and 10 per cent above previous Max Factor prices.

P & G is following the successful strategies of Estee Lander's Glinique and Chanel, which have both been successful with standardized global marketing. Consumers around the globe recognize Clinique's blue-green packaging and Chanel's classic black compacts. P & G hopes that the standardized strategy will allow it to save money by unifying and consolidating many of its marketing efforts.

Step 5 Watching the Competition

Despite Artzt's perpetual optimism, however, P & G knows it is making a bold move. No other company has tried to develop a worldwide, mass-market cosmetics brand. The company has already learned from its experiences in the US market that the cosmetics business is complicated. P & G also knows that Kevlon will be right behind with its own global strategy. Revlori already receives between 30 and 35 per cent of its revenue from 126 foreign countries and P & G expects that Revlon will try to take more of its regional brands global.

P & G also knows dial it must watch its home market. Noting all the attention being paid to younger women, Maybelline is now focusing on ageing baby boomers. It plans to introduce a new line called Maybelline Revitalizing, which targets women of 35 and older. Maybelline claims that these products will help mature women look younger and it plans to sell the products through mass-market outlets. To stay ahead of the competitors in cosmetics, P & G will have to find some new marketing wrinkles.

QUESTIONS

1. Who are Procter & Gamble's competitors, from an industry point of view and from a market point of view? Are there strategic groups in the industry?
2. Why are these questions important for P & G?
3. What trends are shaping competitors' objectives in the cosmetics industry?
4. Based on information in the case, identify competitive positions have the various cosmetics competitors pursued to gain competitive advantage?
5. What actions should P & G take in order to expand the total cosmetics market and to protect and expand its market share?
6. What competitive strategies would you recommend for P & G's competitors?

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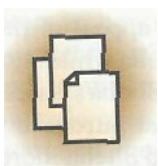
6

Consumer Buyer Behaviour

CHAPTER OBJECTIVES

After reading this chapter, you should be able to;

- Define the consumer market and construct a simple model of consumer buying behaviour.
- Tell how culture, subculture and social class influence consumer buying behaviour.
- Describe how consumers' personal characteristics and primary psychological factors affect their buying decisions.
- Discuss how consumer decision making varies with the type of buying decision.
- Explain the stages of the buyer decision and adoption processes.



Preview Case

Sheba: **The Pet's** St Valentines **Day**

Pedro Quclhas Brito, Universidade do Porto, Portugal

PET FOOD SALES IN PORTUGAL rose from Eso480 million in 1988 to more than EseT.OOO million in 1996. The average growth of 22 per cent a year attracted more than 60 new brands from both local and multinational companies. The market leader, EFFEM-Portugal, with brands like Sheba, Wbiskas and Pedigree Pal, had half of the pet food market and played an important role in the expansion of the market, but the going was not easy for all the brands.

EFFEM's success came from understanding the behaviour of both pets and their owners. Cats are resolved animals. Cats eat what thev like and



leave what they dislike. A cat is selective and sensitive regarding his or her nutritional needs and taste. If given food it dislikes, a cat seeks an alternative. Dogs are different. A hungry dog will eat almost anything, and eats it quicldy. For cat food the main concern is to give pleasure and to provide variety. For dogs **it is volume and ease of consumption.**

Launched in 1988, Sheba is EFFEM's super-premium brand for cats. With its exceptional quality and its high priee, it aims to delight the most discerning cats and is particularly appropriate for special occasions. But Sheba was in trouble. After initial advertising and sales promotional support during its launch, it had been left to fend for itself in the increasingly competitive pet food market. By 1995 Sheba's market position and even its commercial existence was threatened by the absence of marketing support and the entrance of new competitors into its market niche. Only 9 per cent of the total market had ever bought a can of Sheba at least once. Sheba's low market share of just 2 per cent justified little promotional expenditure, but tor Sheba it was fight back or die.

EFFEM's answer was a two-stage point of sale promotion, with each stage costing as little as a 30-second prime-time TV commercial. Stage one was during the run-up to Christmas 1995. In-store demonstrators approached consumers and asked them if they owned a cat. If customers answered 'yes', they were offered a greetings card and a 100 g can of Sheba. In this way both owners and pets received a gift- This sampling raised customers' brand awareness and knowledge of Sheba. Besides giving information, the card encouraged the pet's owners to show their love for their eat by giving it Sheba because 'it deserves it'. The card and its message were designed to generate favourable feelings. After all, it was Christmas time and this 'Santa Claws' gave away 12,000 cans of very special Sheba.

The second stage of the campaign repeated the Christmas promotion, but with St Valentine's Day as the theme. The Valentine's cart) showed two cats, probably lovers, with the messages: 'Because today is a special day, Sheba has a gift for your cat' and 'Let it know how you love [your cat]'. During the campaign 11,900 cans were given to customers at the point of sale. The Valentine's card also doubled as a **Cash-back** coupon with a face value of EsclOO. The refund and the emotional appeal of the message helped customers to confirm their preference for Sheba while showing their love for their cat.

The promotions reversed **Sheba's** sales decline. The impact on brand awareness/knowledge and repeat purchase was evident and the percentage of consumers who had ever tried Sheba increased to 22 per cent.

QUESTIONS

1. Is Sheba based on the tastes of eats or their owners?
2. Do consumers behave more like cats or dogs in their consumption behaviour?
3. Does the consumer awareness and knowledge achieved account for the success of the Sheba campaign? If not, what does account for the success?
4. Is the campaign likely to succeed if adopted in other European countries?
5. Given that Sheba's safes promotion campaign was so much more successful than conventional advertising, why is it not used more often?
6. What sales promotions would you suggest to maintain the momentum of the Christmas and St Valentine's Day success?

Introduction

EFFEM's success with Sheba shows how consumer buying behaviour has many unexpected dimensions. Since the human mind contains as many interacting neurones as there are leaves in the Amazon jungle, it is not surprising that buying behaviour is never simple. Complicated it is, but understanding buyer behaviour is central to marketing management. Just as marketing ends with consumption, so marketing management muse begin with understanding customers.

This chapter explores the dynamics of consumer behaviour and the consumer market. Consumer buying behaviour- refers to the buying behaviour of final consumers - individuals and households that buy goods and services for personal consumption. All of these final consumers combined make up the consumer market. The world consumer market consists of about 5.5 billion people, but the billion people living in North America, western Europe and Japan make up 70 per cent of the world's spending power.[1] Even within these wealthy consumer markets, consumers vary tremendously in age, income, education level and tastes. They also buy an incredible variety of goods and services. How these diverse consumers make their choices among various products embraces a fascinating array of factors.

consumer buying behaviour
Tlie buying behaviour of final consumers - individuals and households "who buy goods and services for personal consumption.

eonsumor **market**
All the individuals and households who buy or acquire gvods and services fiir personal consumption.

Models of Consumer Behaviour

In earlier times, marketers could understand consumers well through the daily experience of selling to them. But as firms and markets have grown in size, many marketing decision makers have lost direct contact with their customers and must now turn to consumer research. They spend more money than ever to study consumers, trying to learn more about consumer behaviour. Who buys? How do they buy? When do they buy? Where do they buy? Why do they buy?

The central question for marketers is; how do consumers respond to various marketing stimuli that the company might use? The company that really understands how consumers will respond to different product features, prices and advertising appeals has a great advantage over its competitors. Therefore, companies and academies have researched heavily the relationship between marketing stimuli and consumer response. Their starting point is the stimulus - response model of buyer behaviour shown in Figure 6..1. This shows that marketing and other stimuli enter the consumer's 'black box[1] and produce certain responses. Marketers must figure out what is in the buyer's black box.[2]

Marketing stimuli consist of the four Ps: product, price, place and promotion. Other stimuli include significant forces and events in the buyer's environment; economic, technological, political and cultural. All these stimuli enter the buyer's black box, where they are turned into a set of observable buyer responses (shown on the right-hand side of Figure 6.1): product choice, brand choice, dealer choice, purchase timing and purchase amount.

The marketer wants to understand how the stimuli are changed into responses inside the consumer's black box, which has two parts. First, the buyer's characteristics influence how he or she perceives and reacts to the stimuli. Second, the buyer's decision process itself affects the buyer's behaviour. This chapter first looks at buyer characteristics as they affect buying behaviour, and then examines the buyer decision process. We will never know what exactly is in

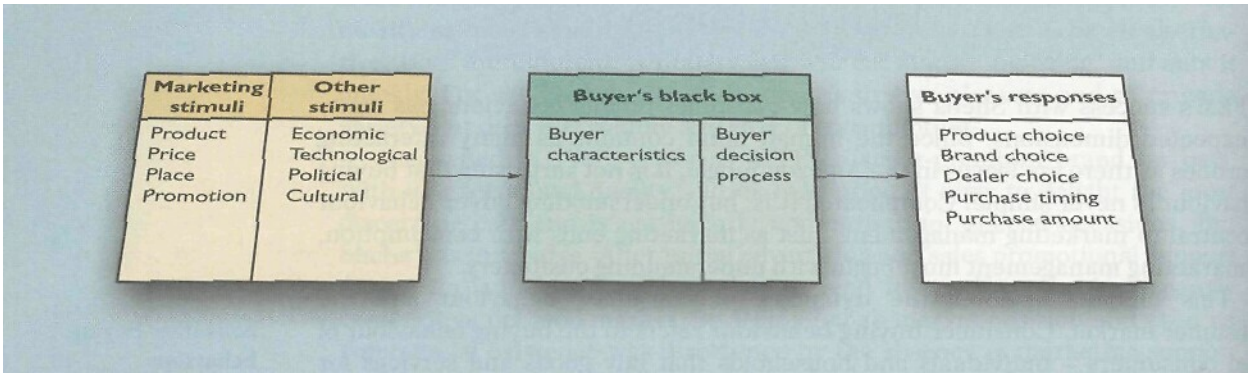


Figure 6.1 **Model of buyer behaviour**

the black box or be able perfectly to predict consumer behaviour, but the models can help us imderstand consumers, help us to ask the right questions, and teach us how to influence them.-[1]

Characteristics Affecting Consumer Behaviour

Consumer purchases are influenced strongly by cultural, social, personal and psychological characteristics, as shown in Figure 6.2. For the most part, marketers cannot control such factors, but they must take them into account. We illustrate these characteristics for the ease of a hypothetical customer, Anna Flores. Anna is a married graduate who works as a brand manager in a leading consumer packaged-goods company. She wants to buy a camera to take on holiday. Many **characteristics** in her background will affect the way she evaluates cameras and chooses a brand.

Cultural Factors

Cultural factors *exert* the broadest and deepest influence on consumer behaviour. The marketer needs to understand the role played by the buyer's culture, sub-culture and social class.

• *Culture*

culture
The set of basic values, perceptions, wants and behaviours learned by a member of society from family and otlter important institutions.

Culture is the most basic cause of a person's wants and behaviour. Human behaviour is largely learned. Growing up in a society, a child learns basic values, perceptions, wants and behaviours from the family and other important institutions. Like most wcsceni people, in her **childhood** Anna observed and learned values about achievement and success, activity and involvement, efficiency and practicality, progress, material **comfort,** individualism, freedom, humanitananism, youthfulness, and] fitness and health. Sometimes we take these values for granted, but they are nol cultural universals.

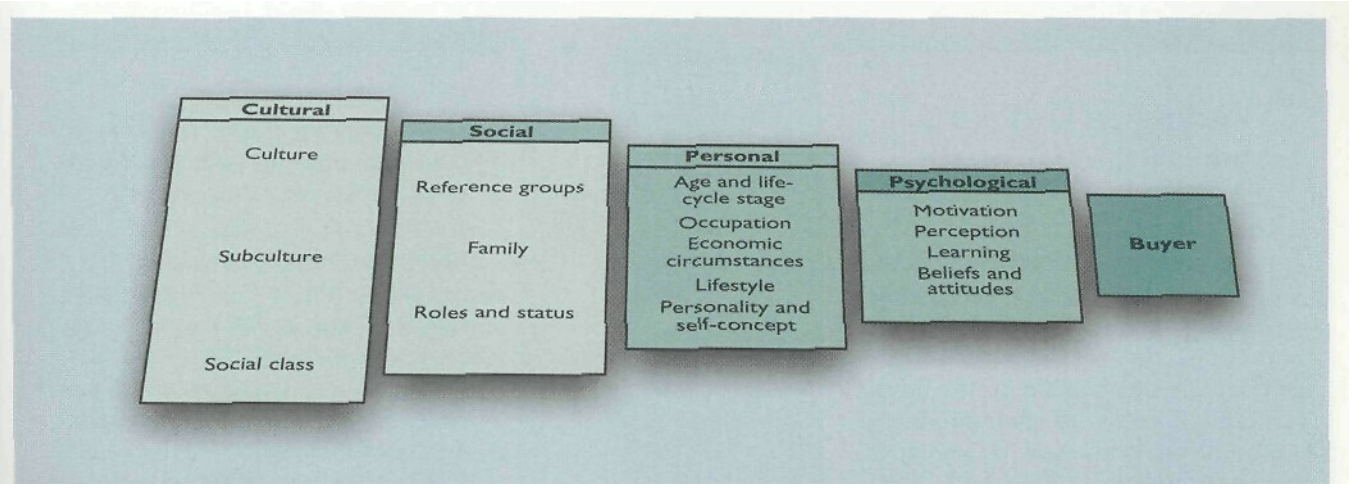


Figure 6.2 **Factors** influencing **behaviour**

A trade delegation trying to market in Taiwan found this out the hard way. Seeking more foreign trade, they arrived in Taiwan bearing gifts of green baseball caps. It turned out that the trip was scheduled a month before Taiwan elections, and that green was the colour of the political opposition party. Worse yet, the visitors learned after the fact Chat according to Taiwan culture, a man wears green to signify that his wife has been unfaithful. The head of the community delegation later noted: T don't know whatever happened to those green hats, but the trip gave us an understanding of the extreme differences in our cultures.'[4]

Marketers are always trying to spot *cultural shifts* in order to imagine new products that might be wanted. For example, the cultural shift towards greater concern about health and fitness has created a huge industry for exercise equipment and clothing, lower-calorie and more natural foods, and health and fitness services. This allowed Snapple to change the face of the US soft-drinks market with its 'new age' iced teas and fruit-flavoured drinks. The shift towards informality has resulted in more demand for casual clothing, simpler home furnishings and lighter entertainment. And the increased desire for leisure time has resulted in more demand for convenience products and services, such as microwave ovens, fast food and direct line financial services such as First Direct and Direct Line. Concern for the environment is influencing consumer behaviour both through legislation and through demand for less wasteful goods (see Marketing Highlights.!).[5]

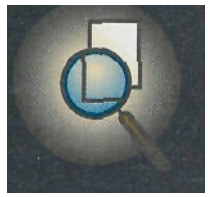
• *Subculture*

subculture
A group ofpeople with shared value systems based on common life experiences and situations.

Each culture contains smaller subcultures or groups of people with shared value systems based on common life experiences and situations. Subcultures include nationalities, religions, racial groups and geographic regions. Many subcultures make up important market segments and marketers often design products and marketing programmes tailored to their needs," The huge US market of 260 million people has Hispanic (approaching 40 million) and black (over 30 million) subcultures that are bigger than most national markets. In all developed economies the greying population is growing rapidly. Marketers often have a poor understanding of these over-55s who will be a huge market force in the next millennium.[7] Like all other

Marketing Highlight 6.1

Packaging Ordinance: Making: the Polluter Pay



The principle of 'the polluter pays' once seemed far-fetched, a pipe dream of radical environmentalists. But as the rest of the world watches, the notion that sellers should be responsible for the environmental costs of their products is being put to the test in Germany. The Packaging Ordinance *(Verpackungsordnung)* makes private Industry responsible for the collecting, sorting and ultimate recycling of packaging waste.

The legislation deals separately with three different kinds of packaging:

- *primary packaging:* the container that holds the product, like a perfume bottle.
- *secondary packaging:* outer material whose main function is point-oi'-purchase display and protection during shipping, like the box around the perfume bottle;
- *transport packaging:* the carton or crate used to ship the perfume to stores.

The ordinance decreed that alt three types *of* packaging must be taken back by retailers and returned to manufacturers - a daunting prospect for both parties. However, it allowed that tf the industry could come up with an alternative, then retailers would not have to take back the first and by far the largest category of waste, primary sales packaging.

The industry's solution was the Dual System (DSD), a non-profit company set up by German businesses that collects waste directly from consumers in addition to the country's municipal collection systems, DSD is funded by licensing fees for the now widely used *green dot;* a green arrow emblem indicating that a package is collectible by DSD. Now, rather than tossing their packaging out with the municipal rubbish, for which they must pay a fee, consumers can take it to a nearby yeliow DSD bin to be collected for free.

Under the DSD system, although they must still collect secondary and transport packaging, stores are no longer required to take back huge mounds of primary sales packaging. However, there's a catch: to be eligible as DSD rubbish, a sales package must have the green dot. So, not surprisingly, retailers are reluctant to carry products without the green dot. Further, there is a growing preference among German consumers for recyclable packaging materials, and for less packaging in general. Thus, the Packaging Ordinance wiJl strongly affect how companies package their products for the German market.

The ordinance puts the 'polluter pays' principle to work by creating incentives rather than through direct regulation. Unlike other £11 countries, Germany has no ban on specific packaging materials. Instead, green dot licence prices are based, in part, on the difficulty {if recycling a particular material. This sets market mechanisms in motion. If a given packaging material is costly to recycle, the price of using it will rise and companies will switch to something else. Thus, the ordinance is stimulating companies to find imaginative *ways* to market goods with less packaging. Golgate, for example, designed a toothpaste tube that stands on its head on store shelves without a box. Hewlett-Packard redesigned the chassis for its workstations and personal computers, reducing transport packaging by 30 per cent.

The major problem with the landmark German recycling programme is the lack of a market for recycled material. Notes one packaging expert: 'There seems to he widespread belief in the trash fairy, who comes overnight and turns garbage into gold for free ... [But] when you're talking trash, it's difficult to believe that anyone will pay for it.' In fact, it's no secret that much of the packaging collected in DSD bins is not being recycled, but rather is piling up in warehouses or being exported. When German plastics turned up in French dumps and incinerators, it caused ,1 Europe-wide scandal.

Still, the ordinance serves as a wake-up call to both businesses and consumers, in Germany and around the world. It says, 'Hey folks, we've got *a* problem, and something must be done about it.'

And despite its flaws, the ordinance does seem to be moving the country rapidly towards its goal of waste reduction. For example, during the first three years under the new system, total household waste production fell by more than 10 per cent, while recycling quantities increased by 90 per cent. Germany collects, sorts and recycles 60 per cent of its post-consumer plastic-packaging waste, well ahead of the 35 per cent target. Producers and retailers are now working together to help solve environmental problems.

France and Austria have passed similar legislation, and France has begun using the green dot, although with a different collection system. **In** Germany, new ordinances are on the horizon, including ones for mandating producer take-back of cars and electronic equipment. The EU is now working on a directive that would set minimum standards for recycling in all of its member states, 'it may take another year or two, but the train is running,' assures one German ministry official. 'The idea of product responsibility is spreading around the world.'

SOURCE: Adapted from Marilyn Stern, 'Is this the ultimate in recycling?[1] Across *ihcBoard* (May 199,1), pp. 28-31. See also Peter Sibbald, 'Manufacturing for reuse,' *Fortune,* (6 February 1995), pp. 102-12; 'Plastics *waste:* Germany beats recycling targets,' *Chemical Week* (5 June 1996), p. 22.

Table 6.1 UK socioeeonomie **classification scheme**

CLASS NAME	SOCIAL STATUS	OCCUPATION OF HEAD OF HOUSEHOLD	% OF POPULATION
A	Upper middle	Higher managerial, administrative or professional	3
B	Middle	Intermediate managerial, administrative or professional	14
Cl	Lower middle	Supervisors or clerical, junior managerial, administrative or professional	27
G2	Skilled working	Skilled manual workers	25
D	Working	Semi-skilled and unskilled manual workers	19
E	Those at lowest levels	State pensioners or widows, casual or lower-grade workers of subsistence	12

SOURCE; Office of Population Censuses and Surveys.

people, Anna Florcs' buying behaviour will be influenced by her subculture identification. It will affect her food preferences, clothing choices, recreation activities and career goals. Subcultures attach different meanings to pieture taking and this could affect both Anna's interest in cameras and the brand she buys.

social classes *Relatively permanent and ordered divisions in a society wliose members share similar values, interests and behaviours.*

- *Social Class*

Almost every society has some form of social class structure. Social classes are society's relatively permanent and ordered divisions whose members share similar values, interests and behaviours. The British scale with six social classes is widely used, although all big countries have their own system (see Table 6.1). In these

Marketing Highlight 6.2

Using **Reference Groups** to Sell: Home-Party and Office-Party Selling



Many companies capitalize on reference-group influence to sell their products. Home-party and office-party selling involves throwing sales parties in homes or workplaces and inviting friends and neighbours or co-workers to see products demonstrated. Companies such as Mary Kay Cosmetics, Avon and Tupporware are masters at this form of selling.

Mary Kay Cosmetics provides a good example of home-party selling. A Mary Kay beauty consultant {of which there are 170,000) asks different women to host small beauty shows in their homes. Each hostess invites her friends and neighbours for a few hours of refreshments and informal socializing. Within this congenial atmosphere, the Mary Kay representative gives a two-hour beauty plan and free make-up lessons to the guests, hoping that many of them will buy some of tire demonstrated cosmetics. The hostess receives a commission on sales plus a discount on personal purchases. Usually, about 60 per cent of the guests buy something, partly because of the influence of the hostess and the other women attending the party.

In recent years, changing demographics have adversely affected home-party selling. Increasingly, women are working, which leaves fewer women with the time for shopping and fewer women at home to host or attend home sales parties. To overcome this problem, most party-plan sellers have followed their customers into the workplace with office-party selling. For example. Avon now trains its 400,000 salespeople to sell through office parties during coffee and lunch breaks and after hours. The company once sold only door to door, but currently picks up a quarter of its sales from buyers at businesses. The well-known home Tupperwaru party has also invaded the office, as Tupperware 'rush-hour parties' held at the end of the workday in offices. At these parties, office workers meet in comfortable, familiar surroundings, look through Tupperware catalogues, watch product demonstrations arid discuss Tupperware products with their friends and associates. Tupperwarc's 85,000 sales representatives now make about 20 per cent of their sales outside the home.

Home-party and office-party selling is now being used to market everything from cosmetics, kitchcnware ;ind lingerie to exercise instruction and hand-made suits. Such selling requires a sharp understanding of reference groups and how people influence each other in the buying process.

SOURCES: See Shannon Thumiaii, 'Mary I\:iy still in the pink', *Advertising Age* (4 January 1988), p. 32; Len Strazewski, "Hipperware locks in a new strategy", .AiJoeitfsfrig *Age* (8 Febniary 1988), p. 30; ICate Ballen, 'Get ready for shopping at work', *Fortune* (15 February 1988), pp. 95-8; Vie Sussman, '1 was the only virgin at the party', *Sales and Marketing Management* (September] 989), pp. 64-72.

social class is not determined by a single factor, such as income, but is measured as a combination of occupation, income, education, wealth and other variables.

Not only do class systems differ in various parts of the world: the relative sizes of the classes vary with the relative prosperity of countries. The 'diamond'-shaped classification (few people at the top and bottom with most in the middle) in Table 6.1 is typical of developed countries, although the Japanese and Scandinavian scales are flatter. In less developed countries, such as in Latin America and Africa, the structure is 'pyramid' shaped with a concentration of poor people at the base. As countries develop, their class structure moves towards the diamond shape, although there is evidence that the gap between the richest and poorest in the English-speaking countries is now widening.

Some class systems have a greater influence on buying **behaviour** than others. In most western countries 'lower' classes may exhibit upward mobility, showing **buying** behaviour similar to that of the 'upper' classes. But in other cultures, where a caste system gives people a distinctive role, buying behaviour is more firmly linked to social class. Upper classes in almost all societies are often more similar to each other than they are to the rest of their own society. When selecting products and services, **including** food, clothing, household items and personal-care products, they make choices that are less culture-bound than those of the lower classes. Generally, the lower social classes are more culture-bound, although young people of all classes are less so.[N]

Anna Plores' social class may affect her camera-buying decision. If she comes from a higher social class background, her family probably owned an expensive camera and she might have dabbled in photography.

Sodal Factors

A consumer's behaviour is also influenced by social factors, such as the consumer's small groups, family, and social roles and status. Because these social factors can strongly affect consumer responses, companies must take diem into account when designing their marketing strategies.

• *Groups*

Groups influence a person's behaviour. Groups that have a direct influence and to which a person belongs are called membership **groups.** Some are *primary groups* with whom there is regular but informal interaction - such as family, friends, neighbours and fellow workers. Some are *secondaiy groups,* which are more formal and have less regular interaction. These include organizations like religious groups, professional associations and trade unions.

membership groups
Groups that have a direct influence on a person's *behaviour und to ijshich a person belongs.*

Reference groups are groups that serve as direct (face-to-face) or indirect points of comparison or reference in forming a person's attitudes or behaviour. Reference groups to which they do not belong often influence people. For example, an aspirational group is one to which the individual wishes to belong, as when a teenage football player hopes to play some day for Manchester United. He identifies with them, although there is no face-to-face contact between him and the team.

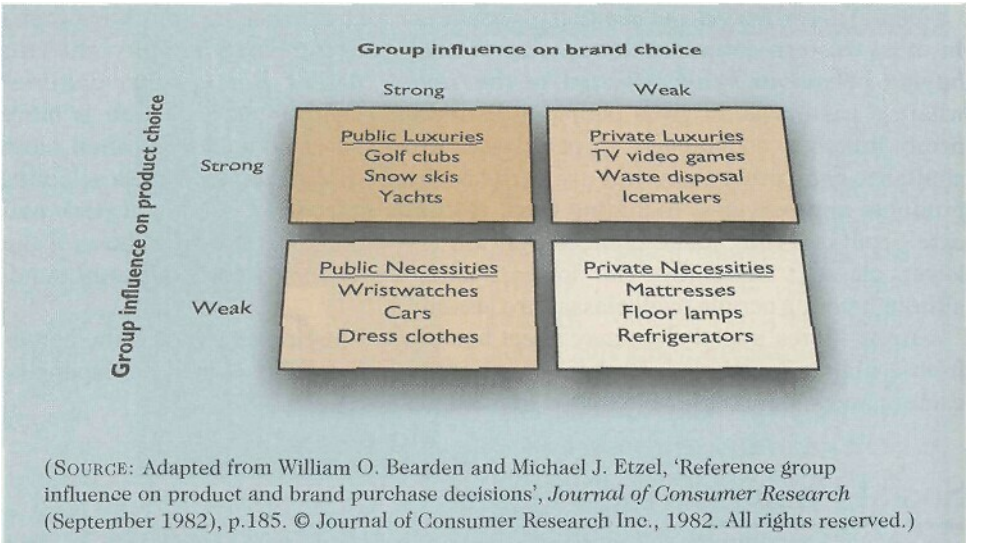
reference groups
Groups *chat have a direct ffacv-to-faue) or indirect influence on the* person's *attitudes or behaviour.*

Marketers try to identify the reference groups of their target markets. Reference groups influence a person in at least three ways. They expose the person to new behaviours and lifestyles. They influence the person's attitudes and self-concept because he or she wants to 'fit in'. They also create pressures to conform that may affect the person's product and brand choices (see Marketing Highlight 6.2).

inspirational group
A group co which an individual i&ishes to belong.

The importance of group influence varies across products and brands, but it tends to be strongest for conspicuous purchases.[9] A product or brand can be conspicuous for one of two reasons. First, it may be noticeable because the buyer is one of few people who owns it-luxuries, such as a vintage Wurlitzer juke box or a Rolex, are more conspicuous than necessities because fewer people own the luxuries. Second, a product such as Carlsberg ICE beer or Perrier can be conspicuous because the buyer consumes it in public where others can see it. Figure 6.3 shows how group influence might affect product and brand choices for four types of product -publie luxuries, private luxuries, public necessities and private necessities.

A person considering the purchase of a public luxury, such as a yacht, will generally be influenced strongly by others. Many people will notice the yacht



(SOURCE: Adapted from William O. Bearden and Michael J. Etzel, 'Reference group influence on product and brand purchase decisions', *Journal of Consumer Research* (September 1982), p.185. © Journal of Consumer Research Inc., 1982. All rights reserved.)

Figure 6.3 **Extent of group influence on product and brand choice**

because few people own one. If interested, they will notice the brand because the boat is used in public. Thus both the product and the brand will be conspicuous and the opinions of others can strongly influence decisions about whether to own a boat and what brand to buy. At the other extreme, group influences do not much affect decisions about private necessities because other people will notice neither the product nor the brand.

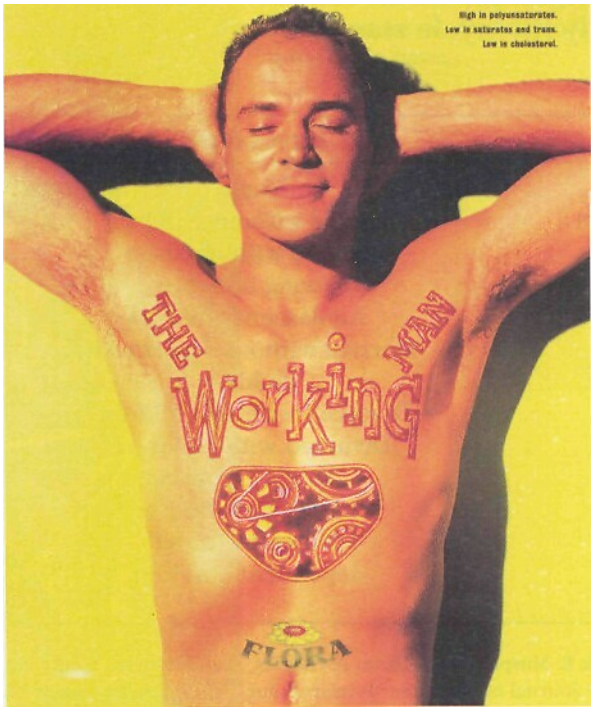
- *Family*

Family members can strongly influence buyer behaviour. We can distinguish between two families in the buyer's life. The buyer's parents make up *ihefamily of* orientation. Parents provide a person with an orientation towards religion, politics and economies, and a sense of personal ambition, self-worth and love. Even if the buyer no longer interacts very much with his or her parents, the latter can still significantly influence the buyer's behaviour. In countries where parents continue to live with their children, their influence can be crucial.

The family of procreation - the buyer's spouse and children - have a more direct influence on everyday buying behaviour. This family is the most important consumer buying organization in society and it has been researched extensively. Marketers are interested in the roles and relative influence of the husband, wife and children on the purchase of a large variety of products and services.

Husband-wife **involvement** varies widely by product category and by stage in the buying process. Buying roles change with evolving consumer lifestyles. Almost everywhere in the world, the wife is traditionally the main **purchasing** agent for the family, especially in the areas of food, household products and clothing. But with over 60 per cent or more women holding jobs outside the home **in** developed countries and the willingness of some husbands to do more of the family's purchasing, all this is changing. For example, in the United States women now buy about 45 per cent of all cars and men account for about-40 per cent of expenditure on food shopping.[1ll] Such roles vary widely among different countries and social classes. As always, marketers must research specific patterns in their target markets.

Flora is bought by women (buyer) who care about their men (user).



In the case of expensive products and services, husbands and wives more often make joint decisions. Anna Flores' husband may play an *influencer role* in her camera-buying decision. He may have an opinion about her buying a camera and about the kind of camera to buy. At the same time, she will be the primary decider, purchaser and user.[11]

CONSUMERS' BUYING ROLES. Group members can influence purchases in many ways. For example, men normally choose their own newspaper and women choose their own tights. For other products, however, the decision-making unit is more complicated with people playing one or more roles:

t Initiator. The person who first suggests or thinks of the idea of buying a particular product or service. This could he a parent of friends who would like to see a visual record of Anna's holiday.

- Influencer. A person whose view or advice influences the buying decision, perhaps a friend who is a camera enthusiast or a salesperson.
- Decider. The person who ultimately makes a buying decision or any part of it - whether to buy, what to buy, how to buy or where to buy.
- Buyer. The person who makes an actual purchase. Once the buying decision is made, someone else could make the purchase for the decider.
- User. The person who consumes or uses a product or service. Once bought, other members of her family could use Anna's camera.

Roles arid Status

A person helongs to many groups - family, clubs, organizations. The person's position in each group can be defined in terms of both *role* and status. With her parents, Anna Flores plays the role of daughter; in her family, she plays the role of

decision-**making unit (DMU)**
All the individuals who participate in, and influence, the consumer buying-decision process.

initiator
The person who fir at suggests or thinks of the idea of buying a particular product or service.

influence!
A person whose vievss or advice carries some weight in making a final buying decision; they often help define specifications and also provide information for evaluating alternatives.

decider
The person vaho ultimately makes a buying decision or any part of it - whether to buy, what to buy, how to buy, or inhere to buy.

buyer
The person who makes an actual purchase.

user
The person *who consumes or uses a*

Table 6.2 **Family** life-cycle stages

	MIDDLE-AGED	OLDER
Single	Single	Older married
Married without children	Married without children	Older unmarried
Married with children	Married with children	
Infant children	Young children	
Young children	Adolescent children	
Adolescent children	Married without dependent children	
Divorced with children	Divorced without children	
	Divorced with children	
	Young children	
	Adolescent children	
	Divorced without dependent children	

SOURCES: Adapted from Patrick E. Murphy and William A. Staples, 'A modernized family life cycle', *Journal of Consumer Research* (June 1979), p. 16; © Journal of Consumer Research, Inc., 1979. See also Janet Wagner and Sherman Hanna, 'The effectiveness of family life cycle variables in consumer expenditure research', *Journal of Consumer Research* (December 1983), pp. 281–91.

role
The activities a person is expected to perform according to the people around him or her,

status
The gerKi'al esteem given to a role by society.

wife; in her company, she plays the role of brand manager, A role consists of the activities that people are expected to perform according to the persons around them. Each or'Anna's roles will influence some of her buying behaviour.

Each role carries a status reflecting the general esteem given to it by society. People often choose products that show their status in society. For example, the role of brand manager has more status in our society than the role of daughter. As a brand manager, Anna will buy the kind of clothing that reflects her role and status.

Personal Factors

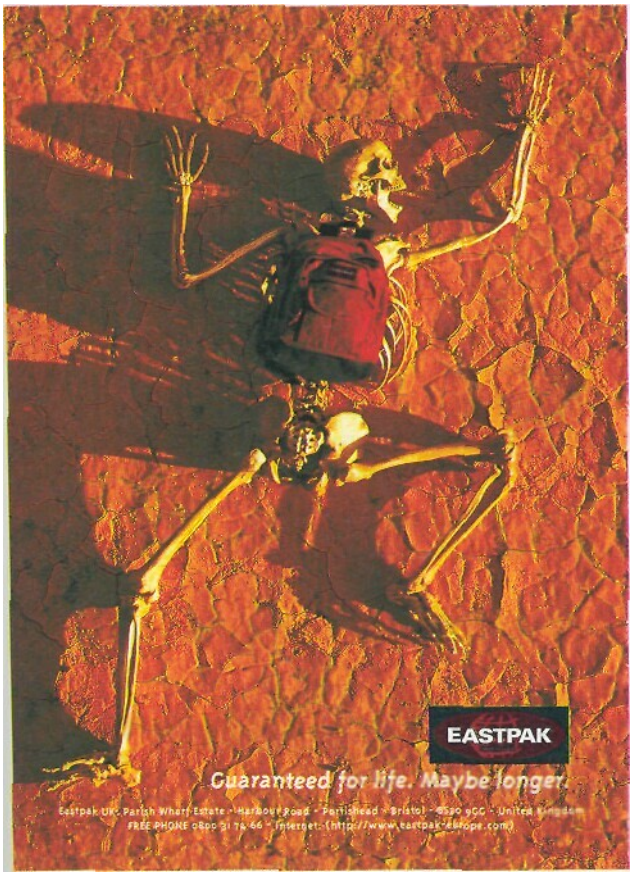
A buyer's decisions are also influenced by personal characteristics such as the buyer's age and life-cycle stage, occupation, economic situation, lifestyle, *and* personality and self-concept.

• *Age and Life-Cycle Stage*

family life eyclc
The stages through which families might pass as they mature over time.

People change the goods and services they buy over their lifetimes. Tastes in food, clothes, furniture and recreation are often age related. Buying is also shaped by the family life cycle - the stages through which families might pass as they mature over time. Table 6.2 lists the stages of the family life cycle. Marketers often define their target markets in terms of life-cycle stage and develop appropriate products and marketing plans for each stage.

Psychological life-cycle stages have also been identified.[12] Adults experience certain passages or transformations as they go through life. Thus Anna Florcs may



Eastpak use a strong image to communicate that it is a product to have.

move from being a satisfied brand manager and wife to being an unsatisfied person searching for a new way to fulfil herself. In faet, such a ehange may have stimulated her strong interest in photography. The main stimuli to people taking photographs are holidays, ceremonies marking the progression through the life cycle (weddings, graduations and so on) and having children to take photographs of. Marketers must pay attention to the changing buying interests that might be associated with these adult passages.

- *Occupation*

A person's occupation affects the goods and services bought. Blue-collar workers tend to buy more work clothes, whereas white-collar workers buy more suits and ties. Marketers try to identify the occupational groups that have an above-average interest in their products and services. A company can even specialize in making products needed by a given occupational group. Thus computer software companies will design different products for brand managers, accountants, engineers, lawyers and doctors.

- *Economic Circumstances*

A person's economic situation will affect product choice. Anna Flores can consider buying an expensive Olympus autofocus superzoom camera if she has enough disposable income, savings or borrowing power. Marketers of income-sensitive goods closely watch trends in personal income, savings and interest

Table 6.3 **Lifestyle dimensions**

ACTIVITIES	INTERESTS	OPINIONS	DEMOGRAPHICS
Work	Family	Themselves	Age
Hobbies	Home	Social issues	Education
Social events	Job	Politics	Income
Vacation	Community	Business	Occupation
Entertainment	Recreation	Economics	Family size
Club membership	Fashion	Education	Dwelling
Community	Food	Products	Geography
Shopping	Media	Future	City size
Sports	Achievements	Culture	Stage in life cycle

SOURCE: Joseph T. Plummer, 'The concept and application of lifestyle segmentation', *Journal of Marketing* (January 1974), p. 34.

rates. If economic indicators point to a recession, marketers can take steps to redesign, reposition and reprice their products.

• *Lifestyle*

lifestyle
A person's pattern of living a expressed in his or her activities, interests and opinions.*

p.syehograpliics
The technique of measuring lifestyles and developing lifestyle classifications; it involves measuring the chief AK) dimensions *(activities, interests, opinions).*

People coming from the same subculture, social class and occupation may have quite different lifestyles. Lifestyle is a person's pattern of living as expressed in his or her activities, interests and opinions. Lifestyle captures something more than the person's social class or personality. It profiles a person's whole pattern of acting and interacting in the world.

The technique of measuring lifestyles is known as psychographies. It involves measuring the primary dimensions shown in Table 6.3. The first three are known as the *AlO dimensions* (activities, interests, opinions). Several research firms have developed lifestyle classifications. The most widely used is the SRI *Values and Lifestyles (VALS)* typology. The original VALS typology classifies consumers into nine lifestyle groups according to whether they were inner directed (for example, 'experientials'); outer directed ('achievers', 'belongers'); or need driven ('survivors'). Using this VALS classification, a bank found that the businessmen they were targeting consisted mainly of 'achievers' who were strongly competitive individualists.[13] The bank designed highly successful ads showing men taking part in solo sports such as sailing, jogging and water skiing.[11]

Everyday-Life Research by SINUS GmbH, a German company, identifies 'social milieus' covering France, Germany, Italy and the UK. This study describes the stnieture of society with five social classes and value orientations:

- Basic orientation: traditional - *to preserve.*
- Basic orientation: materialist - to *fia<oe.*
- Changing values: hedonism - Co *indulge,*
- Changing values: pos(materialism - *to be,*
- Changing values: postmodernism - to *have, to be and to indulge.*

Table 6.4 Typology of social milieus

MILIEU	GERMANY	FRANCE	ITALY	UK	DESCRIPTION
Upper conservative	Konservatives-gchobenes	Les Heritiers	Neoconserva.ro ri	Upper class	Traditional upper-middle-class conservatives
Traditional mainstream	Floresbiirgerliches	Les conserviiteurs installes	Pioeola boriShesia	Traditional middle class	*Petit bourgeois* group mainly oriented to preserving the status quo
Traditional working class	Traditionsloses Arbeiterml!lieu	Les laborious traditionnels	Cultura operaia	Traditional working class	Traditional blue-collar worker
Modem mainstream	Anfstiegsorien-tiertes	Les nonvea UK ambitieus	Rampanti, plus crisaldi	Soeial climbers, plus progressive working class	Soeial climber and aehicvcmerit-oriented white-arid blue-collar workers
Trendsetter	Tech 11 ok rat is eh-Hberalcs	Les managers moderns	Borghesia illuminata	Progressive middle class	Technocratic-liberals with a postmaterial orientation
Avant-garde	Hedonistischcs	Les post-modernistes	Edonisti	'Thatcher's children'	Mainly young pleasure seekers
Rociocritical	Alternatives	Les neo-moralistes	Critioa soeiale	Socially centred	Pursuing an alternative lifestyle
Under-privileged	Traditionsioscs Arbeitennilicu	Les oiibli6s, plus les rebelies hedonistes	Sotco-prolctariato urbano	Poor	Uprooted blue-coliar workers and destitute

It distinguishes two types of value: traditional values, emphasizing hard work, thrift, religion, honesty, £ood manners and obedience; and material values concerned with possession and a need for security. From these, SINUS developed a typology of social milieus (see Table 6.4): groups of people who share a common set of values and beliefs about work, private relationships, leisure activities and aesthetics, and a common perception of future plans, wishes and dreams. The size and exact nature of these milieus vary between the countries studied, but there are broad international comparisons.

Knowing the social milieu of a person can provide information about his or her everyday life, such as work likes and dislikes, which helps in product development and advertising. The study finds that the upmarket segments share a similar structure in all four countries; and it identifies trend-setting milieus in each country, containing heavy consumers with comparable attitudinal and **soeiodemo-**graphic characteristics. Important values shared by ali these consumers include: tolerance, open-mindedness, an outward-looking approach; career and success, education and culture, a high standard of living, hedonistic luxury consumption, individualism and Europe.

The Anticipating Change in Europe (ACE) study, by the RISC research agency of Paris, investigated social changes in 12 European countries, die United

States, Canada and Japan, The objective was to try to understand how social changes influence market trends. RISC describes people using sociodemographic characteristics, soeiooulrural profile, activities (sports, leisure, culture), behaviour towards the media (press, radio, television), political inclinations and mood. Using these dimensions, RISC developed six Eurotypes:

1. *The traditionalist* (18 per cent of the European population) is influenced by the culture, soeioeconomic history and unique situation of his or her country, with a profile reflecting deep-rooted attitudes specific to that country. Consequently, this is the least homogeneous group across countries.
2. *The homebody* (14 per cent) is driven by a strong attachment to his or her roots and childhood environment. Less preoccupied with economic security than the traditionalist, the homebody needs to feel in touch with the social environment. The homebody seeks warm relationships and has difficulty coping with violence in society,
3. *The rationalist* (23 per cent) has an ability to cope with unforeseeable and complex situations, and a readiness to take risks rind start new endeavours. Personal fulfilment is more about self-expression than financial reward. The rationalist believes science and technology will help resolve the challenges facinghumanity.
4. *The pleasurist* (17 per cent) emphasizes sensual and emotional experiences, preferring non-hierarchically structured groups built around self-reliance and self-regulation and not around leaders or formal decision-making processes.
5. *Tlie utriver* (15 per cent) holds the attitudes, belief's and values that underlie the dynamics of social change. The striver believes in autonomous behaviour and wants to shape his or her life and to exploit mental, physical, sensual and emotional possibilities to the full.
6. *The trendsetter* (13 per cent) favours non-hierarchical social structures and enjoys spontaneity rather than formal procedures. Trendsetters see no need to prove their abilities. Even more individualistic than strivers, they exemplify the flexible response to a rapidly changing environment.

These studies do suggest that there are European lifestyles although, as with social class, there is greater similarity between wealthy Europeans than between poor ones. For this reason, luxury brands and their advertising are often more standardized internationally than other products.[15]

Lifestyle classifications need not he universal - they can vary significantly from country to country. McCann-Erickson, for example, found the following British lifestyles: *Avant Guardians* (interested in change): *Pontificators* (traditionalists, very British); *Chameleons* (follow the crowd); and *SleefwDalken,* (contented under-aehhivers). Contrast this with Survey Research Malaysia's seven categories from their developing country: *Upper Echelons* (driven by status and desire to stand out in society); *Not Quite Theres* (ambition for self and family); *Rebel Hangouts* (want to look off mainstream); *Sfeef)walkers* (want to get through the day); *Inconspicuous* (want to blend in): *Kampung Trendsetters* (ambitious, city-influenced village dwellers); and *Rural Traditiortalists* (abide by traditional rules).[16] Finally, advertising agency D'Arcy, Masius. Benton & Bowles identified five categories of Russian consumer: *Kuptsi* (merchants), *Cossacks, Students, Business Executives* and *Russian Souls,* Cossacks are characterized as ambitious, independent and status seeking, Russian Souls as passive, fearful of choices and hopeful, Tims, a typical Cossack might drive a BMW, smoke Dunhill cigarettes and

drink Remy Martin liquor, whereas a Russian Soul would drive a Lada, smoke Marlboros and drink Smirnoff Vodka.[17]

The lifestyle concept, when used carefully, can help the marketer understand changing consumer values and how they affect buying behaviour. Anna Flores, for example, can choose to live the role of a capable homemaker, a career woman or a free spirit - or all three. She plays several roles, and the way she blends them expresses her lifestyle. If she ever became a professional photographer, this would change her lifestyle, in turn changing what and how she buys.

• *Personality and Self-Concept*

personality
A person's distinguishing psychological characteristics that lead to relatively consistent and lasting responses to his or her oi&n environment:

self-uoneept
Self-image, or the Qvmplex mental pictures that people have of themselves.

Each person's distinct personality influences his or her buying behaviour. Personality refers to the unique psychological characteristics that lead to relatively consistent and lasting responses to one's own environment. Personality is usually described in terms of traits such as self-confidence, dominance, sociability, autonomy, defensiveness, adaptability and aggressiveness.[''] Personality can be useful in analyzing consumer behaviour lor certain product or brand choices. For example, coffee makers have discovered that heavy coffee drinkers tend to be high on sociability. Thus Nescafe ads show people coming together over a cup of coffee.

Many marketers use a concept related to personality - a person's self-concept (also called *self-image).* The basic self-concept premise is that people's possessions contribute to and reflect their identities: that is, 'we arc what we have'. Thus, in order to understand consumer behaviour, the marketer must first understand the relationship between consumer self-concept and possessions. For example, people buy books to support their self-images:

> People have the mistaken notion that the thing you do with books is read them. Wrong ... People buy books for what the purchase says about them - their taste, their cultivation, their trendiness. Their aim ... is to connect themselves, or those to whom they give the books as gifts, with all the other refined owners of Edgar Allen Poe collections or sensitive owners of Virginia Woolf collections. ... [The result is that] you can sell books as consumer products, with seductive displays, flashy posters, an emphasis on the glamour of the book, and the fashionahleness of the bestseller and the trendy author.['1']

Anna Flores may see herself as outgoing, fun and active. Therefore, she will favour a camera that projects the same qualities. In that case the Polaroid Vision autofocus SLR could attract her. 'The fun develops instantly.['2'']

Really, it is not that simple. What if Anna's *actual self-concept* (how she views herself) differs from her *ideal self-concept* (how she would like to view herself) and from her *others* se//-concept (how she thinks others sees her)? Which self will she try to satisfy when she buys a camera? Because this is unclear, self-concept theory has met with mixed Huccess in predicting consumer responses to brand images.

Psychological Factors

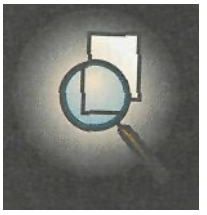
A person's buying choices are further influenced by four important psychological fiietors: motivation, perception, learning, and beliefs and attitudes.

• *Motivation*

We know that Anna Flores became interested in buying a camera. Why? What is she *really* seeking? What *needs* is she trying to satisfy?

Marketing Highlight 6.3

'Touchy-Feely' Research into Consumer Motivations



The term *motivation research* refers to qualitative research designed to probe consumers' hidden, subconscious motivations. Because consumers often don't know or can't describe just why they act as they do, motivation researchers use a wide variety of non-directive and projective techniques to uncover underlying emotions and attitudes towards brands and buying situations. The techniques range from sentence completion, word association and inkblot or cartoon interpretation tests, to having consumers describe typical brand users or form daydreams and fantasies about brands or buying situations. Some of these techniques verge on the bizarre. One writer offers the following tongue-in-cheek summary *of ;* motivation research session:

> Good morning, ladies and gentlemen. We've called you here today for a little consumer research. Now, lie down on the couch, toss your inhibitions out the window and let's try a little free association. First, think about brands as if they wen; *yourfriend."* ... think of your shampoo as an animal. Go on, don't be shy. Would it be a panda or a lion? A snake or a woolly worm? For our final exercise, let's all sit up and pull out our magic markers. Draw a picture of ?i typical cake-mix user. Would she wear an apron or a negligee? A business suit or a can-can dress?

Other researchers use *transaction analysis* (TA), based originally on psychoanalytic theory, to study the relationship between the consumer and the brand. In this die consumer and the brand role player assume the 'ego states' of a parent, adult (equal) or child. Data are obtained from recording a dialogue between the consumer and a brand;

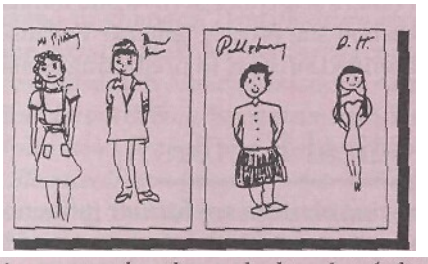
> Smoker to ideal cigarette: 'I can taste you; your tobacco is good ... I like you. Smart *box* ... You taste nice ... riot harsh.' Ideal cigarette to smoker: 'If I can make you relaxed and happy, that's what I am here for. I always try to please my customers.'

Such projective techniques seem dotty, but more and more marketers are turning to these touchy-feely, motivation research approaches to help them probe consumer psyches and develop better marketing strategies.

Many advertising agencies employ teams of psychologists, anthropologists and other social scientists to carry out their motivation research. Says the research director of one large agency: 'We believe people make choices on a basic primitive level ... we use the probe to get down to the unconscious.' This agency routinely conducts one-on-one, therapy-like interviews to delve into the Inner workings of consumers, Another agency asks consumers to describe their favourite brands as animals or cars (say, Saab versus BMW) in order to assess the prestige associated with various brands. Still another agency has consumers draw figures or make clay models of typical brands or brand users:

> In one instance, the agency asked 50 interviewees to sketch likely buyers of two different brands of cake mixes. Consistently, the group portrayed Pillsbury customers as apron-clad, grandmotherly types, while they pictured Duncan Mines purchasers as svelte, contemporary women.

In a similar study, American Express had people sketch likely users of its gold card versus its green



Motivation research: when asked to sketch figures of typical cake-mix users, subjects portrayed Pillsbury customers as grandmotherly types and Duncan Hines buyers as svelte and contemporary.

card. Respondents depicted gold eard holders as active, hroad-shouldered men; green card holders were perceived as 'couch potatoes' lounging in front ot television sets. Rased on these results, the company positioned its gold card as a symbol of responsibility for people capable of controlling their lives and finances.

Some motivation research studies employ more basic techniques, such as simply mingling with consumers to t'ind out what makes them tick:

> Saatchi & Saatchi, the London based ad agency, recently hired anthropologist Joe Lowe to spend a week in Texas sidling up to wearers of Wranglers blue jeans at rodeos and barbecues. His findings reinforced what the jeans company suspected: buyers associated Wranglers with cowboys. The company responded by running ads with plenty of Western touches. For a consumer-goods manufacturer, Lowe went to health clubs where he observed patrons applying deodorant. And for shampoo maker Helene Curtis, he spent three days in salons before coming to a somewhat predictable conclusion - going to the beauty shop makes women i'eel good.

Some marketers dismiss such motivation research as iiiumbo-jumbo. And these approaches do present some problems: they use small samples and researcher interpretations of results are often highly subjective, sometimes leading to rather exotic explanations of otherwise ordinary buying behaviour. However, others believe strongly that these approaches can provide interesting nuggets of insight into the relationships between consumers and the brands they buy. To marketers who use them, motivation research techniques provide a flexible and varied means of gaining insights into deeply held and often mysterious motivations behind consumer buying behaviour.

SOURCES: Excerpts from M. Blackthorn and M. Holmes, 'The use of transaetional analysis In the development of a new brand's personality', ESOMAR Seminar on Now Product Development, 1983; O. De drool, 'Deep, dangerous or just plain dotty?', ESOMAR Seminar on Qualitative Methods of Research, Amsterdam, 1986; Annetta Miller and Body Tsiantar, 'Psyching out consumers'. jYetestoeefe (27 February 1989), pp. 4<i-7; see also .Sidney J. Levy, 'Dreams, fairy talcs, animals and cars', *Psychology anil Marketing* (Summer 1985), pp. 67-81; Peter Sampson, 'Qualitative research and motivational research', in Robert Worcester |ed.), Consumer *Marketing Research Handbook* (London' McGraw-Hill, 1986), pp. 29-55; Ronald Also]), 'Advertisers put consumers on the couth', *Wall Street Jmimal* (13 May 1988), p. 21: Rebecca Piirto, 'Measuring minds in the 1990s', *American Demographies* (December 1990), pp. 31-5, and "Words that sell', *American* Demographies (January 1992), p. 6.

A person has many needs at any given time. Some are *biological,* arising from states of tension such as hunger, thirst or discomfort. Others are *psychological,* arising from the need for recognition, esteem or belonging. Most of these needs wilt not be strong enough to motivate the person to act at a given point in time. A need becomes a. *motive* when it is aroused to a sufficient level of intensity. A motive (or *drive)* is a need that is sufficiently pressing to direct the person to seek satisfaction. Psychologists have developed theories of human motivation. Two of the most popular - the theories of Sigmund Freud and Ahraham Maslow - have quite different meanings for consumer analysis and marketing.

FREUD'S TIIUORY OK MOTIVATION. Freud assumes that people are largely unconscious of the real psychological forces shaping their behaviour. He sees the person as growing up and repressing many urges. These urges are never eliminated or under perfect control; they emerge in dreams, in slips of the tongue, in neurotic and obsessive behaviour or ultimately in psychoses.

Thus Freud suggests that a person does not fully understand his or her motivation. If Anna Flores wants to purchase an expensive camera, she may describe her motive as wanting a hobby or career. At a deeper level, she may be purchasing the camera to impress others with her creative talent. At a still deeper level, she may be buying the camera to feel young and independent again.

Motivation researchers collect in-depth information from small samples of consumers to uncover the deeper motives for their product choices. They use non-directive depth interviews and various 'protective techniques' to throw the ego off guard - techniques such as word association, sentence completion, picture interpretation and role playing.

Motivation researchers have reached some interesting and sometimes odd conclusions about what may be in the buyer's mind regarding certain purchases. For example, one classic study concluded that consumers resist prunes because they are wrinkled looking and remind people of sickness and old age. Despite its sometimes unusual conclusions, motivation research remains a useful tool for marketers seeking a deeper understanding of consumer behaviour (see Marketing Highlight 6.3).[21]

MASLOW'S THEORY OF MOTIVATION. Abraham Maslow sought to explain why people are driven by particular needs at partiexilar times.[22] Why does one person spend much time and energy on personal safety and another on gaining the esteem of others? Maslow's answer is that human needs are arranged in a hierarchy, from the most pressing to the least pressing. Maslow's hierarchy of needs is shown in Figure 6.4. In order of importance, they are (1) *physiological* needs, (2) *safety* needs, (3) *social* needs, (4) *esteem* needs and (5) *self-actualization* needs. A person tries to satisfy the most important need first. When that important need is satisfied, it will stop being a motivator and the person will then try to satisfy the next most important need. For example, a starving man (need 1) will not take an interest in the latest happenings in the art world (need 5), or in how he is seen or esteemed by others (need 3 or 4), or even in whether he is breathing clean air (need 2). But as each important need is satisfied, the next most important need will come into play:

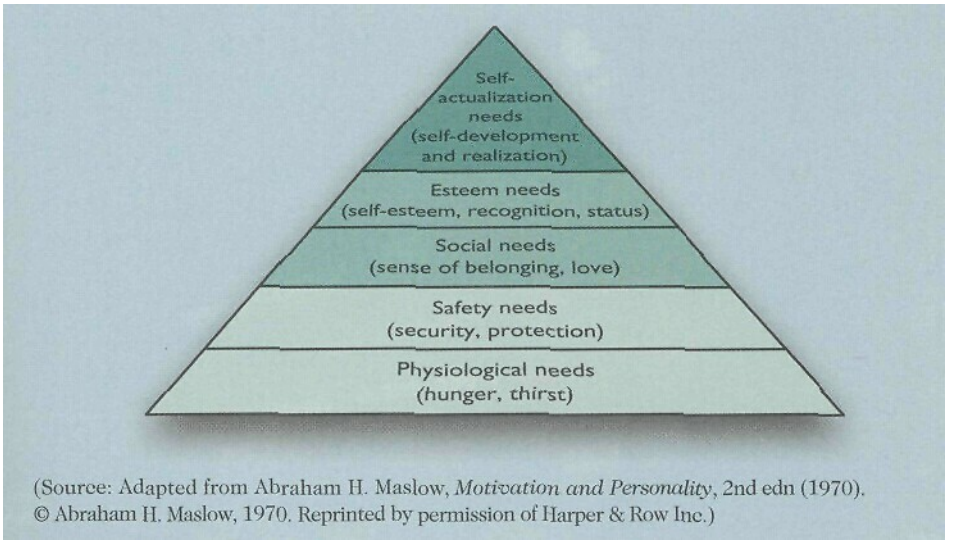
> The wine market shows how the different levels of the need hierarchy can be at play at the same time. Buyers of premium wines are seeking self-esteem and self-actualisation. They may achieve this by showing their knowledge by buying 1986 Chateaux Ausone from a specialist wine merchant. Wine buying makes many other people anxious, particularly if it is a gift. They buy the product to fill a social need but are unable to gauge quality. To be safe they buy from a reputable store (Marks and Spencer) or a brand legitimised by advertising (Le Fiat d'Or).[2-1]

Maslow's hierarchy is not universal for all cultures. As the heroes of Hollywood movies amply show, Anglo-Saxon culture values self-actualization and individuality above all else, hut that is not universally so. In Japan and German-speaking countries, people are most highly motivated by a need for personal security and conformity, while in France, Spain, Portugal and other Latin and Asian countries, people are most motivated by the need for security and belonging.[24]

What light does Maslow's theory throw on Anna Flores' interest in buying a camera? We can guess that Anna has satisfied her physiological, safety and social needs; they do not motivate her interest in cameras. Her camera interest might come from a strong need for more esteem from others. Or it might come from a need for self-actualization - she might want to be a creative person and express herself through photography.

• *Perception*

A motivated person is ready to act. How the person acts is influenced by his or her perception of the situation. Two people with the same motivation and in the same



(Source: Adapted from Abraham H. Maslow, *Motivation and Personality*, 2nd edn (1970). © Abraham H. Maslow, 1970. Reprinted by permission of Harper & Row Inc.)

Figure 6.4 **Maslow's hierarchy of needs**

situation may act quite differently because they perceive the situation differently. Anna Flores might consider a fast-talking camera salesperson loud and false. Another camera buyer might consider the same salesperson intelligent and helpful.

Why do people perceive the same situation differently? All of us learn by the flow of information through our five senses: sight, hearing, smell, touch and taste. However, each of us receives, organizes and interprets this sensory information in an individual way. Thus **perception** is the process by which people select, organize and interpret information to form a **meaningful** picture of the world.

perception
The proeeKS by which people select, organise and interpret inf'ormntiun to form a meaningful pic tun of the world.

People can form different perceptions of the same stimulus because of three perceptual processes: selective attention, selective distortion and selective retention.

SELECTIVE **ATTENTION.** People are exposed to a great number of stimuli every day. For example, the average person may be exposed to more than 1,500 ads a day. It is impossible for a person to pay attention to all these stimuli and some studies show people remembering only three or four.[23] Selective **attention** - the tendency for people to screen out most of the information to which they are exposed - means that marketers have to work especially hard to attract the consumer's attention. Their message will be lost on most people who are not in the market for the product. Moreover, even people who are in the market may not notice the message unless it stands out from the surrounding sea of other ads.

selective attention
The tendency of people to screen out most of the information to which they are exposed.

SELECTIVE DISTORTION. Even noted stimuli do not always come across in the intended way. Each person fits incoming information into an existing mind-set. Selective **distortion** describes the tendency of people to adapt information to personal meanings. Anna Flores may hear the salesperson mention some good anil bad points about a competing camera brand. Because she already has a strong leaning towards Nikon, Olympus or Polaroid, she is likely to distort those points in order to conclude that one camera is better than the others. People tend to interpret information in a way that will support what they already believe. Selective distortion means that marketers must try to understand the mind-sets of consumers and how these will affect interpretations of advertising and sales information:

selective distortion
The tendency of people to adapt information to personal meanings.

Selected attention-, the average person is expound to more *than 1500 ads per day - in magazines and newspapers, on radio and TV, and ail around them.*



Cathay Pacific, the Hong Kong-based airline, found out that although Caucasians saw Cathay as an Asian airline, Asians perceived the airline as being well managed and safe, but not Asian. Seeing their future in Asia where 80 per cent of their passengers came from, Cathay wants to change their view. Peter Sutch, Cathay's chairman, explains their new livery: 'We wanted something Asian in appearance: we wanted a quality look with an Asian flavour.' The airline now offers a wide range of Asian meals and communicates in many Asian languages. In-flight information is now in Japanese, Korean, Mandarin and Cantonese as well as English.[2<>]

selective retention
The tendency ofpeople to retain only part of the information to -which they are exposed, usually information that supports their attitudes or beliefs.

SELECTIVE RETENTION. People will also forget much of what they learn. They tend to retain information that supports their attitudes and beliefs. Because of selective retention, Anna is likely to remember good points made about the Nikon and forget good points made about competing cameras. She may remember Nikon's good points because she 'rehearses' them more whenever she thinks about choosing a camera.

Because of selective exposure, distortion and retention, marketers have to work hard to get their messages through. This fact explains why marketers use so much drama and repetition in sending messages to their market. Although some consumers are worried that they will be affected by marketing messages without even knowing it, most marketers worry about whether their offers will be perceived at all.[37]

• *Learning*

learning
Changes in an individual's behaviour arising from experience.

When people act, they learn. Learning describes changes in an individual's behaviour arising from experience. Learning theorists say that most human behaviour is learned. Learning occurs through the interplay ofdrfoeS, *stimuli, cues, responses* and *reinforcement.*

We saw that Anna Flores has a drive for self-actualization. A *drive* is a strong internal stimulus that calls for action. Her drive becomes a motive when it is directed towards a particular *stimulus object* - in this case, a camera. Anna's

response to the idea of buying a camera is conditioned by the surrounding cues. Cues are minor stimuli that determine when, where and how the person responds. Seeing, eameras in a shop window, hearing a special sale price, and her husband's support are all cues that ean influence Anna's *response* to her interest in buying a camera.

Suppose Anna buys die Nikon. If the experience is rewarding, she will probably use the camera more and more. Her response to cameras will be *reinforced.* Then the next time she shops for a camera, binoculars or some similar product, Che probability is greater that she will buy a Nikon product. We say that she *generalises* her response to similar stimuli.

The reverse of generalization is *discrimination.* When Anna examines binoculars made by Olympus, she sees that they are lighter and more compact than Nikon's binoculars. Discrimination means that she has learned to recognize differences in sets of products and can adjust her response accordingly.

The practical significance of learning theory for marketers is that they can build up demand for a product by associating it with strong drives, using motivating cues and providing positive reinforcement. A new company can enter the market by appealing to the same drives that competitors appeal to and by providing similar cues, because buyers are more likely to transfer loyalty to similar brands than to dissimilar ones (generalization). Or a new company may design its brand to appeal to a different set of drives and offer strong cue inducements to switch brands (discrimination).

Beliefs and Attitudes

Through doing and learning, people acquire their beliefs and attitudes. These, in turn, influence their buying behaviour. A belief is a descriptive thought that a person lias about something. Anna Flores may believe that a Nikon camera takes great pictures, stands up well under hard use and is good value. These beliefs may be based on real knowledge, opinion or faith, and may or may not carry an emotional charge. For example, Anna Flores' belief that a Nikon camera is heavy may or may not matter to her decision.

belief
A descriptive thought that a person holds (ibniit something.

Marketers are interested in the beliefs that people formulate about specific products and services, because these beliefs make up product and brand images that affect buying behaviour. If some of the beliefs are wrong and prevent purchase, the marketer will want to launch a campaign to correct them.

People have attitudes regarding religion, politics, clothes, music, food and almost everything else. An attitude describes a person's relatively consistent evaluations, feelings and tendencies towards an object or idea. Attitudes put people into a frame of mind of liking or disliking things, of moving towards or away from them. Thus Anna Flores may hold such attitudes as 'Buy the best', The Japanese make the best products in the world' and 'Creativity and self-expression are among the most important things in life'. If so, the Nikon camera would fit well into Anna's existing attitudes.

attitude
A 'person's consistently favourable or

evaluations, feelings and tendencies towards an object or *idea.*

Attitudes are difficult to change. A person's attitudes fit into a pattern and to change one attitude may require difficult adjustments in many others. Thus a company should usually try to fit its products into existing attitudes rather than try to change attitudes. Of course, there are exceptions in which the great cost of trying to change attitudes may pay off. For example:

> In the late 1950s, Honda entered the US motorcycle market facing a major decision. It could either sell its motorcycles to the small but already established motorcycle market or try to increase the size of this market by attracting new types of consumer. Increasing the size of the

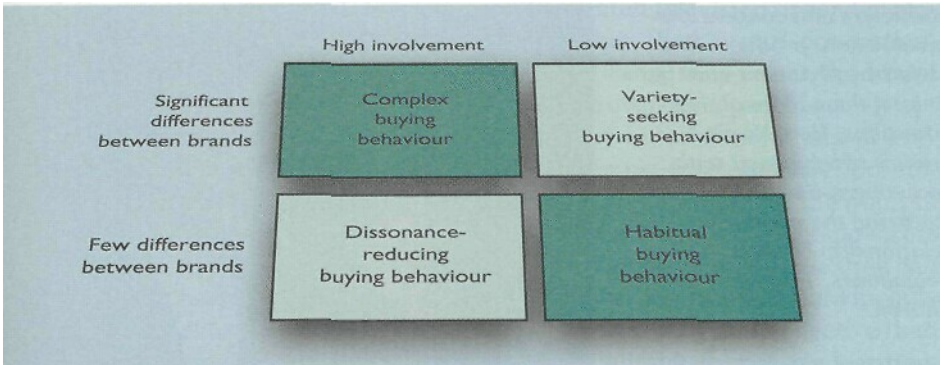
Attitudes are hard to change, but it can be done. Honda's classic 'You meet the nicest people on a Honda' campaign changed people's attitudes about who rides motorcycles.



market would he more difficult and expensive because many people had negative attitudes toward motorcycles. They associated motorcycles with black leather jackets, switchblades and outlaws. Despite these adverse attitudes, Honda took the second course of action. It launched a major campaign to position motorcycles as good clean fun. Its theme 'You meet the nicest people on a Honda' worked well and many people adopted a new attitude toward motorcycles. In the 1990s, however, Honda faces a similar problem. With the ageing of the baby boomers, the market has once again shifted toward only hard-core motorcycling enthusiasts. *So* Honda has again set out to change consumer attitudes. Its 'Come Ride With Us' campaign aims to re-establish the wholcsomeness of **motorcycling** and to position it as fun and exciting for everyone.[28]

Consumer Decision Process

The consumer's choice results from the complex interplay of cultural, social, personal and psychological factors. Although the marketer cannot influence many of these factors, they can be useful in identifying interested buyers and in shaping products and appeals to serve their needs better. Marketers have to bd extremely careful in **analyzing** consumer behaviour. Consumers often turn down what appears to be a winning offer. Polaroid found this out when it lost millions on its Polarvision instant home movie system; Ford when it launched the Edsel; RCA on its Selecta-Vision and Philips on its LaserVision video-disc player; Sony with DAT tapes; and Bristol with its trio of the Brabazon, Britannia and Concorde airliners. So far we have looked at the cultural, social, personal and psychological



(SOURCE: Adapted from Henry Assael, *Consumer Behaviour and Marketing Action* (Boston, MA: Kent Publishing Company, 1987), p. 87. © Wadsworth Inc. 1987. Reprinted by permission of Kent Publishing Company, a division of Wadsworth Inc.)

Figure 6.5 **Four types of buying behaviour**

influences that affect buyers. Now we look at how consumers make buying decisions: first, the types of decision that consumers face; then the main steps in the buyer decision process; and finally, the processes by which consumers learn about and buy new products.

Types of Buying Decision Behaviour

Consumer decision making varies with the type of buying decision. Consumer buying behaviour differs greatly for a tube of toothpaste, a tennis racket, an expensive camera and a new car. More complex decisions usually involve more buying participants and more buyer deliberation. Figure 6.5 shows types of consumer buying behaviour based on the degree of buyer involvement and the degree of differences among brands.[2][1]

Complex Buying Behaviour

complex buying behaviour
Consumer *buying behaviour in situations characterised by high* consumer *involvement in a purchase and significant perceived differences among brands.*

Consumers undertake complex buying behaviour when they are highly involved in a purchase and perceive significant differences among brands, or when the product is expensive, risky, purchased infrequently and highly self-expressive. Typically, the consumer has much to learn about the product category. For example, a personal computer buyer may not know what attributes to consider. Many product features carry no real meaning; an 'Intel 200MIIz Pentium II Pro', 'SVGA display', '16Mb Sync DRAM, 256 Kb Cache' or even a '16X Max CD-ROM with 33.6 RPS fax/data (upgradeable to 56K)'.

This buyer will pass through a learning process, first developing beliefs about the product, then developing attitudes, and then making a thoughtful purchase choice. Marketers of high-involvement products must understand the information-fathering and evaluation behaviour of high-involvement consumers. They need to help buyers learn about product-class attributes and their relative importance and about what the company's brand offers on the important attributes. Marketers need to differentiate their brand's features, perhaps by describing the



Marketers can convert low-involvernent products into higher-involvement ones by linking them to involving situations. Hurt: Nestlil creates involvement with soap-opera-like ads featuring the romantic relationship between two neighbours, Tony and Sharon.

brand's benefits using print media with long copy. They must motivate store sales-people and the buyer's acquaintances to influence the final brand choice. Recognizing this problem, Dixons, the electrical retailers, is setting up the Link chain of stores dedicated to helping baffled buyers on to the information super-highway and multimedia.[311]

Dissonance-Reducing Buying Behaviour

dLssuna nee-reducing **buying behaviour** *Consumer buying behaviour in situations characterised by high involvement butfe'w perceived differences among brands.*

Dissonance-reducing buying behaviour occurs when consumers are highly involved with an expensive, infrequent or risky purchase, but see little difference among brands. For example, consumers buying carpeting may face a high-involvement decision because carpeting is expensive and self-expressive. Yet buyers may consider most carpet brands in a given price range to be the same. In this case, because perceived brand differences are not large, buyers may shop around to learn what is available, but buy relatively quickly. They may respond primarily to a good price or to purchase convenience. After the purchase, consumers might experience post-purchase dissonance (after-sales discomfort) when they notice certain disadvantages of the purchased carpet brand or hear favourable things about brands not purchased. To counter such dissonance, the marketer's after-sale communications should provide evidence and support to help consumers feel good both before and after their brand choices.[31]

Habitual Buying Behaviour

habitual buying behaviour *Consumer buying behaviour in situations characterised by low consumer involvement and few significant perceived brand differences.*

Habitual buying behaviour occurs under conditions of low consumer involvement and little significant brand difference. For example, take salt. Consumers have little involvement in this product category - they simply go to the store and reaeh for a brand. If they keep reaching for the same brand, it is out of habit rather than strong brand loyalty. Consumers appear to have low involvement with most low-cost, frequently purchased products.

Consumers do not search extensively for information about the brands, evaluate brand characteristics and make weighty decisions about which brands to buy.

Instead, they passively receive information as they watch television or read magazines. Ad repetition creates *brand familiarity* rather than *brand* conviction. Consumers do not form strong attitudes towards a brand; they select the brand because it is familiar and may not evaluate the choice even after purchase.

Because buyers arc not highly committed to any brands, marketers of low-involvement products with few brand differences often use price and sales promotions to stimulate product trial. Gaining distribution and attention at the point of sale is critical. In advertising for a low-involvement product, ad copy should stress only a few key points. Visual symbols and imagery are important because they can be remembered easily and associated with the brand. Ad campaigns should include high repetition of short-duration messages. Television is usually more effective than print media because it is a **low-Involvement** medium suitable for passive learning. Advertising planning should be based on classical conditioning theory, in which buyers learn to identify a certain product, by a symbol repeatedly attached to it.

Products can be linked to some involving personal situation. Nestle did this in a recent series of ads for Gold Blend coffee, each consisting of a new soap-opera-like episode featuring the evolving romantic relationship between neighbours, Sharon and Tony. Nestie's success in doing this contrasts with the tea market in the United Kingdom where, although it is the national drink, sales promotions dominate sales.

Variety-Seeking Buying Behaviour

varicty-seeking buying behaviour *Consumer buying bdiaviour in situations characterized by low consumer involvement, but significant perceived brand differences.*

Consumers undertake **variety**-seeking buying behaviour in situations characterized by low consumer involvement, but significant perceived brand differences. In such cases, consumers often do a lot of brand switching. For example, when purchasing biscuits, a consumer may hold some beliefs, choose a biscuit without much evaluation, then evaluate that brand during consumption. But the next time, the consumer might pick another brand out of boredom or simply to try something different. Brand switching occurs for the sake of variety rather than because of dissatisfaction.

In such product categories, the marketing strategy may differ for the market leader and minor brands. The market leader will try to encourage habitual buying behaviour by dominating shelf space, avoiding out-of-stock conditions and running frequent reminder advertising. Challenger firms will encourage variety seeking by offering lower prices, deals, coupons, free samples and advertising that presents reasons for trying something new.

The Buyer Decision Process

Most large companies research consumer buying decisions in great detail to answer questions about what consumers buy, where they buy, how and how much they buy, when they buy and why they buy. Marketers can study consumer purchases to find answers to questions about what they buy, where and how much. But learning about the *whys* of consumer buying behaviour and the buying decision process is not so easy - the answers are often locked within the consumer's head.

We will examine the stages that buyers pass through to reach a buying decision. We will use the model in Figure 6.6, which shows the consumer as passing through five stages: *need recognition, information search, evaluation of alternatives,* purchase *decision* and *postpurchase behaviour.* Clearly the buying process starts long before actual purchase and continues long after. This encourages

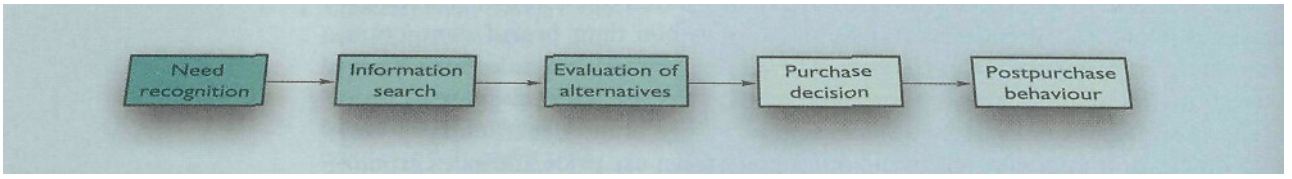


Figure 6.6 **Buyer decision process**

the marketer to focus on the entire buying process rather than just the purchase **decision.**

This model implies that consumers pass through all five stages with every purchase. But in more routine purchases, consumers often skip or reverse some of these stages. A woman buying her regular brand of toothpaste would recognize the need and go right to the purchase decision, skipping information search and evaluation. However, we use the model in Figure 6.6 because it shows all the considerations that arise when a consumer faces a new and complex purchase situation.

To illustrate this model, we return to Anna Flores and try to understand how she became interested in buying a camera and the stages she went through to make the final choice.

Need **Recognition**

need recognition *The first stage of the buyer decision* process *in which the consumer recognizes a problem or need.*

The buying process starts with need **recognition** - the buyer recognizing a problem or need. The buyer senses a difference between his or her *actual* state and some *desired* state. The need can be triggered by *internal stimuli* when one of the person's normal needs - hunger, thirst, sex - rises to a level high enough to become a drive. From previous experience, the person has learned how to cope with this drive and is motivated towards objects that he or she knows will satisfy it.

A need can also be triggered by *external stimuli.* Anna passes a bakery and the smell of freshly baked bread stimulates her hunger; she admires a neighbours new car; or she watches a television commercial for a Caribbean vacation. At this stage, the marketer needs to determine the factors and situations that usually trigger consumer need recognition. The marketer should research consumers to find out what kinds of need or problem arise, what brought them about and how they led the consumer to this particular product. Anna might answer that she felt she needed a camera after friends showed her the photographs they took on holiday. By gathering such information, the marketer can identify the stimuli that most often trigger interest in the product and can develop marketing programmes that involve these stimuli.

information searoli *The stage of the buyer decision process in which the consumer is aroused to search for more information; the consumer may simply Itave heightened attention or may go into active information search.*

Information Search

An aroused consumer may or may not search for more information. If the consumer's drive is strong and a satisfying product is near at hand, the consumer is likely to buy it then. If not, the consumer may simply store the need in memory or undertake an **information** search related to the need.

At one level, the consumer may simply enter *heightened attention.* Here Anna becomes more receptive to information about cameras. She pays attention to camera ads, cameras used by friends and camera conversations. Or Anna may go into *active information search,* in which she looks for reading material, phones friends and gathers information in other ways. The amount of searching she does will depend upon the strength of her drive, the amount of information she starts with, the ease of obtaining more information, the value she places on additional information and the satisfaction she gets from searching. Normally the amount of consumer search activity increases as the eonsumer moves from decisions that involve limited problem solving to those that involve extensive problem solving.

The consumer can obtain information from any of several sources:

- *Personal* sources: family, friends, neighbours, acquaintances.
- *Commercial* sources: advertising, salespeople, dealers, packaging, displays.
- *Public sources:* mass media, consumer-rating organizations.
- *Experiential sources:* handling, examining, using the product.

The relative influence of these information sources varies with the product and the buyer. Generally, the consumer receives the most information about a product from commercial sources - those controlled by the marketer. The most effective sources, however, tend to be personal. Personal sources appear to be even more important in influencing the purchase of services.[32] Commercial sources normally *inform* the buyer, but personal sources *legitimize* or *evaluate* products for the buyer. For example, doctors normally learn of new drugs from commercial sources, but turn to other doctors for evaluative information.

As more information is obtained, the consumer's awareness and knowledge of the available brands and features increases. In her information search, Anna learned about the many camera brands available. The information also helped her drop certain brands from consideration. A company must design its marketing mix to make prospects aware of and knowledgeable about its brand. If it fails to do this, the company has lost its opportunity to sell to the customer. The company must also learn which other brands customers consider so that it knows its competition and can plan its own appeals.

The marketer should identify consumers' sources of information and the importance of each source. Consumers should be asked how they first heard about the brand, what information they received and the importance they place on different information sources.

Evaluation of Alternatives

We have seen how the consumer uses information to arrive at a set of final brand choices. How does the consumer choose among the alternative brands? The marketer needs to know about alternative evaluation - that is, how the consumer processes information to arrive at brand choices. Unfortunately, consumers do not use a simple and single evaluation process in all buying situations. Instead, several evaluation processes are at work.

alternative evaluation *The stage ofthe buyer decision process in which the consumer uses information to evaluate alternative brands in the choice set.*

Certain basic concepts help explain consumer evaluation processes. First, we assume that each consumer is trying to satisfy some need and is looking for certain *benefits* that can be acquired by buying a product or service. Further, each consumer sees a product as a bundle of *product attributes* with varying capacities for delivering these benefits and satisfying the need. For cameras,

product attributes might include picture quality, ease of use, camera size, price and other features. Consumers will vary as to which of these attributes they consider relevant and will pay the most attention to those attributes connected with their needs.

Second, the consumer will attach different *degrees of importance* to each attribute. A distinction can be drawn between the importance of an attribute and its saiience. *Salient attributes* are those that come to a consumer's mind when he or she is asked to think of a product's characteristics. But these are not necessarily the most important attributes to the consumer. Some of them may be salient because the consumer has just seen an advertisement mentioning them or has had a problem with them, making these attributes 'top-of-the-mind'. There may also be other attributes that the consumer forgot, but whose importance would he recognized if they were mentioned. Marketers should be more concerned with attribute importance than attribute salience.

Third, the consumer is likely to develop a set of *brand beliefs* about where each brand stands on each attribute. The set of beliefs held about a particular brand is known as the brand image. The consumer's beliefs may vary from true attributes based on his or her experience and the effect of selective perception, selective distortion and selective retention.

brand image
The set of beliefs tliac consumers hold about a particular brand.

Fourth, the consumer is assumed to have a *utility function* for each attribute. The utility function shows how the consumer expects total product satisfaction to vary with different levels of different attributes. For example, Anna may expect her satisfaction from a camera to increase with better picture duality; to peak with a medium-weight camera as opposed to a very light or very heavy one; to be a compact 35 mm camera rather than a single lens reflex camera with interchangeable lenses. If we combine the attribute levels at which her utilities are highest, they make up Anna's ideal camera. The camera would also be her preferred camera if it were available and affordable.

Fifth, the consumer arrives at attitudes towards the different brands through some *evaluation procedure.* Consumers have been found to use one or more of several evaluation procedures, depending on the consumer and the buying decision.

In Anna's camera-buying situation, suppose she has narrowed her choice set to four cameras: Nikon AF400. Olympus Superzoom 110, Pcntax Espio Jr. and Ricoh RW1. In addition, let us say she is interested primarily in four attributes - picture quality, ease of use, camera size and price. Table 6,5 shows how she believes each brand rates on each attribute.[3-1] Anna believes the Nikon will give her picture quality of 8 on a 10-point scale; is easy to use, 8; is of medium size, 9; and is very inexpensive, 10. Similarly, she has beliefs about how the other cameras rate on these attributes. The marketer would like to be able to predict which camera Anna will buy.

Clearly, if one camera rated best on all the attributes, we could predict that Anna would choose it. But the brands vary in appeal. Some buyers will base their buying decision on only one attribute and their choices are easy to predict. If Anna wants low price above everything, she should buy the Nikon, whereas if she wants the camera that is easiest to use, she could buy either the Olympus or the Pentax.

Most buyers consider several attributes, but assign different importance to each. If we knew the importance weights that Anna assigns to the four attributes, we eould predict her camera choice more reliably. Suppose Anna assigns 40 per cent of the importance to the camera's picture quality, 30 per cent to ease of use, 20 per cent to its size and 10 per cent to its price. To find Anna's perceived value for each camera, we can multiply her importance weights by her beliefs about each camera. This gives us the following perceived values:

Table 6.5 A consumer's brand **beliefs** about cameras

	ATTRIBUTE			
CAMERA	PICTURE QUALITY	EASE OF USE	CAMERA SIZE	PRICE
Nikon	8	8	9	10
Olympus	8	10	7	4
Pentax	8	10	9	6
Ricoh	6	8	9	8

Nikon = 0.4(8) + 0.3(8) + 0.2(9) + 0.1(10) = 8.4
Olympus = 0.4(8") + 0.3(10) + 0.2(7) + 0.1(4) = 8.0
Pentax = 0.4(8) + 0.3(10) + 0.2(9) + 0.1(6) = 8.6
Ricoh = 0.4(6) + 0.3(8) + 0.2(9) + 0.1(8) = 7.4

We would predict that Anna will favour the Pentax.

This model is called the *expectancy value model* of consumer choice.[31] This is one of several possible models describing how consumers go about evaluating alternatives. Consumers might evaluate a set of alternatives in other ways. For example, Anna might decide that she should consider only cameras that satisfy a set of minimum attribute levels. She might decide a camera must have a superzoom lens. In this case, we would predict that she would choose Olympus because it is the only one that satisfies that requirement. This is called the *conjunctive model* of consumer choice. Or she might decide that she would settle for a camera that had a picture quality greater than 7 *or* ease of use greater than 9. In this case, the Nikon, Olympus or the Pentax would do, since they all meet at least one of the requirements. This is called the *disjunctive mode!* of consumer choice.

Row consumers go about evaluating purchase alternatives depends on the individual consumer and the specifie buying situation. In some cases, consumers use careful calculations and logical thinking. At other times, the same consumers do little or no evaluating; instead they buy on impulse and reiy on intuition. Sometimes consumers make buying decisions on their own; sometimes they turn to friends, consumer guides or salespeople for buying advice.

Marketers should study buyers to find out how they actually evaluate brand alternatives. If they know what evaluative processes go on, marketers can take steps to influence the buyer's decision. Suppose Anna is now inclined to buy a Pentax camera because of its ease of use and lightness. What strategies might another camera maker, say Olympus, use to influence people like Anna? There are several. Olympus could modify its camera to produce a version that has fewer features, but is lighter and cheaper. It could try to change buyers' beliefs about how its camera rates on key attributes, especially if consumers currently underestimate the camera's qualities. It could try to change buyers' beliefs about Pentax and other competitors. Finally, it could try to change the list of attributes that buyers consider or the importance attached to these attributes. For example, it might advertise that all good cameras need a superzoom lens to get the picture quality that active people like Anna want.

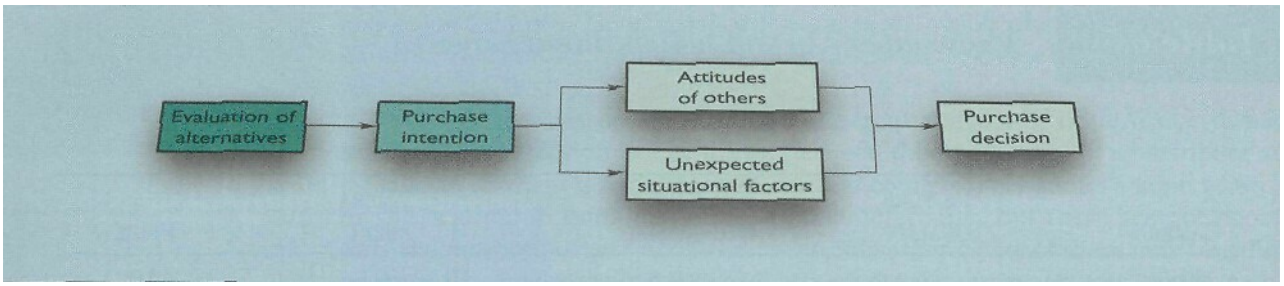


Figure 6.7 Steps between **evaluation** of alternatives and a purchase derision

Purchase Decision

purchase decision
The stage of the buyer decision process in which the consumer actually buys the product.

In the evaluation stage, die consumer ranks brands and forms purchase intentions. Generally, the consumer's purchase decision will be to buy the most preferred brand, but two factors, shown in Figure 6.7, ean come between the purchase intension and the purchase *decision.* The first factor is the *attitudes of others.* For example, if Anna Flores' husband feels strongly that Anna should buy the lowest-priced camera, then the chance of Anna buying a more expensive camera is reduced. lie may like the specification of the Pentax, but be offended by its name being Espio Jr (junior). How much another person's attitudes will affect Anna's choices depends both on the strength of the other person's attitudes towards her buying decision and on Anna's motivation to comply with that person's wishes.

Purchase intention is also influenced by *unexpected situationalfactors.* The consumer may form a purchase intention based on factors such as expected family income, expected price and expected benefits from the product. When the consumer is about to act, unexpected situation;)! factors may arise to change the purchase intention. Anna may lose her job, some other purchase may become more urgent or a friend may report being disappointed in her preferred camera. Thus preferences and even purchase intentions do not always result in actual purchase choice. They may direct purchase behaviour, but may not fully determine the outcome.

A consumer's decision to change, postpone or avoid a purchase decision is influenced heavily by *perceived risk.* Many purchases involve some risk taking.[35] Anxiety results when consumers cannot be certain about the purchase outcome. The amount of perceived risk varies with the amount of money at stake, the amount of purchase uncertainty and die amount of consumer self-confidence. A consumer takes certain actions to reduce risk, such as avoiding purchase decisions, gathering more information and looking for national brand names and products with warranties. The marketer must understand the factors that provoke feelings of risk in consumers and must provide information arid support that will reduce the perceived risk.

postpurchase **behaviour**
The stage of the buyer decision, process *in which consumers take further action after purchase based on their satisfaction or dissaiis/iietion.*

Postpurchase Behaviour

The marketer's job does not end when the product is bought. After purchasing the product, the consumer will be satisfied or dissatisfied and will engage in postpurehase behaviour of interest to the marketer. What determines whether the buyer is satisfied or dissatisfied with a purchase? The answer lies in the relationship between the *consumer's expectations* and the product's *perceived performance.* If the product

falls short of expectations, the consumer is disappointed; if it meets expectations, the consumer is satisfied; if it exceeds expectations, the consumer is delighted.

Consumers base their expectations on messages they receive from sellers, friends and other information sources. If the seller exaggerates the product's performance, consumer expectations will not be met - a situation that leads to dissatisfaction. The larger the gap between expectations and performance, the greater the consumer's dissatisfaction. This fact suggests that the seller should make product claims that represent faithfully the product's performance so that buyers are satisfied.

Motoring organizations regularly give pessimistic quotes about how long they will take to reach a customer whose car breaks down. If they say they will be 30 minutes and get there in 20, the customer is impressed. If, however, they get there in 20 minutes after promising 10, the customer is not so happy.

cognitive dissonance
Buyer discomfort caused by postpurchase conflict.

Almost all large purchases result in cognitive dissonance or discomfort caused by postpurchase conflict. Consumers are satisfied with the benefits of the chosen brand and glad to avoid the drawbacks of the brands not purchased. On the other baud, every purchase involves compromise. Consumers feel uneasy about acquiring the drawbacks of the chosen brand and about losing the benefits of the brands not purchased. Thus consumers feel at least some postpurchase dissonance for every purchase.-[1'1]

Why is it so important to satisfy the customer? Such satisfaction is important because a company's sales come from two basic groups - *new* customers *and repeat* customers. Tt usually costs more to attract new customers than to retain current ones. Keeping current customers is therefore often more critical than attracting new ones, and the best way to do this is to make current customers happy. A satisfied customer buys a product again, talks favourably to others about the product, pays less attention to competing brands and advertising, and buys other products from the company. Many marketers go beyond merely *meeting* the expectations of customers - they aim to *delight* the customer. A delighted customer is even more likely to purchase again and to talk favourably about the product and company.

A dissatisfied consumer responds differently. Whereas, on average, a satisfied customer tells three people about a good product experience, a dissatisfied customer gripes to 11 people. In fact, one study showed that 13 per cent of the people who had a problem with an organization complained about that company to more than 20 people.[^7] Clearly, bad word of mouth travels farther and faster than good word of mouth and can quickly damage consumer attitudes about a company and its products.

Therefore, a company would be wise to measure customer satisfaction regularly. It cannot simply rely on dissatisfied customers to volunteer their complaints when they are dissatisfied. In fact, 96 per cent of unhappy customers never tell the company about their problem. Companies should set up suggestion systems to encourage customers to complain. In this way, the company can learn how well it is doing and how it can improve. The 3M Company claims that over two-thirds of its new-product ideas come from listening to customer complaints. But listening is not enough - the company must also respond constructively to the complaints it receives.

Thus, in general, dissatisfied consumers may try to reduce their dissonance by taking any of several actions. In the case of Anna - a Pentax purchaser - she may return the camera, or look at Pentax ads that tell of the camera's benefits, or talk with friends who will tell her how much they like her new camera. She may even avoid reading about cameras in case she finds a better deal than she got.

Beyond seeking out and responding to complaints, marketers can take additional steps to reduce consumer postpurchase dissatisfaction and to help

customers feel good about their purchases. For example, Toyota writes or phones new car owners with congratulations on having selected a fine car. It places ads showing satisfied owners talking about their new cars ('I love what you do for me, Toyota!'). Toyota also obtains customer suggestions for improvements and lists the locations of available services.

Understanding the consumer's needs and buying process is the foundation of successful marketing. By understanding how buyers go through need recognition, information search, evaluation of alternatives, the purchase decision and post-purchase behaviour, the marketer can pick up many clues as to how to meet the buyer's needs. By understanding the various participants in the buying process and the strongest influences on their buying behaviour, the marketer can develop an effective programme to support an attractive offer to the target market.

The Buyer Decision Process for New Products

We have looked at the stages that buyers go through in trying to satisfy a need. Buyers may pass quickly or slowly through these stages and some of the stages may even be reversed. Much depends on the nature of the buyer, the product and the buying situation.

new product
A good, service or *idea that* is *perceived by some potential* customers *as new.*

adoption process
The mental process *through -which an individual passes from first hearing about an innovation to,final adoption.*

adoption
The decision by an individual to become a regular user tit the product.

We now look at how buyers approach the purchase of new products. A new product is a good, service or idea that is perceived by some potential customers as new. It may have been around for a while, but our interest is in how consumers learn about products for the first time and make decisions on whether to adopt them. We define the adoption process as "the mental process through which an individual passes from first learning about an innovation to final adoption',[38] and adoption as the decision by an individual to become a regular user of the product.

Stages in the Adoption Process

Consumers go through five stages in the process of adopting a new product:

1. *Aiaareness.* The consumer becomes aware of the new product, but lacks information about it.
2. *Interest.* The consumer seeks information about the new product.
3. *Evaluation.* The consumer considers whether trying the new product makes sense.
4. *Trial.* The consumer tries the new product on a small scale to improve his or her estimate of its value.
5. *Adoption.* The consumer decides to make full and regular use of the new product.

This model suggests that the new-product marketer should think about how to help consumers move through these stages. A manufacturer of large-screen televisions may discover that many consumers in the interest stage do not move to the trial stage because of uncertainty and the large investment. If these same consumers would be willing to use a large-screen television on a trial basis for a small fee, the manufacturer should consider offering a trial-use plan with an option to buy.



Clothes store Wallis use shack tactics *to get attention and to apjieal to their younger* customers *who are clearly not men.*

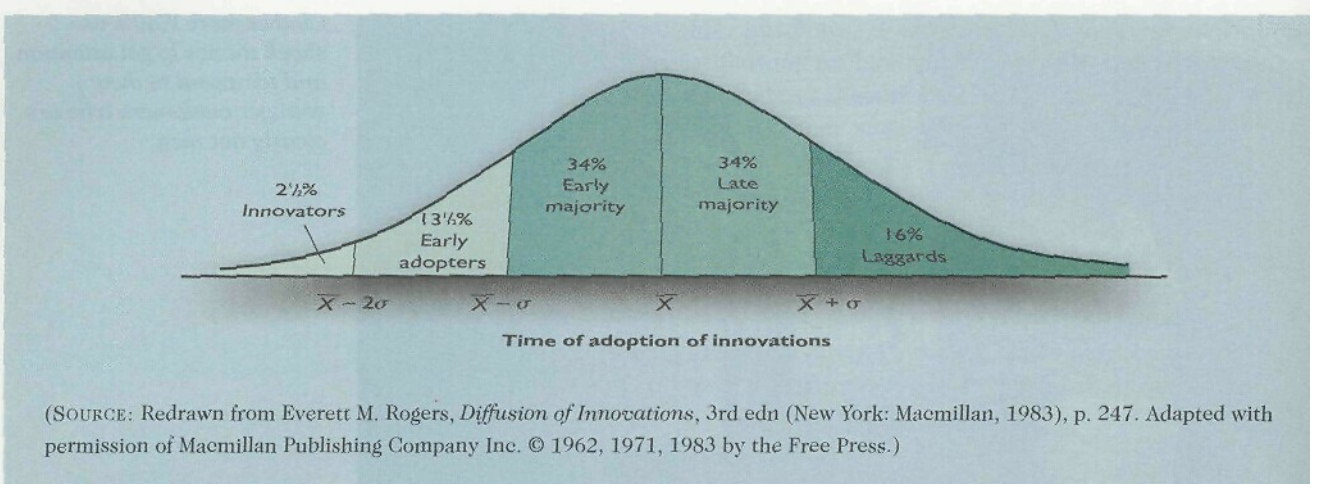
Individual Differences in Innovativcncss

People differ greatly in their readiness to try new products. In each product area, there are 'consumption pioneers' and early adopters. Other individuals adopt new products much later This has led to a classification of people into the adopter categories shown in Figure 6.8.

After a slow start, an increasing number of people adopt the new product. The number of adopters reaches a peak and then drops off as fewer non-adopters remain. Innovators arc defined as the first 2.5 per cent of the buyers to adopt a new idea (those beyond two standard deviations from mean adoption time); the early adopters are the next 13.5 per cent (between one and two standard deviations); and so forth.

The five adopter groups have differing values. *Innovators* are adventurous: they try new ideas at some risk. *Early adopters* are guided by respect: they are opinion leaders in their community and adopt new ideas early but carefully. The *early majority* is deliberate: although they are rarely leaders, they adopt new ideas before the average person. The *late majority* is sceptical: they adopt an innovation only after most people have tried it. Finally, *laggards* are tradition hound: they are suspicious of changes and adopt the innovation only when it has become something of a tradition itself.

This adopter classification suggests that an innovating firm should research the characteristics of innovators and early adopters and should direct marketing efforts to them. For example, home computer innovators have been found to be middle-aged and higher in income and education than non-innovators and they tend to be opinion leaders. They also tend to be more rational, more introverted and less social. In general, innovators tend to be relatively younger, better educated and higher in income than later adopters and non-adopters. They are more receptive to unfamiliar things, rely more on their own values and judgement, and are more willing to take risks. They are less brand loyal and more likely to take advantage of special promotions such as discounts, coupons and samples.[3]



(SOURCE: Redrawn from Everett M. Rogers, *Diffusion of Innovations*, 3rd edn (New York: Macmillan, 1983), p. 247. Adapted with permission of Macmillan Publishing Company Inc. © 1962, 1971, 1983 by the Free Press.)

Figure 6.8 **Adopter categorization on (he basis of relative time of adoption of innovations**

opinion leaders
People -within a reference group who, because of special skills, knowledge, personality or other characteristics, exert influence on others.

Manufacturers of products and brands subject to strong group influence must find out how to reaeh the opinion leaders in the relevant reference groups. Opinion leaders are people within a reference group who, because of special skills, knowledge, personality or other characteristics, exert influence on others. Opinion leaders are found in all strata of society and one person may be an opinion leader in certain product areas and an opinion follower in others. Marketers try to identify the personal characteristics of opinion leaders for the products, determine what media they use and direct messages at them. In some cases, marketers try to identify opinion leaders for their products and direct marketing efforts towards them. This often occurs in the music industry, where clubs and radio DJs are influential. In other cases, advertisements can simulate opinion leadership, showing informal discussions between people and thereby reducing the need for consumers to seek advice from others. For example, in a recent ad for Herrera for Men cologne, two women discuss the question, 'Did you ever notice how good he smells?' The reason? 'He wears the most wonderful cologne.'[4]"

If Anna Flores buys a camera, both the product and the brand will be visible to others whom she respects. Her decision to buy the camera and her brand choice may therefore be influenced strongly by opinion leaders, such as friends who belong to a photography club.

RoJc of Personal Influence

personal influence
The effect of statements made !>y one person on (mother's attitude or probability ofpurchu.se.

Personal influence plays a distinctive role in the adoption of new products. Personal influence describes the effect of statements made by one person on another's attitude or probability of purchase. Consumers consult each other for opinions about new products and brands, and the advice of others can strongly influence buying behaviour.

Personal influence is more important in some situations and for some individuals than for others. Personal influence is more important in the evaluation stage of the adoption process than in the other stages; it has more influence on later adopters than on early adopters; and it is more important in risky buying situations than in safe situations.

Influence of Product Characteristics on Rate of Adoption

The characteristics of the new product affect its rate of adoption. Some products catch on almost overnight (Virtual Pets), whereas others take a long time to gain acceptance (Digital TV). Five characteristics are especially important in influencing an innovation's rate of adoption. For example, consider the characteristics of the MiniDisc in relation to the rate of adoption:

- *Relative advantage:* the degree to which the innovation appears superior to existing products. The greater the perceived relative advantage of using a MiniDisc over a cassette - say, it does not tangle or lose quality - the sooner MiniDiscs will be adopted.
- *Compatibility:* the degree to which the innovation fits the values and experiences of potential consumers. MiniDiscs, for example, are highly compatible with an active lifestyle.
- *Complexity:* the degree to which the innovation is difficult to understand or use. CDs have already introduced customers to the benefits of digital recordings, so the idea no longer seems complex.
- *Divisibility:* the degree to which the innovation may be tried on a limited basis. MiniDiscs have a problem here. They require a big investment if people are to replace their in-home, in-car and on-street music systems. And what if the technology changes again?
- *Gommunicability:* the degree to which the results of using the innovation can be observed or described to others. The benefits of MiniDiscs are easy to demonstrate on a hi-fi system, but are the differences big enough to show in a car or Walkman?

Other characteristics influence the rate of adoption, such as initial and ongoing costs, risk and uncertainty, social approval and the efforts of opinion leaders. The new-product marketer has to researcli all these factors when developing the new product and its marketing programme.

Consumer Behaviour Across International Borders

Understanding consumer behaviour is difficult enough for companies marketing in a single country. For companies operating in many countries, however, understanding and serving the needs of consumers is daunting. Although consumers in different countries may have some things in common, their values, attitudes, and behaviours often vary greatly. International marketers must understand such differences and adjust their products and marketing programmes accordingly.

Sometimes the differences are obvious. For example, in the UK, where most people eat cereal regularly for breakfast, Kellogg focuses its marketing on persuading consumers to select a K.ellogg's brand rather than a competitor's brand. In France, however, where most people prefer croissants and coffee or no breakfast at all, Kellogg's advertising simply attempts to convince people that they should eat cereal for breakfast. Its packaging includes step-by-stcp instructions on how to prepare cereal. In India, where many consumers cat heavy, fried break-

fasts and *22* per cent of consumers skip the meal altogether, Kellogg's advertising attempts to convince buyers to switch to a lighter, more nutritious breakfast diet.[41]

Often, differences across international markets are subtler. They may result from physical differences in consumers and their environments. For example, Remington makes smaller electric shavers to fit the smaller hands of Japanese consumers; and battery-powered shavers for the British market, where some bathrooms have no electrical outlets. Other differences result from varying customs. Consider the following examples:

- Shaking your head from side to side means 'no' in most countries but 'yes' in Bulgaria and Sri Lanka.
- In South America, southern Europe and many Arab countries, touching another person is a sign of warmth and friendship. In the Orient, it is considered an invasion of privacy.
- In Norway or Malaysia, it's rude to leave something on your plate when eating; in Egypt, it's rude not to leave something on your plate.
- A door-to-door salesperson might find it tough going in Italy, where it is improper for a man to call on a woman if she is home alone.[42]

Failing to understand such differences in customs and behaviours from one country to another can spell disaster for a marketer's international products and programmes.

Marketers must decide on the degree to which they will adapt their products and marketing programmes to meet the unique cultures and needs of consumers in various markets. On the one hand, they want to standardize their offerings in order to simplify operations and take advantage of cost economies. On the other hand, adapting marketing efforts within each country results in products and programmes that better satisfy the needs of local consumers. The question of whether to adapt or standardize the marketing mix across international markets has created a lively debate in recent years.

Summan[7]

Markets have to be understood before marketing strategies can be developed. The consumer market buys goods and services for personal consumption. Consumers vary tremendously in age, income, education, tastes and other factors. Marketers must understand how consumers transform marketing and other inputs into buying responses. *Consumer behaviour* is influenced by the buyer's characteristics and by the buyer's dcei.sion process. *Buyer characteristics* include four main factors: cultural, social, personal and psychological.

Culture is the most basic determinant of a person's wants and behaviour. It includes the basic values, perceptions, preferences and behaviours that a person learns from family and other key institutions. Marketers try to track cultural shifts that might suggest new ways to serve customers. *Social classes* are subcultures whose members have similar social prestige based on occupation, income, education, wealth and other variables. People with different cultural, subculture and social class characteristics have different product and brand preferences.

Social factors also influence a buyer's behaviour. A person's *reference groups* - family, friends, social organizations, professional associations - strongly affect product and brand choices. The person's position within each group can be defined in terms of *role and status.* A buyer chooses products and brands that reflect his or her role and status.

The buyer's age, life-cycle stage, occupation, economic circumstances, lifestyle, personality and other *personal characteristics* and *psychological factors* influence his or her buying decisions. Young consumers have different needs and wants from older consumers; the needs of young married couples differ from those of retired people; consumers with higher incomes buy differently from those who have less to spend.

Before planning its marketing strategy, a company needs to understand its consumers and the decision processes they go through. The number of buying participants and the amount of buying effort increase with the complexity of the buying situation. There are three types of *buying decision behaviour: routine response behaviour, limited problem solving find extensive problem solving.*

In buying something, the buyer goes through a decision process consisting of *need recognition, information search, evaluation of alternatives, purchase decision* and *pOKtpurchase behaviour.* The marketer's job is to understand the buyers' behaviour at each stage and the influences that are operating. This allows the marketer to develop a significant and effective marketing programme for the target market. With regard to new products, consumers respond at different rates, depending on the consumer's characteristics and the prodxiet's characteristics. Manufacturers try to bring their new products to the attention of potential early adopters, particularly those with opinion leader characteristics.

A person's buying behaviour is the result of the complex interplay of all these cultural, social, personal and psychological factors. Although marketers cannot control many of these factors, they are useful in identifying and understanding the consumers that marketers are trying to influence.

Key Terms

Adoption 260
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Discussing the Issues

1. Thinking about the purchase of an audio hi-fi system, indicate die extent to which cultural, social, personal and psychological factors affect how a buyer evaluates hi-fi products and chooses a brand.
2. Describe and contrast any **differences** in the buying behaviour of consumers for the following produces: Blur's new album; a notebook computer; a pair of jogging shoes; and a breakfast cereal.

Wliy might a detailed understanding of the model of the consumer buying decision process help marketers develop more effective marketing strategies to capture and retain customers? How universal is the model? How useful is it?

4. In designing the advertising tor a soft drink, which would you find more helpful: information about consumer demographies or about consumer lifestyles? Give examples of how you would use each type of information.
5. Take, for example, a new method of contraception, which is being 'sold' to young males. It is a controversial, albeit innovative concept. Your firm is the pioneer in launching this device. What are the main factorb your firm must research when developing a marketing programme for this product?
6. It has been said that consumers' buying behaviour is shaped more by perception than by reality. Do you agree with this comment? Why or why not?

Applying the Concepts

1. Different types of product can fulfil different functional and psychological needs,
   - List five luxury products or services that are very interesting or important to you. Sonic possibilities are tars, clothing, sports equipment, cosmetics, golf club membership. List five other necessities that you use which have little interest to you, such as pens, laundry detergent or petrol.
   - Make a list of words that describe how you feel about each of the products/services listed. Are there differences between the types of word you used for luxuries and necessities? What does this tell you about the different psychological needs these products fulfil?
2. Different groups may have different types of effect on consumers,
   - Consider an item you bought which is typical of what your peers (a key reference group) buy, sueh as a compact disc, a mountain bike or a brand of athletic shoes. Were you conscious that your friends owned something similar when you made the purchase? Did this make you want the item more or less? Why or why not?
   - Now, think of brands that you currently use which your parents also use. Examples may include so;ip, shaving cream or margarine. Did you think through these purchases as carefully as those influenced by your peers or were these purchases simply the result of following old habits?

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Case 6

Bic Versus Gillette: The Disposable Wars

ABOUT HALF OF ALL WESTERN men get up each morning, confront their stubble in the bathroom mirror and reach for a cheap disposable plastic razor. Schiek, Bic, Gillette, Wilkinson or whatever, most men think that one brand does as well as the next. Also, the razor makers seem always to have them on sale, so you can scoop up a dozen of them for next to nothing.

The Gillette Company does not like this sort of thinking. Of course, women also use Gillette's razors, but Gillette worries about the growing number of men who use disposables. The company makes about three times more money per unit on cartridge refills for its Atra and Trac 11 razor systems than it does on its Good News! disposables. However, since the first disposables appeared in 1975, their sales have grown faster than those of system razors. By 1988 disposables accounted for 40 per cent of shaving-product money sales and more than 50 per cent of unit sales.

Gillette: The Defender

Gillette dominates the world wet-shave industry with a 61 per cent share. Schiek is second with a 16.2 per cent share, Bic has 9.3 per cent and others, including Wilkinson, account for most of the rest of the market. In 1988 Gillette's blades and razors produced 32 per cent of its $3.5 billion sales and 61 per cent ofits $268 million net income.

Gillette earned its dominant position in the market through large investments in research and development and through careful consumer research, Every day, about 10,000 men carefully record the results of their shaves for Gillette. Five hundred of these men shave in special in-plant cubicles under carefully controlled and monitored conditions, including observation through two-way mirrors and video cameras. Shavers record the precise number of nicks and cuts. In certain cases, researchers even collect sheared whiskers to weigh and measure. As a result, Gillette scientists know that an average man's beard grows 0.04 cm a day (14 cm per year) and contains 15.500 hairs. During an average lifetime, a man will spend 140 days scraping 8.4 metres of whiskers from his face. Gillette even uses electron microscopes to study blade surfaces and miniature cameras to analyze the actual shaving process.

Armed with its knowledge of shavers and shaving, Gillette prides itself in staying ahead of the competition. As soon as competitors adjust to one shaving system, Gillette introduces another advance. In 1971 Gillette introduced the Trac II, the first razor system featuring two parallel blades mounted in a cartridge. Tn 1977, following $8 million in R & D expenditure, the company introduced Atra, a twin-blade cartridge that swivels during shaving to.follow the face's contours. In 1985 Gillette launched the Atra Plus, which added a lubricating strip to the Atra cartridge to make shaving even smoother.

Although the company's founder, King Gillette, considered developing a disposable product early in the company's life, Gillette's marketing strategy has focused on developing products that use refill blades on a permanent handle. Gillette works to give its blades, and especially its handles, an aura of class and superior performance. By promoting new captive systems, in which blade cartridges fit only a certain razor handle. Gillette raises price and profit margins with each new technological leap. Atra cartridges do not fit the TVac II handle, so men had to buy a new handle to allow them to use the Atra blades when Gillette introduced that system.

Gillette has never bothered with the low end of the market - cheap, private-label blades. Status-seeking men, it believes, will always buy a classy product. Most men see shaving as a serious business and their appearance as a matter of some importance. Therefore, most men will not skimp and settle for an ordinary shave when, for a little more money, they can feel confident that Gillette's products give them the best shave.

Bic: The Challenge

The rapid rise of the disposable razor has challenged Gillette's view of men's shaving philosophy. Bic first introduced the disposable shaver in 1975 in Europe and then a year later in Canada. Realizing that the United States would be next, Gillette introduced the first disposable razor to the US market in 1976 - the blue plastic Good News! which used a Trac 11 blade. Despite its defensive reaction, Gillette predicted that men would use the disposable only for trips and in the changing room when they had forgotten their real razor. Disposables would never capture more than 7 per cent of the market, Gillette asserted.

Marcel Bich, Bic's French founder, is devoted to disposability. Rich made his money by developing the familiar ballpoint pen. lie pursues a strategy of turning status products into commodities. Often a product has status because it is difficult to make and must sell at a high price. However, if a manufacturer develops ways to mass produce the product at low cost with little loss of functional quality, its status and allure disappear. Consumers

will then not fee] embarrassed to buy and be seen using the new, cheaper version of the product. Bich brands his products, strips them of their glamour, distributes them widely and sells them cheaply. His marketing strategy is simple: maximum service; minimum price.

Bic attacks the shaving business in a very different manner from Gillette. It docs not have anyone exploring the fringe of shaving technology; it does not even own an electron microscope; and it does not know or care how many hairs the average man's beard contains. The company maintains only a small shave-lesting panel consisting of about 100 people. The Bic shaver has only one blade mounted on a short, hollow handle. Nevertheless, the Bic disposable razor presents Gillette with its most serious challenge since the company's early days. In 1988 Bie's shaving products achieved $52 million in sales with a net income of $9.4 million and held a 22.4 per cent share of the disposable market.

Early Battles

In their pursuits of disposability, Gillette and Bic have clashed before on other product fronts. First, in the' 1950s, they fought for market share in the writing pen market. Gillette's Paper Mate products, however, were no match for Bic's mass-market advertising and promotion skills. The two firms met again in the 1970s in the disposable eigarette lighter arena, where they again made commodities of what had once been prestigious and sometimes expensive items. Ahhough Gillette did better in disposable lighters than it had in pens, Ric's lighter captured the dominant market share.

In the most recent skirmish, however, Gillette's Good News! brand is winning with a 58 per cent market share in the disposable razor market. For Gillette, the victory is bittersweet. Good News! sells for a lot less than any of Gillette's older products. The key to commodity competition is price. To stay competitive with the Bic razor and with other disposables, Gillette has to sell Good News! for much less than the retail price of an Atra or Trac 11 cartridge. As many Trac II and Atra users have concluded; why pay more for a twin-blade refill cartridge from Gillette when the same blade mounted on a plastic handle costs half as much? Good News! not only produces less revenue per blade sold, it also costs more because Gillette has to supply the handle as well as the cartridge. Each time Good News! gains a market share point, Gillette loses millions of dollars in sales and profits from its Atra and Trac II products,

The Psychology of Shaving

The battle between Bic and Gillette represents more than a simple contest over what kinds of razor people want to use. It symbolizes a clash over one of the most enduring daily rituals. Before King Gillette invented the safety razor, men found shaving a tedious, difficult, time-consuming and often bloody task that they endured at most twice a week. Only the rich could afford to have a barber shave them daily.

Gillette patented the safety razor in 1904, but it was not until World War 1 that the product gained wide consumer acceptance. Gillette had the brilliant idea of having the military give a free Gillette razor to every soldier. In this manner, millions of men just entering the shaving age were introduced to the daily, self-shaving habit.

The morning shaving ritual continues to occupy a very special place in most men's lives - it affirms their masculinity. The first shave remains a rite of passage into manhood. A survey by New York psychologists reported that, although men complain about the bother of shaving, 97 per ecnt would not

want to use a cream that would permanently rid them of all facial hair. Gillette once introduced a new razor that eame in versions for heavy, medium and light beards. Almost no one bought the light version because few men wanted to acknowledge publicly their modest beard production. Although shaving may require less skill and involve less danger than tt once did, many men still want the razors they use to reflect their belief that shaving is a serious business. A typical man regards his razor as an important personal tool, a kind of extension of self, like an expensive pen, cigarette lighter, attache case or set of golf clubs.

Gillette's Fight Back

For more than 80 years Gillette's perception of the men's shaving market and the psychology of shaving has been perfect. Its products hold a substantial 61 per cent share and its technology and marketing philosophy have held sway over the entire industry. CJillette has worked successfully to maintain the razor's masculine look, weight and feel as well as its status as an item of personal identification. Now, however, millions of men are scraping their faces each day with small, nondescript, passionless pieces of plastic - an act that seems to be the ultimate denial of the shaving ritual. Good News! is bad news for Gillette. Gillette must find a way to dispose of the disposables.

QUESTIONS

1. Who iw involved in a man's decision to buy a disposable razor and what roles do various participants play?
2. Do these participants and roles differ for the decision to buy a system razor?
3. What types of buying-decision behaviour do men exhibit when purchasing razors?
4. Examine a man's decision process for buying *a* wet-shave razor. How have Gillette and Bic pursued different strategies concerning this process?
5. What explains Bic's differing success in competing against Gillette in the disposable pen, lighter and shaver market? Why do you think Bie perfume failed?
6. What marketing strategy should Gillette adopt to encourage men to switch from disposables to system razors? How would buyer decision processes towards new products affect your recommendations?

SOURCE: Portions adapted from 'The Gillette Company', in Subhash C. Jain, *Marketing Strategy and Pnlicy,* 3rd edn {Cincinnati, OH: Soutliwestern, 1990). Used with permission.

7

Business Markets and Business Buyer Behaviour

CHAPTER OBJECTIVES

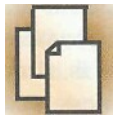
After reading this chapter, you should he able to:

Explain how business markets differ from consumer markets.

Identify the main factors that influence business buyer behaviour.

List and define the steps in the business buying decision process.

Explain how institutional and government buyers make their **buying** decisions.

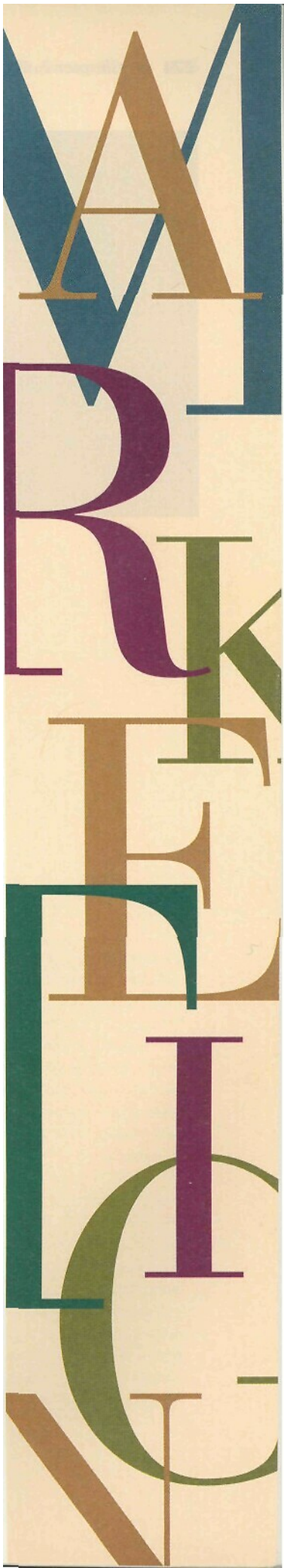


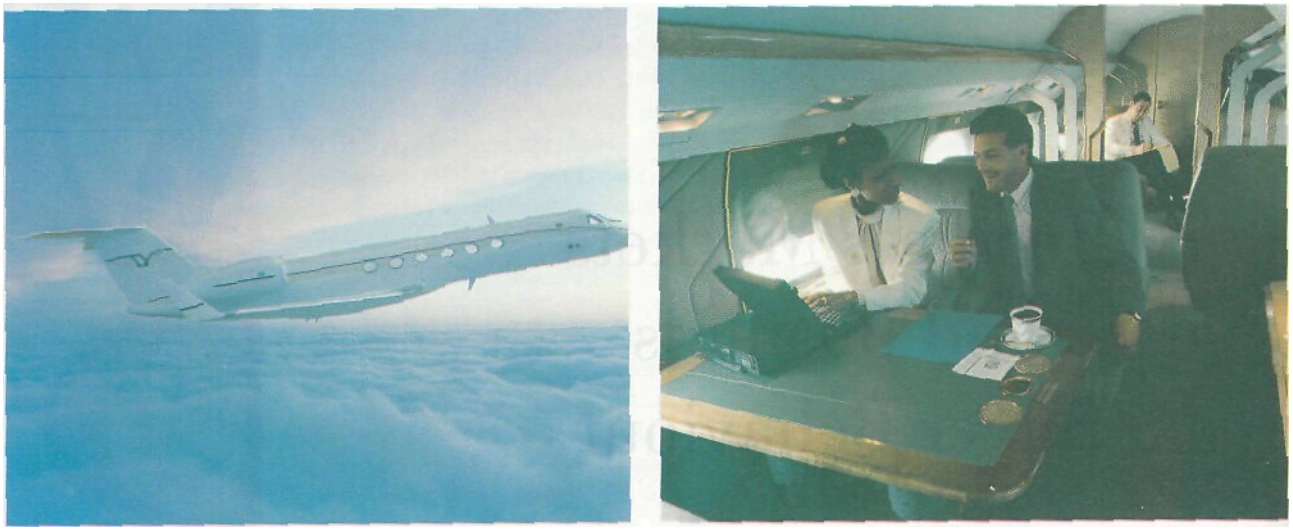
Preview Case

Selling Business Jets: **The Ultimate Executive Toy**

TINY ROWLAND AGREED TO KKTIKB from the board of Lonrho after a long and bitter struggle against German property owner Dieter Bock. On that day he lost more than the job he had held for 33 years; he also lost access to Lonrho's Gulfstream executive jet. Tiny Rowland often used the jet to visit LonrTio's 500 companies or many international contacts, especially in Africa, but it was a £2 million a year item that many of Lonrho's shareholders resented.

The shareholders' views on Lonrho's business jet were akin to those held by many people. As Brian Barents, president of Learjet explained: 'The business jet has gone from being the sign of & dynamic, fast-moving,





entrepreneurial corporation to one of corporate privilege and excess.' The business jet market was hitting hard times. Businesses were looking at their costs and there seemed to be fewer and fewer charismatic and powerful people h'lsc liny Rowland or King Fahd of Saudi Arabia who were willing and able to buy a jet. Shareholders had reason to l>e sceptical about the cost-effectiveness of the jets. Unlike commercial airlines that spend most of their time flying, business jets spend most of their time on the ground. In Europe they fly on average for only about six hours a week.

'There is simply not enough viable business for seven or eight competing manufacturers,' complained one business jet marketing executive. 'There is bound to be more consolidation, since there is probably room for only three or four **manufacturers.**' Business jets' low utilization means that they last a long time and ownership is limited. The United States is by far the biggest market with 4,000 business jots operating; France has 490, Germany 360 and the United Kingdom 260. Japan is a very wealthy market, but government restrictions have kept private ownership down to 90.

Recognizing potential buyers is simple - the organizations that can afford to own and operate a business jet are easily identified. The difficult problem is reaching key decision makers for jet purchases, understanding their complex motivations and decision processes, analyzing what factors will be important in their decisions, and designing marketing approaches.

There are *rational* motives and *subjective* factors in buyers' decisions. A company buying a business jet will evaluate the aircraft on quality and performance, prices, operating costs and service. At times, these may appear to be the only things that drive the buying decision. But having a superior product isn't enough to land the sale: marketers must also consider the more subtle *human factors* that affect the choice of a jet. According to Gulfstream, a leading American supplier of business jets:

> The purchase process may be initiated by the chief executive officer (CEO), a board member wishing to increase efficiency or security, the company's chief pilot, or through vendor efforts like advertising or a sales visit. The CEO will be central in deciding whether to buy the jet, but he or she will be heavily influenced by the company's pilot, financial officer and perhaps by the board itself.

Each party in the buying proeess has subtle roles and needs. The salesperson who, for example, tries to impress both the CEO with depreciation schedules and the chief pilot with minimum runway statistics will almost certainly not sell a plane it' he or she overlooks the psychological and emotional components of the buying decision. 'For the chief executive', observes one salesperson, 'you need all the numbers for support, but if you can't find the kid inside the CEO and excite him or her with the raw beauty of the new plane, you'll never sell the equipment. If you sell the excitement, you sell the jet.'

The chief pilot, as an equipment expert, often has veto power over purchase decisions and may be able to stop the purchase of a certain brand of jet by simply expressing a negative opinion about, say, the plane's bad weather capabilities. In this sense, the pilot not only influences the decision but also serves as an information 'gatekeeper' by advising management on the equipment to select. Though the corporate legal staff will handle the purchase agreement and the purchasing department will acquire the jet, these parties may have little to say about whether or how the plane will be obtained and which type will be selected. The users of the jet - middle and upper management of the buying company, important customers and others - may have at least an indirect role in choosing the equipment.

The involvement of many people in the purchase decision creates a group dynamic that the selling company must factor into its sales planning. Who makes up the buying group? How will the parties interact? Who will dominate and who submit? What priorities do the individuals have?

Two European companies think they have an answer to competing in this competitive and increasingly cost-conscious business aircraft market. France's Aerospatiale's Socata subsidiary, with Mooney of the United States, have spent FFr500 million developing the TBM700, a single-engined turboprop aircraft. It is smaller and slower than conventional twin-engined business jets, but much less expensive to buy and run. Aerospatiale, which claims that the TBM700 has some of the capabilities and comfort of the larger executive jets, hopes to sell 600 of them.

The other market entrant is JetCo. It does not make aircraft, but offers a 'fractional ownership' scheme that claims to offer all the benefits of private ownership at a fraction of the cost. 'As little as 07,000' per month buys a share in one of JetCo's fleet of Hawker 800 or Beechjet 400A 860-plus kilometres per hour jets, or Beechcraft Super King Air B200 twin-turboprop aircraft. Michael Riegal, managing director of JetCo, explains the financial advantages of JetShare: 'A corporate jet is an extremely expensive asset with annual operating cost of between $800,000 and 81 million if you include fixed and variable cost as well as depreciation.' As an alternative JetShare offers one-quarter ownership of a corporate jet, with an entitlement to 150 flying hours, for $287,500 per year. When in use, JetCo puts a temporary company logo on the front of the jet and will even personalize 'cushion covers and things - items that are easily changeable'.

Not all business jet makers are taking the frugal route, Canada's Bombardier is developing the Global Express (Gex) BD-700 business jet, capable of carrying eight passengers and four crew non-stop on sectors such as San Francisco-Tokyo. London-Tokyo and Paris-Buenos Aires. Gex is faster than other business jets: cruising at Mach 0.88 (that is, 88 per cent of the speed of sound), it will knock an hour off their times on shorter routes

like Johannesburg-Moscow or Berlin—Los Angeles. Gcx was launched at the end of 1993 with & development cost of CSl.4 billion, and within a year the company had orders find options for 40 aircraft worth C$1.5 billion. Wow, some toy![1]

QUESTIONS

3. What are the reasons for businesses buying executive jets?
2. Is it correct to say that, unlike people in consumer markets, business buyers are rational?
3. Who are the critical people to influence when selling executive jets?
4. What features of the product are most likely to interest people involved in the decision to purchase an executive jet?
5. Since it is unlikely that people will respond to an advertisement by buying an executive jet, why arc they advertised?
6. Develop the economic argument for a business jet that is likely to be acceptable to *a* firm's shareholders.

Introduction

In some ways, selling corporate jets to business buyers is like selling cars and kitchen appliances to families. Business jet makers ask the same questions as consumer marketers: Who are the buyers and what are their needs? How do buyers make their buying decisions and what factors influence these decisions? What marketing programme will be most effective? But the answers to these questions are usually different in the case of the business buyer. Thus the jet makers face many of the same challenges as consumer marketers - and some additional ones.

business market
All the organizations that buy goods and services to use in *the production of other products and services, and identify, evaluate and ahoose among alternative brands and suppliers*

business **buying** process
The decision-making process by 'which business buyers establish the need/or purchased products and services, and identify, evaluate and. choose among alternative brands and suppliers.

In one way or another, most large companies sell to other organizations. Many companies, such as Asea Brown Boveri, Norsk Hydro, Du Pont and countless others, sell most of their products to other businesses. Even large consumer-products companies, which make products used by final consumers, must first sell their products to other businesses. For example, Allied Domecq makes many consumer products - La Ina sherry, Presidents brandy, Tetley tea and others. To sell these products to consumers, Allied Domecq must first sell them to wholesalers and retailers that serve the consumer market. Allied Domecq also sells food ingredients directly to other businesses through its Margetts Food and DCA Food Industries subsidiaries.

The business market consists of all the organizations that buy goods and services to use in the production of other products and services that are sold, rented or supplied to others. It also includes retailing and wholesaling firms that acquire goods for the purpose of reselling or renting them to others at a profit. The business buying process is the decision-making process by which business buyers establish the need for purchased products and services, and identify, evaluate and choose among alternative brands and suppliers.[2] Companies that sell to other business organizations must do their best to understand business markets and business buyer behaviour.

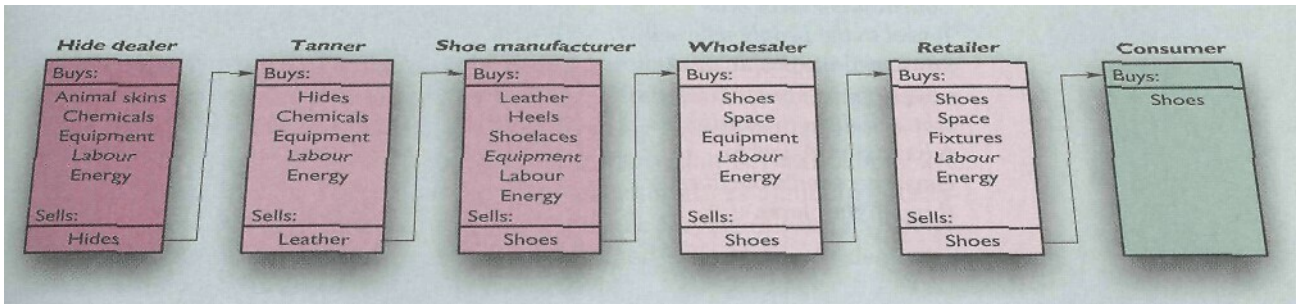


Figure 7.1 **Business transactions involved in producing and distributing a pair of shoes**

Business Markets

The business market is *huge-,* most businesses just sell to other businesses, and sales to businesses far outstrip those to consumers. The reason for this is the number of times that parts of a consumer product are bought, processed and resold before reaching the final consumer. For example, Figure 7.1 shows the large number of business transactions needed to produce and sell a simple pair of shoes. Hide dealers sell to tanners, who sell leather to shoe manufacturers, who sell shoes to wholesalers, who in turn sell shoes to retailers, who finally sell the shoes to consumers. Each party in the chain also buys many other related goods and services. This example shows why there is more business buying than consumer buying - many sets of *business* purchases were made for only one set of consumer purchases.

Characteristics of Business Markets

In some ways, business markets are similar to consumer markets. Roth involve people who assume buying roles and make purchase decisions to satisfy needs. However, business markets differ in many ways from consumer markets.[3] The main differences are in market structure and demand, the nature of the buying unit, and the types of decision and the decision process involved.

• *Market Structure and Demand*

The business marketer normally deals *with far fewer but far larger buyers* than the consumer marketer does. For example, when Michelin sells replacement tyres to final consumers, its potential market includes the owners of cars currently in use. But Michelin's fate in the business market depends on getting orders from a few large car makers. These sales of original equipment are doubly important, since many people replace their tyres with the brand already on the car. Even in large business markets, a few buyers normally account for most of the purchasing.

derived **demand** *Business demand that ultimately c&mesfrom (derives from) the demand for consumer goods.*

Business markets are also more *geographically concentrated:* international financial services in London, petrochemicals and synthetic fibers around Rotterdam and Amsterdam, and the movie industry in Hollywood. Further, business demand is derived demand - it ultimately derives from the demand for consumer goods. Mercedes buys steel because consumers buy cars. If consumer

Courtaulds Fibres sells Tencel to the people who sell fabrics, to the people who sell garments, to the retailers who sell them to consumers. Advertising Tencel to consumers pulls the fibre through the chain.



demand for cars drops, so will the demand for steei and all the other products used to make cars. Therefore, business marketers sometimes promote their products directly to final consumers to increase business demand (see Marketing Highlight 7.1).[4]

> In late 1997 Ron Woodard, the boss of Boeing Commercial Airplane Group, was half-jokingly asking airlines to decrease their orders to ease Boeing's over-stretched production. In January 1998 he got more than he asked for. Following the economic troubles in south-east. Asia and the resultant decline in local air travel, airlines all over the region were renegotiating orders. Philippine Airlines said it planned to cancel four 747-400 jets, Malaysian Airlines System wants to delay the delivery of 20 aircraft up to five years, Garuda Indonesia left Boeing stranded with jets it ordered but could not afford and stopped lease payments on six new Airbus A330s. More trouble is on the way as Korean Air's value drops to less than three of its fleet of 45 747s.[5]

inelastic demand
Total demand fur a product that is not much affected by price changes, especially in the short run.

Many business markets have inelastic demand: that is, total demand for many business products is not affected much by price changes, especially in the short run. A drop in the price of leather will not cause shoe manufacturers to buy much more leather unless it results in lower shoe prices, which, in turn, will increase consumer demand for shoes.

Finally, business markets have more *fluctuating demand.* The demand for many business goods and services tends to change more — and more quickly - than the demand for consumer goods and services does. A small percentage increase in consumer demand can cause large increases in business demand. Sometimes a rise of only 10 per cent in consumer demand can cause as much as a 200 per cent rise in business demand during the next period.

• *Nature, of the Buying Unit*

Compared with consumer purchases, a business purchase usually involves more *buyers* and a *more professional purchasing effort.* Often, business buying is done by trained purchasing agents, who spend their working lives learning how to buy well. The more complex the purchase, the more likely that several people will participate in the decision-making process. Buying committees made up of technical experts and top management are common in the buying of primary goods. Therefore, business marketers must have well-trained salespeople to deal with well-trained buyers.

• *Type.t of Decision and the Decision Process*

Business buyers usually face *more complex* buying decisions than do consumer buyers. Purchases often involve large sums of money, complex technical and economic considerations, and interactions among many people at many levels of the buyer's organization. Because the purchases are more complex, business buyers may take longer to make their decisions. For example, the purchase of a large computer system might take many months or more than a year to complete and could involve millions of pounds, thousands of technical details and do/ens of people ranging from top management to lower-level users.

The business buying process tends to be *more formalized* than the consumer buying process. Large business purchases usually call for detailed product specifications, written purchase orders, careful supplier searches and formal approval. The buying firm might even prepare policy manuals that detail the purchase process.

Finally, in the business buying process, buyer and seller are often much more *dependent* on each other. Consumer marketers are usually at a distance from their customers. In contrast, business marketers may roll up their sleeves and work closely with their customers during all stages of the buying process - from helping customers define problems, to finding solutions, to supporting after-sales operations. For instance, 60 per cent of the money needed to develop Bombardier's Gax business jet came from suppliers, and risk-sharing partners including engine suppliers BMW/Rolls-Royce. They customize their offerings to meet individual customer needs. In the short run, orders go to suppliers that meet buyers' immediate product and service needs. However, business marketers must also build close *long-run* relationships with customers. In the long run, business marketers keep a customer's orders by meeting current needs *and* thinking ahead to meet the customer's future needs.

Volkswagen is breaking new ground at its Skoda factory by having suppliers' operations directly inside the car plant. Lucas, Johnson Controls and Pelzer are producing rear axles, seats and carpets in the Czech factory. This is one step ahead of Japanese manufacturers, which often have suppliers near by.[6]

t *Oilier Characteristics of Business Markets*

DIRECT **PURCHASING.** Business buyers often buy directly from producers rather than through intermediaries, especially for items that are technically complex or expensive. For example, in the United States, Ryder buys thousands of trucks each year in all shapes and sizes. It rents some of these trucks to move-it-yourself customers (yellow Ryder trucks), leases some to other companies for their truck fleets and uses the rest in its own freight-hauling business. When Ryder buys GMC trucks, it purchases them directly from General Motors rather than from independent GM truck dealers. Similarly, airlines buy aircraft directly from Boeing, European Airbus or McDonnell Douglas, Kroger buys packaged

Marketing Highlight 7.1

Wintel (Not) Inside, Please



The 'Wintel-twosome', Intel and Microsoft's Windows, are in trouble. In mid-1991, Intel launched its two-year, 8100 million 'Intel Inside' advertising campaign to sell personal computer buyers on the virtues of its microprocessors, the tiny chips that serve as the brains of microcomputers. In 1994 that was followed by an $80 million campaign to persuade consumers and businesses to buy PCs based on its latest Pentium microprocessor. So what, you say? Lots of companies run big consumer ad campaigns. However, although such a campaign might be business as usual for companies like Nestle, Shell and Unilever that market products directly to final consumers, it is anything but usual for Intel.

Computer buyers can't purchase a microprocessor chip directly - in fact, most will never even see one. Demand for microprocessors is *derived demand* -- it ultimately comes from demand for products that conrain microprocessors. Consumers simply buy the computer and take whatever brand of chip the computer manufacturer chose to include as a component. Traditionally, chip companies like Intel market only to the manufacturers that buy chips directly. In contrast, the innovative 'Intel Inside' campaign appeals directly to computer buyers - its customers' customers. If Intel can create brand preference among buyers for its chips, this in turn will make Intel chips more attractive to computer manufacturers. According to Industry observers: 'Intel is treating the (PC) industry merely as a distribution arm, seeing the PC user as its ultimate consumer,'

Intel invented the first microprocessor in 1971 and for 20 years has held a near-monopoly, dominating the chip market for desktop computers. Its sales and profits have soared accordingly. In the decade since IBM introduced its first PCs based on Intel's 8088 microprocessor, Intel sales have jumped fivefold to more than *$5* billion and its earnings have grown ever) faster. Its popular 286, 386, 486 and Pentium chips power most of the microcomputers in use today.

However, a rush of imitators — Advanced Micro Devices (AMD), Chips & Technologies, Cyrix and others • - have begun to crack Intel's monopoly, marketing new and improved clones of Intel chips,

Intel has responded fiercely to the eloners, slashing prices, spending heavily to develop new products and advertising to differentiate its products. It has cut prices on its new processors faster than for any new chip in its history. Moreover, Intel invested hugely in R & D to get new products to die market more quickly. The Pentium II microprocessor is a veritable one-chip mainframe. The Pentium contains 3 million transistors and will process 100 million instructions per second (MIPS), as compared to only 0.5 million transistors and five MIPS for the 386 chip. New software ensures tb.'it compxiter users need 'Pentium power'. Standard Microsoft Windows 95 and Office 98 are increasingly sluggish without Pentium-like processors, so users are often forced to trade up.

Still, the clone makers are likely to continue nipping at Intel's heels, and advertising provides another means by which Intel can differentiate its 'originals' from competitors' imitations. The 'Inrcl Inside' campaign advances on two fronts. First, in its brand-awareness ads, Intel attempts to convince microcomputer buyers that Intel microprocessors really are better. The ads carry the message 'It's amazing what you can do with a Pentium processor'. After spending little on advertising for many years, other hi-tech firms are now spending a small fortune on building brands.

It remains to be seen whether the 'Intel Inside' campaign can convince buyers to care about what chip comes in their computers. But as long as microprocessors remain anonymous little lumps hidden inside a user's computer, Intel remains at the mercy of the clone makers. In contrast, if Intel can convince buyers that its chips are superior, it will achieve even more power in the market.

The reaction of IBM and Compaq, the leading PC supplier in the United States and Europe, sug-

LEAS
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gests that Intel may be being-too successful. **For** years Intel and Compaq collaborated in bringing Intel microprocessor-based PCs to markets, but the two firms are hardly on speaking terms now, Eckhard Pfeffer, Compaq president and chief executive, has accused Intel of undermining Compaq's marketing effort. 'What upsets us generally is that a component supplier should try to influence the end user. The end user market is not their business. They are interfering,' says Andreas Earth, head of Compaq's European operations. Not surprisingly, Compaq's latest PCs for the consumer market will have an AMD microprocessor inside.

IBM is also annoyed about the rapid obsolescence of the Intel products it buys. 'Customers are telling us to slow down the pace of technology,' says IBM's Chairman, Lou Gerstner. 'How powerful a computer do you really need on a desk?' To challenge Intel's dominance, IBM is linking with Nexgen and Cyrix to give credibility to its clones.

The world is also turning against Bill Gates' Microsoft, the other half of the increasingly hated 'Wintel twosome'. In the USA and Europe the firm's anti-competitive behaviour is under scrutiny, particularly Microsoft's bundling *of* its Web browser with its dominant Windows operating system.

Will Intel and Microsoft successfully assure their dominance of the microprocessor and software markets, or have they forgotten the golden rule: the customer is always right? Will their dominance melt like that of the earlier hi-tech darling: IBM?

SOURCES: Quotes from Kate Bertram!, 'Advertising a chip you'll never see', *HuKiness Marketing* (February 1992), p. 19; and Richard Brandt, 'Intel: way out in front, hut the footsteps arc getting larger', Business *Week* (29 April 1991), pp. 88-9. See also Robert D. Ilot', "Inside Intel', Justness *Week* (1 June 1992), pp. 86-94; Bertrand, 'Chip wars'. Business *Marketing* (February 1992), pp. 16-18; Alan Deutsohman,'If they're gaining on you, innovate'. *Fortune (2* November 1992), pp. 56-61; Richard Brandt, 'Intel: what *a* tease - and what a strategy[1], Business *Week* (22 February 1993), p. 40; Louise Kehoe and Alan Cane, 'Chips down for PC partner', Ffiioncfcrf '*limes* (20 September 1994), p. 21; Louise Kehoe and (Jeoff Wheelwright, 'Breaking windows', *Firutnmal Times* (4 October 1">94), p. 16; "High-tech brands: so.ip powder, with added logic'. *The Kctinamist* (6 December 1997); "Beleaguered Microsoft: why Bill Gates should worry', *The* Economist (20 December 1997); 'Persecuting BUI', *The* Economist (20 December 1997); Louise Kehoe, 'Hard ease for software', *Financial Times* (22 January 19S8), p. 27.

goods directly from Procter & Gamble, and universities buy mainframe computers directly from IBM. Bull and so on.

RECIPROCITY. Business buyers often practise *reciprocity,* selecting suppliers that also buy from them. For example, a paper company might buy needed chemicals from a chemical company that in turn buys the company's paper.

> Shaken by European Airbus's success in the airliner market, market leader Boeing has started a worldwide review of its purchasing policies. They intend to mateh aircraft parts contracts to countries that buy Boeings. With an apparent eye on the Canadian government's purchase of search-and-rescue helicopters and Canadian Airlines InternationaS's 737 replacements, Boeing warned: '<>ur Canadian business placement must understandably be market based, as it is elsewhere,[17]

LEASING. Business buyers are increasingly leasing equipment instead of buying it outright. Everything from printing presses to power plants, business jets to hay balers, and office copiers to off-shore drilling rigs. The biggest buyer of airliners in the world is not a large airline but GPA, a company based in Ireland which buys airliners to resell or lease. The lessee can gain a number of advantages, such as having more available capital, getting the seller's latest products, receiving

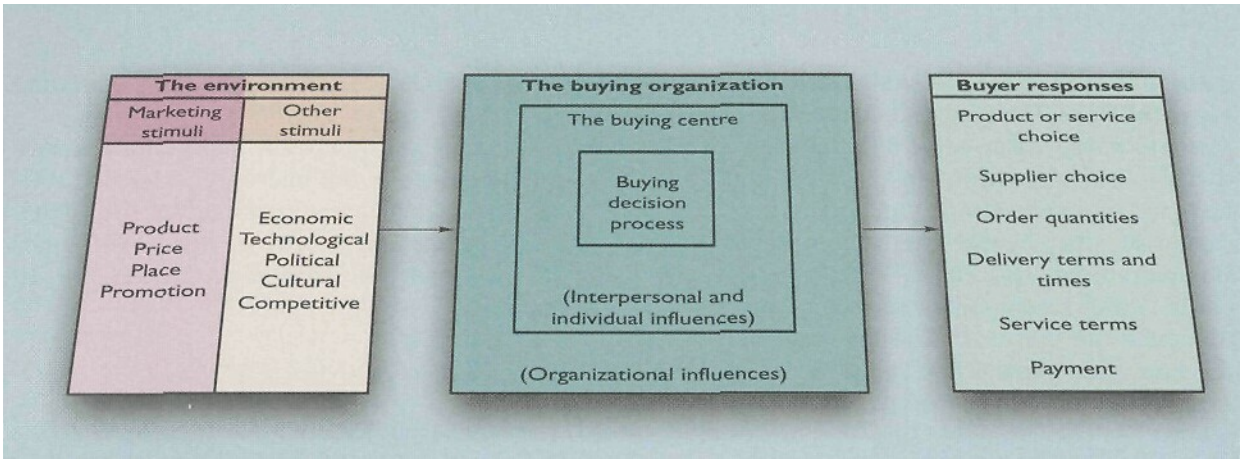


Figure 7.2 **A model of business buyer behaviour**

better servicing and gaining some tax advantages. The lessor often ends up with a larger net income and the chance to sell to customers that might not have heen ahle to afford outright purchase.

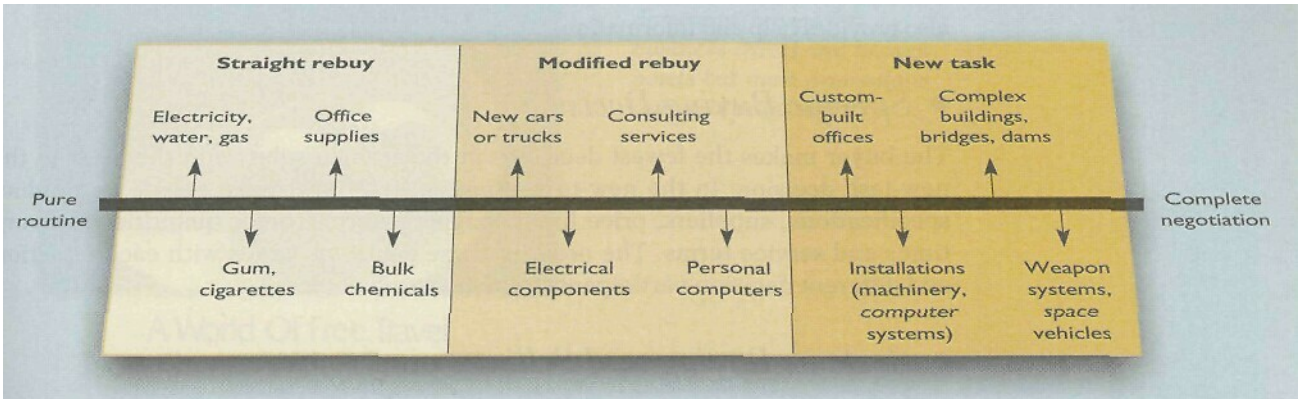
A Model of Business **Buyer** Behaviour

At the most basic level, marketers want to know how business buyers will respond to various marketing stimuli. Figure 7,2 shows a model of business buyer behaviour. In tills model, marketing and other stimuli affect the buying organization and produce certain buyer responses. As with consumer buying, the marketing stimuli for business buying consist of the four Ps: product, price, place arid promotion. Other stimuli include influential forces in the environment: economic, technological, political, eultural and competitive. These stimuli enter the organization and arc turned into buyer responses: product or service choice; supplier choice; order quantities; and delivery, service and payment terms. In order to design good marketing-mix strategics, the marketer must understand what happens within the organization to turn stimuli into purchase responses.

Within the organization, buying activity consists of two main parts: the buying centre, made up of all the people involved in the buying decision, and the buying decision process. Figure 7.2 shows that the buying centre and the buying decision process are influenced by internal organizational, interpersonal and individual factors as well as bv external environmental factors.

Business **Buyer** Behaviour

The model in Figure 7.2 suggests four questions about business buyer behaviour: What buying decisions do business buyers make? Who participates in the buying process? What are the strongest influences on buyers? How do business buyers make their buying decisions?



(SOURCE: Ben M. Enis, *Marketing Principles*, 3rd edn (1980). © 1980 Scott, Foresman & Co. Reprinted by permission.)

Figure 7.3 **Three** types of business **buying situation**

What Buying Decisions Do Business Buyers Make?

The business buyer faces a whole set of decisions in making a purchase. The number of decisions depends on the type of buying situation.

• *Main Types of Buying Situation*

There are three main types of buying situation.[8] At one extreme is the *straight rebuy,* which is a fairly routine decision. At die other extreme is the *new Cask,* which may call for thorough research. In the middle is the *modified rebuy,* which requires some research, (For examples, see Figure 7.3.)

STRAIGHT REBUY. In a straight rebuy, the buyer reorders something without any modifications. It is usually handled on a routine basis by the purchasing department. Based on past buying satisfaction, the buyer simply chooses from the various suppliers on its list. 'In' suppliers try to maintain product and service quality. They often propose automatic reordering systems so that the purchase agent will save reordering time. The 'out' suppliers try to offer something new or exploit dissatisfaction so that the buyer will consider them, 'Out' suppliers try to get their foot in the door with a small order and then enlarge their purchase share over time.

straight rebuy
A business buying situation in which the buyer routinely reorders something without any modifications.

MODIFIED REBUY. In a modified rebuy, the buyer wants to modify product specifications, prices, terms or suppliers. The modified rebuy usually involves more decision participants than the straight rebuy. The 'in' suppliers may become nervous and feel pressured to put their best foot forward to protect an account. 'Out' suppliers may see the modified rebuy situation as an opportunity to make a better otter and gain new business.

modified **rebuy**
A business buying situation in which the buyer wants co modify product specifications, prices, terms or suppliers.

NEW TASK, A company buying a product or service for the first time faces a new task situation. In such cases, the greater the cost or risk, the larger will be the number of decision participants and the greater their efforts to collect information. The new-task situation is the marketer's greatest opportunity and challenge.

newtask
A business buying situation in which the buyer purchases a product or service for thefirst time.

The marketer not only tries to reach as many key buying influences as possible, but also provides help and information.

• *Specific Buying Decisions*

The buyer makes the fewest decisions in the straight rebuy and the most in the new-task decision. In the new-task situation, the buyer must decide on product specifications, suppliers, priee limits, payment terms, order quantities, delivery times and service terms. The order of these decisions varies with each situation and different decision participants influence each choice.

• *Systems Buying and Selling*

systems **buying**
Buying a packaged solution to a problem and without all the separate decisions involved.

Many business buyers prefer to buy a packaged solution to a problem from a single seller. Called systems buying, this practice began with government buying of powerful weapons and communication systems. Instead of buying and putting all the components together, the government asked for bids from suppliers that would supply the components *and* assemble the paekage or system.

Hellers have increasingly recognized that buyers like this method and have adopted systems selling as a marketing tool,"Systems selling is a two-step process. First, the supplier sells a group of interlocking products: for example, the supplier sells not only glue, but also applicators and dryers. Second, the supplier sells a system of production, inventory control, distribution and other services to meet the buyer's need for a smooth-running operation.

Systems selling is a key business marketing strategy for winning and holding accounts. The contract often goes to the firm that provides the most complete system meeting the customer's needs. Consider the following:

> The Indonesian government requested bids to build a cement factory" near Jakarta. An American firm's proposal included choosing the site, designing the cement factory, hiring the construction crews, assembling the materials and equipment and turning the finished factory over to the Indonesian government. A Japanese firm's proposal included all of these services, plus hiring and training workers to run the factory, exporting the cement through their trading companies and using the cement to build some needed roads and new office buildings in Jakarta. Although the Japanese firm's proposal cost more, it won the contract. Clearly the Japanese viewed the problem not as one of just building a cement factory (the narrow view of systems selling) but of running it in a way that would contribute to the country's economy. They took the broadest view of the customers' needs. This is true systems selling.

buying centre
All the individuals and units that participate in the business buy ing-decision process.

users
Members of the organization who •will use the product or service; users often initiate the buying proposal and help define product specifications.

Who Participates in the Business Buying Process?

Who buys the goods and services needed by business oganizations? The decision-making unit of a buying organization is called its buying centre, defined as all the individuals and units that participate in the business decision-making process.[10]

The buying centre includes all members of the organization who play any of five roles in the purchase decision process.[11]

1. Users. Members of the organization who will use the product or sendee. In many cases, users initiate the buying proposal and help define product specifications.



Businesses are the dominant 'buyers' of business travel and luxury hotels but most promotions aim to attract 'users'.

2. Iirfluencers. People who affect the buying decision. They often help define specifications arid also provide information for evaluating alternatives. Technical personnel are particularly Important influencers.
3. Buyers. People with formal authority to select the supplier and arrange terms of purchase. Buyers may help shape product specifications, but they play their most important role in selecting vendors and in negotiating. In more complex purchases, buyers might include high-level officers participating in the negotiations.
4. Deciders. People who have formal or informal power to select or approve the final suppliers. In routine buying, the buyers are often the deciders or at least the approvers.
5. Gatekeepers. People who control the flow of information to others. For example, purchasing agents often have authority to prevent salespersons from seeing users or deciders. Other gatekeepers include technical personnel and even personal secretaries.

The buying centre is not a fixed and formally identified unit within the buying organization. It is a set of buying roles assumed by different people for different purchases. Within the organization, the size and make-up of the buying centre will vary for different products and for different buying situations. For some routine purchases, one person - say, a purchasing agent - may assume all the buying centre roles and serve as the only person involved in the buying decision. For more complex purchases, the buying centre may include 20 or 30 people from different levels and departments in the organization. One study of business buying showed that the typical business equipment purchase involved seven people from three management levels representing four different departments.

influencers
I-'eople in an organizations buying centre Wio *affect the buying decision; they often help define specifications and also provide information for evaluating alternatives*

buyers
People in an organization's buying centre with formal authority to select the supplier and arrange terms of purchase.

deciders
People in the organization's buying centre tcfeo *have formal or informal powers to select or approve the final* sHp

gatekeepers
People in the organization's buying centre wh(^ control the flow of information to others.

Thc buying-centre concept presents a significant marketing challenge. The business marketer must learn who participates in the decision, each participant's relative influence and what evaluation criteria each decision participant uses. Consider the following example:

> Baxter sells disposable surgical gowns to hospitals. It tries to identify die hospital personnel involved in this buying decision. They turn out to be the purchasing manager, the operating room administrator and thc[s] surgeons. Baeh participant plays a different role. The vice-president of purchasing analyzes whether the hospital should buy disposable gowns or reusable gowns. If analysis favours disposable gowns, then the operating room administrator compares competing products and prices and makes a choice. This administrator considers the gown's absorbency, antiseptic quality, design and cost, and normally buys the brand that meets requirements at the lowest cost. Finally, surgeons affect the decision later by reporting their satisfaction or dissatisfaction with the brand.

The buying centre usually includes some obvious participants svho are involved formally in the buying decision. For example, the decision to buy a corporate jet will probably involve the company's chief pilot, a purchasing agent, some legal staff, a member of top management and others formally charged with the buying decision. It may also involve less obvious, informal participants, some of whom may actually make or strongly affect the buying decision. Sometimes, even the people in the buying centre are not aware of all the buying participants. For example, the decision about which corporate jet to buy may actually be made by a corporate board member who has an interest in flying and knows a lot about aircraft. This board member may work behind the scenes to sway the decision. Many business buying decisions result from the complex interactions of ever-changing buying-ccntre participants.

What are the Main Influences on Business Buyers?

Business buyers are subject to many influences when they make their buying decisions. Some marketers assume that the strongest influences are economic. They think buyers will favour the supplier that offers the lowest price or the best product or the most service. They concentrate on offering strong economic benefits to buyers. However, business buyers actually respond to both economic and personal factors:

> It has not been fashionable lately to talk about relationships in business. We're told that it has to be devoid of emotion. We must be cold, calculating and impersonal. Don't you believe it! Relationships make the world go round. Business people are human and social as well as interested in economics and investments and salespeople need to appeal to both sides. Purchasers may claim to be motivated by intellect alone, but the professional salesperson knows that they run on both reason and emotion.[13]

When suppliers' offers are very similar, business buyers have little basis for strictly rational choice. Because they can meet organicntional goals with any supplier, buyers can allow personal factors to play a larger role in their decisions. However, when competing products differ greatly, business buyers are more accountable for their choice and tend to pay more attention to economic factors.

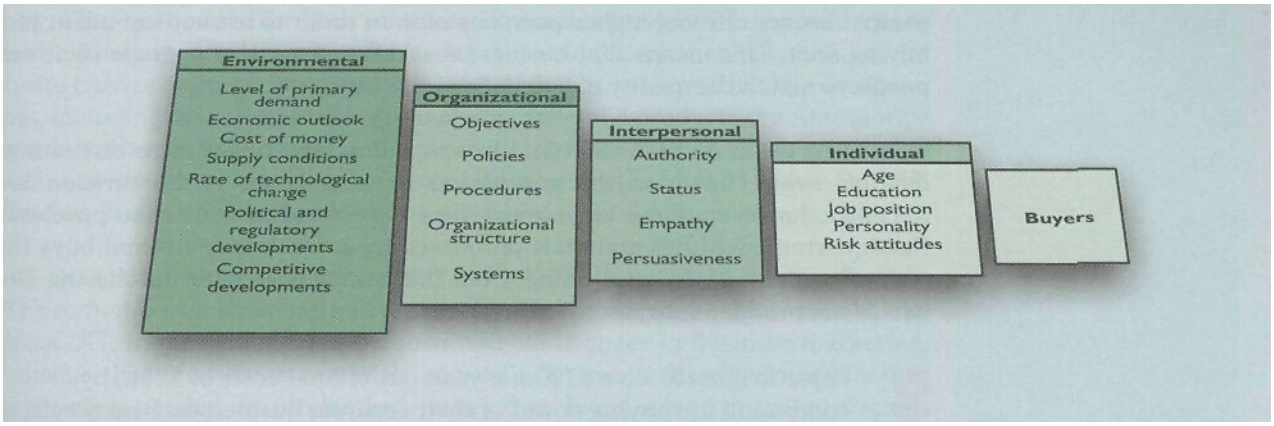


Figure 7.4 **Main influences on business buying behaviour**

Figure 7.4 lists various groups of influences on business buyers - environmental, organization, interpersonal and individual.[1-1]

• *Environmental Factors*

Business buyers are influenced heavily by factors in (he current and expected economic environment, such as the level of primary demand, the economic outlook and the cost of money. As economic uncertainty rises, business buyers cut back on new investments and attempt to reduce their inventories.

An increasingly important environmental factor is shortages in key materials. Many companies a re now more willing to buy and hold larger inventories of scarce materials to ensure adequate supply. Business buyers are also affected by technological, political and competitive developments in the environment. Culture and customs can strongly influence business btiyer reactions to the marketer's behaviour and strategies, especially in the international marketing environment (see Marketing Highlight 7,2). The business marketer must watch these factors, determine how they will affect the buyer, and try to turn these challenges into opportunities.

• *Organizational Factors*

Eaeh buying organization has its own objectives, policies, procedures, structure and systems, which must be understood by the business marketer. Questions such as these arise; How many people arc involved in the buying decision? Who are they? What arc their evaluative criteria? What are the company's policies and limits on its buyers? In addition, the business marketer should be aware of the following organizational trends in the purchasing area.

UPGRADED PURCHASING. Buying departments have often occupied a low position in the management hierarchy, even though they often manage more than half of the company's costs. In some industries, such as telecommunications, manufacturers buy in items approaching 80 per cent of total cost. With good reason many companies are upgrading their purchasing activities. Koine companies have combined several functions - such as purchasing, inventory control, production scheduling and traffic - into a high-level function called *strategic materials management.* Buying departments in many multinational companies

have rcsponsihility for buying materials and services around the world. Many companies are offering higher compensation in order to attract top talent in the buying area. This means that business marketers must also upgrade their salespeople to match the quality of today's business buyers.[14]

CENTRALIZED PURCHASING. In companies consisting of many divisions with differing needs, much of the purchasing is carried out at the division level. Recently, however, some large companies have tried to centralize purchasing. Headquarters identifies materials purchased by several divisions and buys them centrally. Centralized purchasing gives the companies more purchasing clout, which can produce substantial savings.

> PepsiCo aims to save SI00m a year, out of total costs of $2bn, by combining the buying power of their separate businesses, Paul Steele, their European vice-president of sales and marketing: 'When we went through the list it was surprising. For example, Pizza Hut buys an enormous quantity of cardboard for the boxes; Pepsi-Cola buys cardboard for soft drink trays. We're looking at whether we can leverage the sale.' They will try the same with buying flour, salt, spices, cooking oil and TV advertising air-time. 'The businesses developed very separately. We didn't have the scale to do this before, but it has suddenly become a very exciting proposition.'[15]

For the business marketer, this development means dealing with fewer, higher-level buyers. Instead of using regional sales forces to sell a large buyer's separate plants, the seller may use a *national account sales force* to service the buyer. For example, at Xerox, over 250 national account managers each handle one to five large national accounts with many scattered locations. The national account managers co-ordinate the efforts of an entire Xerox team - specialists, analysts, salespeople for individual products - to sell and service important national customers.[1]* National account selling is challenging and demands both a high-level sales force and sophisticated marketing effort.

LONG-TERM CONTRACTS. Business buyers are increasingly seeking long-term contracts with suppliers. For example, GM wants to buy from fewer suppliers which are willing to locate close to its plants and produce high-quality components. Business marketers arc also beginning to offer *electronic order interchange* systems to their customers. When using such systems, the seller places terminals hooked to the seller's computers in customers' offices. Then the customer can order needed items instantly by entering orders directly into the computer. The orders are transmitted automatically to the supplier. Many hospitals order directly from Baxter using order-taking **terminals** in their stockrooms. And many booksellers order from Follett's in this way.

Although buyers are seeking closer relations with suppliers, businesses do not always have each other's interests at heart. In all relationships there is a tension between the comfort of loyalty and the freedom to shop around. Economic and technological changes can make long-term business-to-business relationships inherently unstable,'[7] The result is serial monogamy as firms switch between medium-term relationships.

EXTRANET EXCHANGES. The European Commission was worried that *electronic order interchanges* would reduce competition by tying together buyers and suppliers through expensive TT systems. New Internet developments are now limiting the threat. Using extranet exchanges, buyers post their detailed require-

merits on the Internet to reach numerous potential suppliers quickly and efficiently. This can be used for both routine and complex products. Japanese Airlines uses the Internet to post orders for in-flight materials, such as plastic cups. Its Web site carries technical specifications and drawings to show what the company wants, including the airlines logo. For more complicated products the Automotive Network Exchange helps car manufacturers obtain bids for complex components as well as *computer aided designs.* General Electric already buys SI billion through its Trading Process Network, which links 20 big industrial firms to suppliers.[I(f]

.lUST-IN-TIME PRODUCTION SYSTEMS. The emergence of just-in-time *(JIT) production* systems has had a considerable impact on business purchasing policies. JIT, in particular, has produced notable changes in business marketing. JIT means that production materials arrive fit for use at the customer's factory exactly when needed for production, rather than being stored in the customer's inventory until used. The goal of JIT is zero inventory with 100 per cent quality. It calls for co-ordination between the production schedules of supplier and customer, so that neither has to carry much inventory. Effective use of JIT reduces inventory and lead times and increases quality, productivity and adaptability to change.

> Leyland Trucks practises JIT across the whole value chain, and consequently only needs to start production after it has orders. These practices greatly affect how business marketers sell to and service their customers. Since JIT involves frequent delivery, many business marketers have set up locations closer to their large JIT customers. Closer locations enable them to deliver smaller shipments more efficiently and reliably. Many firms have set up plants close to Nissan's car plant in the north of England and VW now has suppliers producing inside its Czech Skoda plant. Thus JIT means that a business marketer may have to make large commitments to important customers.[1"]

PURCHASING PERFORMANCE EVALUATION. Some companies are setting up incentive systems to reward purchasing managers for especially good purchasing performance, in much the same way that salespeople receive bonuses for especially good selling performance. These systems should lead purchasing managers to increase their pressure on sellers for the best terms.

• *Interpersonal Factors*

The buying centre usually includes many participants who influence each other. The business marketer often finds it difficult to determine what kinds of *interpersonal factors* and group dynamics enter into the buying process. As one writer notes; 'Managers do not wear tags that say "decision maker" or "unimportant person". The powerful are often invisible, at least to vendor representatives.'[2"] Nor docs the buying-centre participant with the highest rank always have the most influence. Participants may have influence in the buying decision because they control rewards and punishments, are well liked, have special expertise, or have a special relationship with other important participants. Interpersonal factors are often very subtle. Whenever possible, business marketers must try to understand these factors and design strategies that take them into account.

• *Individual Factors*

Each participant in the bxisiness buying-decision process brings in personal motives, perceptions and preferences. These individual factors are affected by

Marketing Hishlieht

International Marketing Manners: When in Rome .

Consolidated Amalgamation, Inc., thinks it's time that the rest of the world enjoyed the same fine products it has offered American consumers for two generations. It dispatches vice-president Harry E. Slicksmile to Europe to explore the territory. Mr Slicksmile stops first in London, where he makes short work of some bankers - he rings them up on the phone. He bandies Parisians with similar ease: after securing a table at La Tour d'Argent, he greets his luncheon guest, the director of an industrial engineering firm, with the words, 'Just call me Harry, **Jacques.**'

In Germany, Mr Slicksmile is a powerhouse. Whisking through a lavish, state-of-the-art marketing presentation, complete with the flip charts and audiovisuals, he shows them that this Georgia boy *knows* how to make a buck. Heading on to Milan, Harry strikes up a conversation with the Japanese businessman sitting next to him on the plane. He flips his card on to the guy's tray and, when the two say goodbye, shakes hands warmly and clasps the man's right arm. Later, for his appointment with the owner of an Italian packaging-design firm, our hero wears his comfy corduroy sport coat, khald pants and Topsiders. Everybody knows Italians are zany and laid back, right?

Wrong. Six months later, Consolidated Amalgamation has nothing to show for the trip but a pile of bills. There was nothing wrong with **Consolidated** Amalgamation's products, but the orders probably went to firms whose representative had not antagonized and insulted people as much as Harry did. In Europe, they weren't wild about Harry.

This case has been exaggerated for emphasis. People are seldom such doits as Harry E. Slicksmile, but success in international business has a lot to do with knowing the territory and its people. Poor Harry tried, all right, but in all the wrong ways. The British do not, as a rule, make deals over the phone as much as Americans do. It's not so much a 'cultural' difference as a difference in approach, A proper Frenchman neither likes instant familiarity - questions about family, church or alma mater - nor refers to strangers by their first names.

Harry's flashy presentation was probably also a flop with the Germans, who dislike overstatement and ostentation. According to one German expert, German businesspeople have become accustomed to dealing with Americans, Although differences in body language and customs remain, the past 20 years have softened them. However, calling secretaries by their first names would still be considered rude in Germany: 'They have a right to be called by their surname. You'd certainly ask for - and get - permission first.' In Germany people address each other formally and correctly: for example, someone with two doctorates (which is quite common) must be referred to as 'Herr Doktor Doktor'.

When Harry Slicksmile grabbed his new Japanese acquaintance by the arm, the executive probably considered him disrespectful and presumptuous. The Japanese, like many others in Asia, have a 'no contact culture' in which even shaking hands is a strange experience. Harry made matters worse by tossing his business card.



In order to succeed *in global markets, companies must help their managers to understand the needs, customs and cultures of international business buyers.*

Japanese people revere the business card as an extension of self and as an indicator of rank. They do not hand it to people; they present it - with both hands.

Hapless Harry's last gaffe was assuming that Italians are like Hollywood's stereotypes of them, The flair for design and style that has characterized Italian culture for centuries is embodied in the businesspeople of Milan and Rome. They dress beautifully and admire flair, but they blanch at garishness or impropriety in others' attire.

In order to compete successfully in global markets, or even to deal effectively with international firms in their home markets, companies must help their managers to understand the needs, customs and cultures of international business buyers. Here are a few more rules of social and business etiquette that managers should understand when doing business in another country,

France	Dress conservatively, except in the south where more casual clothes are worn. Do not refer to people by their first names - the French are formal with strangers.
Germany	Be especially punctual. A businessperson invited to someone's home should present flowers, preferably unwrapped, to the hostess. During introductions, greet Women first and wait until, or if, they extend their hands before extending yours,
Indonesia	Learn how to sing at least one song. At the end of formal gatherings people often take turns in singing unaccompanied,
Italy	Whether you dress conservatively or go native in a Giorgio Armani suit, keep in mind that Italian business people are style conscious. Make appointments well in advance. Prepare for and be patient with Italian bureaucracies.
Japan	Don't Imitate Japanese bowing customs unless you understand them thoroughly - who bows to whom, how many times and when. It's a complicated ritual,
Saudi Arabia	Although men will kiss each other in greeting, they will never kiss a woman in public. An American woman should wait for a man to extend his hand before offering hers. If a Saudi ot'i'ers refreshment, accept - it is an insult to decline it.
United Kingdom	Toasts are often given at formal dinners. If the host honours you with a toast, be prepared to reciprocate. Business entertaining is done more often at lunch than at dinner.
United States	Expect to be asked to meet and work at any time, over breakfast, lunch and dinner. Do not be taken in by street attire; American managers' dress code at work is very formal and conservative.

Don't panic. Most businesspeople you are likely to meet are used to dealing with overseas guests and are used to forgiving their failings. There is, however, a big gap between being forgiven for social transgressions and getting the best deal.

SOURCES: Adapted from Susan llarte, 'When hi Home, you should learn to do what the Romans do', *The Atlanta Jfntrnal-Ctmstitution (22* January 1990), pp. Dl, 1)6; see also Lufthansa's Business *Travel Guide/Europe;* Sergey Frank, 'Global negotiating', Sales aurf *Marketing Management* (May 1992), pp. 64-§; Malcolm Wheatky, 'Going, going, gone', Business Lift (October 1994), pp. 65-S.

personal characteristics such as age, income, education, professional identification, personality and attitudes towards risk. Also, buyers have different buying styles. Some may be technical types who make in-depth analyses of competitive proposals before choosing a supplier. Other buyers may be intuitive negotiators who are adept at pitting the sellers against one another for the best deal.

Table 7.1 **Key stages of the business buying process in relation to important buying; situations**

	BUYING SITUATIONS		
STAGES OF THE BUYING PROCESS	NEW TASK	MODIFIED REBUY	STRAIGHT REBUY
1. Problem recognition	Yes	Maybe	No
2. General need description	Yes	Maybe	No
3. Product specification	Yes	Yes	Yes
4. Supplier search	Yes	Maybe	No
5. Proposal solicitation	Yes	Maybe	No
6. Supplier selection	Yes	Maybe	No
7. Order-routine specification	Yes	Maybe	No
8. Performance review	Yes	Yes	Yes

SOURUB: Adapted from Patrick J. Robinson, Charles W. Paris, and Yoram Wind, *Industrial Buying and Creative Marketing* (Boston: Allyn & Bacun, 1967), p. 14.

Secretaries and personal assistants are an important target for DHL, the express courier; they may be told by their boss tq send a package but have the discretion to choose the courier. To contact them it advertises in *Executive PA* and other secretarial type publications and 'always attend the Secretaries Show'. In contrast UPS, which has a bias towards small **twsiness-to-business** parcels, finds that most decisions are made by traffic, distribution and logistics managers. To contact them it schedules its TV advertising around sports events, prime-time films and documentaries.[21]

How Do Business Buyers Make their Buying Decisions?

Table 7.1 lists the eight stages of the business buying process.[2]- Buyers who face a new-task buying situation usually go through all stages of the buying process, Buyers making modified or straight rebuys may skip some of the stages. We will examine these steps for the typical new-task buying situation.

• *Problem Recognition*

problem **recognition** *The first stage of the business buying process in 'which someone in the company recognises a problem or need that can be met* fry *acquiring a good* or *a service.*

The buying process begins when someone in the company recognizes a problem or a need that can be met by acquiring a specific good or a service. Problem **recognition** can result from internal or external stimuli. Internally, the company may decide to launch a new product that requires new production equipment and materials. Or a machine may break down and need new parts. Perhaps a purchasing manager is unhappy with a current supplier's product quality, service or prices. Externally, the buyer may get some new ideas at a trade show, see an ad or receive a call from a salesperson who offers a better product or a lower price.

• *General Need Description*

Having recognized a need, the buyer next prepares a general need description that describes the characteristics and quantity of the needed item. For standard items, this process presents few problems. For complex items, however, the buyer may have to work with others - engineers, users, consultants - to define the item. The team may want to rank the importance of reliability, durability, price and other attributes desired in the item. In this phase, the alert business marketer can help the buyers define their needs and provide information about the value of different product characteristics.

general need description
The stage in the business buying process in which (he company describes the general characteristics and quantity of a needed item.

• *Product Specification*

The buying organization next develops the item's technical product specifications, often with the help of a value analysis engineering team. Value analysis is an approach to cost reduction in which components are studied carefully to determine if they can be redesigned, standardized or made by less costly methods of production. The team decides on the best characteristics and specifies them accordingly. Sellers, too, can use value analysis as a tool to help secure a new account. By showing buyers a better way to make an object, outside sellers can turn straight rebuy situations into new-task situations that give them a chance to obtain new business.

product specification
The stage *of the* business *buying process in nmhich the buying organization decides an and specifies the best technical product characteristics for a needed item.*

value analysis
Art approach to cost reduction in which components are studied carefully to determine if they can be redesigned, standardized or made by less costly methods of production.

• *Supplier Search*

The buyer now conducts a supplier search to find the best vendors. The buyer can compile a small list of qualified suppliers by reviewing trade directories, doing a computer search or phoning other companies for recommendations. The newer die buying task and the more complex and costly the item, the greater the amount of time the buyer will spend searching for suppliers. The supplier's task is to get listed in the big directories and build a good reputation hi the marketplace. Salespeople should watch for companies in the process of searching for suppliers and make certain that their firm is considered.

supplier search
The stage of the business buying process in which the buyer tries to find the bust vendors.

• *Proposal Solicitation*

In the proposal solicitation stage of the business buying process, the buyer invites qualified suppliers to submit proposals. In response, some suppliers will send only a catalogue or a salesperson. However, when the item is complex or expensive, the buyer will usually require detailed written proposals or formal presentations from each potential supplier.

Business marketers must be skilled in researching, writing and presenting proposals in response to buyer proposal solicitations. Proposals should be marketing documents, not just technical documents. Presentations should inspire confidence and should make the marketer's company stand out from the competition.

proposal solicitation
The stage of the business buying process in •which the buyer invites qualified suppliers to submit proposals.

Supplier Selection

The members of the buying centre now review the proposals and select a supplier or suppliers. During supplier seleetion, the buying centre will often draw up a list of the desired supplier attributes and their relative importance. In one survey, purchasing executives listed the following attributes as most important in influencing the relationship between supplier and customer: quality products and services, on-time delivery, ethical corporate behaviour, honest communication

supplier selection
The stage of the business buying process in which the buyer reviews proposals and selects a supplier or suppliers.

Table 7.2 **An example of vendor analysis**

Attributes	Rating scale				
	Unacceptable (0)	Poor (1)	Fair (2)	Good (3)	Excellent (4)
Technical and production capabilities					x
Price competitiveness			x		
Product quality					x
Delivery reliability			x		
Service capability					x
4 + 2 + 4 + 2 + 4 = 16					
Average score: 16/5 = 3.2					

Note: This vendor shows up as strong except on two attributes. The purchasing agent has to decide how important the two weaknesses are. The analysis could be redone using importance weights for the five attributes.

Source: Adapted from Richard Hill, Ralph Alexander and James Cross, *Industrial Marketing*, 4th edn (Homewood, IL: Irwin, 1975), pp. 101–4.

and competitive prices.[2-1] Other important factors include repair and servicing capabilities, technical aid and advice, geographic location, performance history and reputation. The members of the buying centre will rate suppliers against these attributes and identify the best suppliers. They often use a supplier evaluation method similar to the one shown in Table 7.2.

The importance of various supplier attributes depends on the type of purchase situation the buyer faces.[24] One study of 220 purchasing managers showed that economic criteria were most important in situations involving routine purchases of standard products. Performance criteria became more important in purchases of non-standard, more complex products. The supplier's ability to adapt to the buyer's changing needs was important for almost all types of purchase.

Buyers may attempt to negotiate with preferred suppliers for better prices and terms before making the final selections. In the end, they may select a single supplier or a few suppliers. Many buyers prefer multiple sources of supplies to avoid being totally dependent on one supplier and to allow comparisons of prices and performance of several suppliers over time.

order-routine **specification**
The stage of the business buying process in which the buyer writes the final order with the chosen suppliers(s), listing the technical specifications, quantity needed, expected time of delivery, return policies and warranties.

• *Order-Routine Specification*

The buyer now prepares an order-routine specification. It includes the final order with the chosen supplier or suppliers and lists items such as technical specifications, quantity needed, expected time of delivery, return policies and warranties. In the ease of maintenance, repair and operating items, buyers are increasingly using *blanket* coiifruc-ts rather than periodic purchase orders. A blanket contract creates a long-term relationship in which the supplier promises to resupply the buyer as needed at agreed prices for a set time period. The seller holds the stock and the buyer's computer automatically prints out an order to the seller when stock is needed. A blanket order eliminates the expensive process of renegotiating a purchase each time stock is required. It also allows buyers to



Firms like Credit Suisse build long-term relationships with their clients through 'reliability, loyalty and mutual trust'.

write more, hut smaller, purchase orders, resulting in lower inventory levels and carrying costs.

Blanket contracting leads to more single-source buying and to buying more items from that source. This practice locks the supplier in tighter with the buyer and makes it difficult for other suppliers to break in unless the buyer becomes dissatisfied with prices or service.

- *Performance Review*

In this stage, the buyer reviews supplier performance. The buyer may contact users and ask them to rate their satisfaction. The **performance** review may lead the buyer to continue, modify or drop the arrangement. The seller's job is to monitor the same factors used by the buyer to make sure that the seller is giving the expected satisfaction.

performance review
Tlie stage of the business buying process in which the buyer races its satisfaction with suppliers, deciding whether to continue, modify or drop tiiem.

We have described the stages that would typically occur in a new-task buying situation. The eight-stage model provides a simple view of the business buying-decision process. The actual process is usually much more complex. In the modified rebuy or straight rebuy situation, some of these stages would be compressed or bypassed. Each organization buys in its own way and each buying situation has unique requirements. Different buying-centre participants may be involved at dit'r'cnmt stages of the process. Although certain buying-process steps usually do occur, buyers do not always follow them in the same order and they may add other steps. Often, buyers will repeat certain stages of the process.

Institutional and Government Markets

So far, our discussion of organizational buying has focused largely on the buying behaviour of business buyers. Much of this discussion also applies to the buying

practices of institutional and government organizations. However, these two non-business markets have additional characteristics and needs. Thus, in this final section, we will address the special features of institutional and government markets.

Institutional Markets

institutional **market** *Schools, hospitals, nursing homes,* prisons *and other institutions that provide goods and* services to *people in their care.*

The institutional market consists of schools, hospitals, nursing homes, prisons and other institutions that provide goods and services to people in their care. Institutions differ from one another in their sponsors and in their objectives. For example, in the United Kingdom, BUPA hospitals are operated for profit and are predominantly used by people with private medical insurance. National Health Service trust hospitals provide health care as part of the welfare state, while charities, such as the Terrencc ITiggins Trust and many small hospices, run centres for the terminally ill.

Low budgets and captive patrons characterize many institutional markets. For example, many campus-based students have little choice hut to eat whatever food the university supplies. A catering organization decides on the quality of food to buy for students. The buying objective is not profit because the food is provided as a part of a total service package. Nor is strict cost minimization the goal - students receiving poor-quality food will complain to others and damage the college's reputation. Thus the university purchasing agent must search for institutional food vendors whose quality meets or exceeds a certain minimum standard and whose prices are low.

Many marketers set up separate divisions to meet the special characteristics and needs of institutional buyers. For example, Heinz produces, packages and prices its ketchup and other products differently to serve better the requirements of hospitals, colleges and other institutional markets.

Government Markets

government marker *Governmental units - national and local - that purchase or rent goods and services for carrying out the main functions ofgovernment.*

The government market offers large opportunities for many companies. Government buying and business buying are similar in many ways. But there are also differences that must be understood by companies wishing to sell products and services to governments. To succeed in the government market, sellers must locate key decision makers, identify the factors that affect buyer behaviour and understand the buying decision process.

Government buying organizations are found at national and local levels. The national level is the largest and its buying units operate in both the civilian and military sectors. Various government departments, administrations, agencies, boards, commissions, executive offices and other units carry out buying, Sometimes, the centra/ *buying operation* helps to centralize the buying of commonly used items in the civilian section (for example, office furniture and equipment, vehicles, fuels) and in standardizing buying procedures for the other agencies. Defence Ministries usually carry out the buying of military equipment for the Forces.

• *Strong Influences on Government Buyers*

Like consumer and business buyers, government buyers are affected by environmental, organizational, interpersonal and individual factors. One unique thing about government buying is that it is carefully watched by outside publics, ranging from elected representatives to a variety of private groups interested in

how the government spends taxpayers' money. Because their spending decisions are subject to public review, government organizations are buried in paperwork. Elaborate forms must be filled and signed before purchases are approved. The level of bureaucracy and political sensitivities are high and marketers must cut through this red tape. Ways of dealing with governments vary greatly from country *to* country, and knowledge of local practices is critical to achieving sales successes (see Marketing Highlight 7.3).

Non-economic criteria also play a growing role in government buying. Government buyers are asked to favour depressed business firms and areas, small business firms, and business firms that avoid race, sex or age discrimination. Politicians will fight to have large contracts awarded to firms in their area or for their constituency to be the site of big construction projects. EuroDisney is an extreme case, the Dumber Bridge and the Nimrod AWAG aircraft are others. Sellers need to keep these factors in mind when deciding to seek government business.

Government organizations typically require suppliers to submit bids and they normally award contracts to the lowest bidders. In some cases, however, government buyers make allowances for superior quality or for a firm's reputation for completing contracts on time. Governments will also buy on a negotiated contract basis for complex projects that involve substantial R & D costs and risks or when there is little effective competition. Governments tend to favour domestic suppliers over foreign suppliers, which is a repeated complaint of multinational businesses. Each country tends to favour its own nationals, even when non-domestic firms make superior offers. The European Economic Commission is trying to reduce such biases.

• *How Do Government Buyers Make their Buying Decisions?*

Government buying practices often seem complex and frustrating to suppliers, who have voiced many complaints about government purchasing procedures. Those include too much paperwork and bureaucracy, needless regulations, emphasis on low bid prices, decision-making delays, frequent shifts in buying personnel and too many policy changes. Yet, despite such obstacles, selling to the government can often be mastered in a short time. The government is generally helpful in providing information about its buying needs and procedures, and is often as eager to attract new suppliers as the suppliers are to find customers.

When the mighty US Fleet edged its way up the Gulf during Desert Storm, five little plastic boats led it. The little Royal Navy Hunt Class MCMVa (Mine Counter-Measure Vessels) were in a league of their own at the dangerous job of clearing a path for the main fleet. They were made by Vesper Thornycroft, a small British company which is a master at selling to governments around the world. While the world's leading defence contractors seek alliances and mergers to meet the 'peace dividend's' reduced demand, Vosper has an order book worth £600 million and 14 vessels under construction, 95 per cent of them for export. Part of its strength is Vesper's dominance in the niche for glass-reinforced plastic (GRP) mine hunters, corvettes and patrol craft. Just the sort of ships that small navies want.

Vbsper's strength extends beyond the vessels. With its vessels it offers a maritime training and support service where it has pioneered computer-based learning. Many clients come from the Middle East and travel with their families, so Vosper has built an Arabic school for 70 pupils next to the maritime training centre. It now does training for other firms selling to the Middle East, so strengthening its position in the region. Others of

Marketing Highlight 7.3

Political Graft: Wheeze or Sleaze?



On 26 May 1994 at the White House, President Bill Clinton's chef de cabinet was forced to resign. He had used a government helicopter to take him to a game of golf. lie was ordered to reimburse the Treasury for the cost of his jaunt, 813,129.66. Other continents; other morals.

On 20 June 1994 in Paris, the new Members of the European Parliament were invited to a briefing on the many perks attached to their new status. The subject excited Jean-Francois Hory, president of Bernard Tapie's socialist MRG party. From his place in the front row lie turned in his seat, fixed a knowing eye on his new colleagues and addressed them in the manner of an old hand talking down to university freshmen: 'One thing you need to know about travel allowances - they'll want to know your address. If you have one or more second homes, make sure you list the one furthest from Brussels.' Obviously, a return flight from Marseilles to Brussels is worth more than the tram fare from Loos-les-Lille to Brussels. Do you detect a whiff of moral purity?

Political corruption used to be a thing other countries did, but no more. In the United States, United Kingdom, France, Spain, Italy, Japan and elsewhere, accusations of political corruption involving businesses have shaken the countries' leaders. Eurofraud is estimated to cost EU taxpayers over 10 billion ecu per year. Sometimes the t'iddles are minor, like exaggerating expense claims on Eurojaimts, but often they are not. In 1991 Antonio Quatraro leapt to his death from a Brussels window. He was a European Commission official responsible for authorizing subsidies. In 1990 a fraud was discovered where he allegedly received backhanders for rigging the auction of Greek-grown tobacco to benefit Italian traders.

The auction rigging would be illegal anywhere, but often what is common practice in one country will bring a senior politician down in another. All governments have codes of practice, but as Table 1 shows, they are not consistent. There are also different cultural traditions about obeying rules. In Britain a Treasury minister had to fight for his political life following accusations that a controversial Arab businessman had paid for a weekend that the minister had had at the Paris Ritz Hotel. The bill was less than Ffr4,000 and in no other European country would he have had to declare such a gift. German political representatives have to sign a register, but the Bundestag's guidelines suggest only declaring gifts over DM10,000.

In Japan the attitude towards political corruption is changing slowly. In 1988 Kiichi Miyazawa resigned as finance minister after being caught up in the Recruit scandal. Recruit, an employment agency, had secretly given large tranches of its own shares to politicians, including cabinet ministers, in exchange for political favours. But by 1991 Mr Miyazawa was sufficiently rehabilitated to become prime minister. This follows the 'traditional' pattern for Japanese politicians caught taking bribes *oro-shoku,* 'defiling one's job'. *O-shoku* carries no moral overtones about wrongdoing, it just means that through carelessness the publicity has dishonoured the politician's honoured position. The usual line of defence in the Diet is that the politicians knew nothing, since their aides took the money. In that way the politician does not lose face, junior aides are not worth prosecuting and ever;'one is happy.

The mood changed after the Sagawa scandal. Shin Kanemaru needed money to split the ruling LDP and start one of his own. He needed a lot of cash and most of it came from Sagasva Kyubin, a trucking company that wanted political favour in order to expand its business. Gold bars and bonds were found in Mr Kanemaru's home and office. He was found guilty of not reporting Y2SO million in 'political donations', but fined less than

TABI.EI GOVERNMENT CODES OF PRACTICE IN VARIOUS COUNTRIES

COUNTRY	COMPULSORY REGISTER OF INTERESTS?	REGISTER OPEN TO THE PUBLIC?	REGISTER OF INCOMPysiIARES DETAILS?	MPs DECLARE INTEREST IN DEBATE?	MUST DECLARE FREE RITZ WEEKEND?
France	Assets	No	No	No	No
Germany	Yes	Yes	No	No	No
Italy	Income	Yes	Yes	No	No
Spain	Yes	No	No	No	No
United Kingdom	Yes	Yes	No	Yes	Yes
United States	Yes	Yes	Yes	No	Yes[a]

NOTE: "Gifts over §250 nut acceptable.

y100,000. After this, a new term entered the Japanese political vocabulary, *seijijuhai* or 'politics rotten to the point of disintegration'.

Such large-scale 'crony capitalism' has much to do with the meltdown of the Tiger economies in the late 1990s. 'Indonesia is in the most invidious position,' said Chris Tinker, regional economist at ING Bering in Hong Kong. 'Crony capitalism and pressure from the president's children, with privileged business interests, have held back economic restructuring, causing massive capital flight.' Meanwhile Indonesia's annual per-capita consumption declined from US$1,200 to 8300; stook-market capitalization went from $118 billion to S17 billion; and onSy 22 of the country's 286 publicly listed companies remained solvent.

When selling to governments, especially foreign ones, marketers face a great dilemma. Should they follow St Ambrose's advice to St Augustine: 'When you are at Rome live in the Roman style; when you are elsewhere live as they live elsewhere'? Or should they behave like a saint?

SOURCES; The loading quotation is from 'An open letter to chose unnerved by the little judges', by MEP Thierry Jean-Pierre Terry; other sources are Terry McCarthy, 'It's not graft, just duty anil obligation', /ndependenl (27 October 1994), p, 16; 'Hands up all those hit by sleaze', *The* Economist (29 October 1.994), pp. 49-51; 'The sour taste of gravy', *The Kconvmist* (5 November 1994), p. 50; Alix Christie and Julie Read, 'fraud crusader gears up for a fight, 7'hu *European* (11-17 November 1994), p. 11; John McBeth, 'Ground zero', For Eastern,-Economic Review (22 January 1998), pp. 14-17. See also a series of five special reports on 'Asia in Crisis' published in the *Financiul Times* between 12 and 16 January W98.

Vesper's activities *get* it closely involved in its customers' operations. The company has a three-year contract for the Ministry of Defence's Record Data Centre and has a five-year contract to operate maritime services craft for the Royal Air Force. Not had for a company sold by British Shipbuilders to a management team in 1985 for £18.5 million - in 1994 the company's value was $236 million.[25]

Many companies that sell to the government are not so marketing oriented as Vosper Thornycroft for a number of reasons. Total government spending is determined by elected officials rather than by any marketing effort to develop this market. Government buying has emphasized priee, making suppliers invest their effort in technology to bring costs down. When the product's characteristics are specified carefully, product differentiation is not a marketing factor. Nor do advertising or personal selling matter mueh in winning bids on an open-bid basis.

More companies now have separate marketing departments for government marketing efforts. British Aerospace, Eastman Kodak and Goodyear are examples.

These companies want to co-ordinate bids and prepare them more scientifically, to propose projects to meet government needs rather than just respond to government requests, to gather competitive intelligence, and to prepare stronger communications co describe the company's competence.

Summary

The business market is vast. In many ways, business markets are like consumer markets, but business markets usually have fewer, larger buyers who are more geographically concentrated. Business demand is *derived,* largely *inelastic* and *more fluctuating.* More buyers are usually involved in the business buying decision and business buyers are better trained and more professional than are consumer buyers. In general, business purchasing decisions are more complex and the buying process is more formal than consumer buying.

The *business market* includes firms that buy goods and services in order to produce products and services co sell to others. It also includes retailing and wholesaling firms that buy goods in order to resell them at a profit. Business buyers make decisions that vary with the three types of buying situation: *straight* re&ijys, *modified rebuys and new tasks.* The decision-making unit of a buying organization -the *buying centre* - may consist of many people playing many roles. The business marketer needs to know the following: Who are the main participants? In what decisions do they exercise influence? What is their relative degree of influence? And what evaluation criteria does each decision participant use? The business marketer also needs to understand the primary environmental, interpersonal and individual influences on the buying process. The business buy ing-decision process itself consists of eight stages: *problem recognition, general needs description, product specification, supplier search, proposal solicitation , supplier selection, order-routine specification* and *performance review.* As business buyers become more sophisticated, business marketers must keep in step by upgrading their marketing accordingly.

The *institutional market* consists of schools, hospitals, prisons and other institutions that provide goods and services to people in their care. Low budgets and captive patrons characterize these markets. The *government market* is also vast. Government buyers purchase products and services for defence, education, public welfare and other public needs. Government buying practices are highly specialized and specified, with open bidding or negotiated contracts characterizing most of the buying. Government buyers operate under the watchful eye of politicians and many private watchdog groups. Hence, they tend to require more forms and signatures and to respond more slowly in placing orders.

Key Terms

Business buying process 276
Business market 276
Buyers 285
Buying centre 284
Deciders 285
Derived demand 277
Gatekeepers 285
General need description 293
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Inelastic demand 278
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Discussing the Issues

1. Identify the ways in which the fashion clothing market differs from the military uniform market.
2. Which of the main types of bviying situation are represented by the following individual circumstances?
   - BMW's purchase of computers that go in cars and adjust engine performance to changing driving conditions.
   - Volkswagen's purchase of spark plugs for its line of Jettas.
   - Honda's purchase of light bulbs for a new Legend model.
3. How would a marketer of office equipment identify the buying centre for a law firm's purchase of dictation equipment for each of its partners?
4. Discuss the principal environmental factors that would affect the purchase of radar speed detectors by national and local police forces.
5. Industrial products companies have advertised products to the general public that consumers are not able to buy. How does this strategy help a company sell products to resellers?
6. Assume you are selling a fleet of fork-lift trucks to be used by a large distribution and warehousing firm. The drivers of the fork-lift trucks need the latest technology that provides comfort, makes driving easy and improves manoeuvrability. This means more expensive trucks that are more profitable for you. The fleet buyer, however, wants to buy established (not necessarily latest) technology that gives the highest productivity. Who might be in the buying centre? How might you meet the varying needs of these participants?

Applying the Concepts

Take your college/university as an **example** of a business customer for books and other educational materials. Imagine that you are a representative from a publisher who intends to establish sales to the college/university. How might you use the model of business buyer behaviour to help you develop a strategy for marketing effectively to this customer? How useful is the model? What (if any) are the limitations? Are there different levels of customers in this situation (e.g. the library as a buying centre; course team members who agree on the textbooks to recommend for student adoption and library stocks; the individual tutor who chooses recommended textbooks and requests the library to stock; or the college/university bookshop)? How might you deal with these different levels of customer?

Make a list of the key factors that a local government institution or agency might consider when deciding to purchase new coffee-making machines for users in its offices. Remembering how government buyers make their buying decisions, suggest a scenario that you, as a potential supplier, would use to sell to this institutional buyer.

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Case 7

TrolI-AEG

*Javier Sarda, Franscesc Parès and Lluìs G. Renart**

J. FELIU DK LA PENA, SA (JFP) is a Spanish manufaeturer of electric lamps[1] known for its modern Troll products. In the late afternoon of 21 January 1992 Miguel Tey Feliu de la Pefia, JFP's managing director, was reflecting on the reciprocal commercial distribution contracts to be signed the next day with the managers of AEG's Technical Lighting Business Area {AEG Aktiengesellschaft Fachbereich Liehttechnik, or AEG-LT) from Germany.

The first JFP 'mirror' contract granted AEG a non-exclusive right to distribute its products in Germany. The second granted JFP and its subsidiary Troll-France a non-exclusive right to distribute AEG products in Spain and France. Miguel Tey did not doubt that the contracts needed signing, but reflected on several questions:

> First, when I review the decisions that have been taken up to this point in time, I wonder if we are doing the right thing in entering into this type of agreement or whether it would have been better to continue following our own fully autonomous growth path, as we have done until now. At the same time, I wonder whether AEG is the best partner for us. Also, when I reread the two contracts, I wonder if something is missing or should not be there, or whether any of the sections should be reworded.
>
> Second, if we accept everything done until now and do sign the contracts, then there are two major questions with regard to our immediate future that must be answered: What must we decide and do to ensure that this new reciprocal relationship between Troll and AEG works, and works well? Ami finally, how will all this end up? In other words, where will our company be three, five or ten years from now? Will these agreements still be in full force?

No doubt because of the obvious difference in size between JFP and AEG, someone had recently said, only half jokingly: 'In no time at all, we'll all be wearing AEG T-shirts.'

J. Feliu de la Peoa, SA (JFP)

Mr Julio Feliu de la Pena, grandfather of the brothers Xavier and Miguel Tey Feliu de la Pena, started manufacturing 'classic' design lamps in 1929, in Barcelona. In 1974 Miguel and Xavier became owners of JFP, which then operated from ground floor premises very close to the centre of Barcelona. In the same year Nordart Industria, SA offered them the possibility of selling its products marketed under the Troll brand. It was a new lighting system made up by spot projectors, power tracks and adapters (the adapter being the part

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linking the spot projector to the power-carrying track). Miguel saw that the product had a we11-presented, modern design, and he offered to buy Nordart's entire output if given exclusive sales rights for Spain. Nordart ludustria, SA was a small factory without any sales force that was badly stung when a distributor had copied its product and left it in the lurch. Joaquim Maso. the company's owner, accepted the appointment of JFP as its sole agent after establishing that JFP would operate with a gross margin of 30 per cent.

By 1977, their Troll sales had increased to Ptal30 million. Miguel realized that 'the future was Troll'. In 1978 Joaquim Maso and the Tcy brothers agreed to merge both companies. During the next decade, the company's sales grew at slightly more than 50 per cent per annum. The workforce increased from 25 to 100 employees and the company became market leader in Spain in this type of accent lighting elements, JFP's success is attributable to the changes in the distribution channel and the continuous improvement and redesign of its products. JFP ceased selling through traditional (normally classic design) lamp retailers and pioneered the sale of spotlights and down-lights through electrical goods wholesalers-stockists.

Miguel Tey considered that this change of distribution policy had been only partly successful. He soon realized his limited negotiating power with these wholesalers. To counteract this, Miguel sought an alliance with non-competing companies whose products sold through the same electrical goods stores. He managed to persuade the general managers of a wire company, a transformer company and a cable fastener company to join in an alliance. A network of self-employed representatives sold the products of all four manufacturers. All four manufacturers placed their products on consignment in the representative's warehouse. The representative would then sell and deliver the goods, sending the delivery note to each manufacturer. In Spain, this kind of wholesaler-stockist sells mostly to contractors specializing in electrical installations, either in new buildings or in building refurbishing jobs. Most of their sales were 'counter' sales, made on the spot to contractors who came to their outlet with a list of their immediate needs and would take the goods with them. In exchange for these functions, the representative received a commission agreed upon separately with each one of the four manufacturing companies. Thirteen joint 'branches' covered practically the entire Spanish market.

> And all that with just paying a commission - that is, a variable cost - and with a minimum investment in stock in all thirteen warehouses. An important point to remember is that thanks to our pioneering role in selling accent lighting elements in Spain, JFP's margins were very high. Our sale price to the electrical goods store was between 2.5 and 3 times our manufacturing cost!

In time JFP became the unofficial leader of the network as the representatives mainly followed Miguel Tey's lead. JFP's young general manager had managed to win them over through a combination of an extremely cordial personal relationship, an excellent service from his company, a product range with skyrocketing sales and a It) per cent commission. The other three companies paid them 5 per cent commission or less.

Range Changes

Design changes helped JFP's success. Originally each lamp model and variants, of which there were about 50, came in 16 colours and consisted of several parts that were specific to each model. In total, there were about 3,200 different stock-keeping units (skus). Miguel reduced the colour range

from 16 to 4 (white, black, gold and stainless steel) and redesigned the lamps. This innovation made the four basic parts of the lighting systems manufactured fully interchangeable, which allowed the number of skus to be cut down to less than 200. This produced a dramatic increase in turnover for warehouses in the logistics chain for JFP and its immediate customers.

Miguel also implemented significant changes in the design process of its lighting elements. By 1985 Miguel had decided that he needed to create an aesthetic consistency and identifying style in his lighting element designs and started to commission original designs from two freelance industrial designers. He wanted his lighting elements to be immediately recognizable.

The combination of pioneering accent lighting in Spain (with downlights, spots and tracks), the network of 'branches' made up of the 13 independent representatives, a well-designed product range and ample margins turned the company into one of the most profitable in Spain in this industry. Forecast sales for 1989 were about Ptal.5 billion, with net income of about Pta400 million and a market share between 25 and 30 per cent of indoor accent lighting elements.

Recruitment of Javier Rocasalbas

Faced with a strong increase in demand, the company no longer had sufficient capacity to supply all the orders. Furthermore, Miguel was in serious danger of being overwhelmed by the increasing complexity of the company's management. Consequently, in 1988 he decided to recruit Javier Rocasalbas as general manager. Miguel became managing director and his brother Xavier became president. Javier Rocasalbas was 40 years old. He had graduated as an industrial engineer, but his early work experience was in engineering production. Before joining JFP, he had worked in a plastics factory where, for the first time, his duties went beyond the technical.

Rocasalbas realized that, although the products were aesthetically excellent, their technical quality was poor. The electromechanical aspects had been neglected to a considerable extent, which led to difficulties when attempting to assemble the lamps on an industrial scale. In 1989 he increased the design team by recruiting Carlos Galan, an industrial engineer and electromechanical designer, as its manager. A designer specialized in mechanical functions and a draughtsman was also recruited to the team.

By the end of 1991, the design and quality department had between 12 and 14 people responsible for product performance, compliance with electrical safety standards, and aesthetic quality of the products as individual items and as parts of the entire collection. The company changed from a design process in which the cost price was known only at the end, to one where a cost price was set before starting the design work.

The 'star' products in 1988 were the fixed, low-voltage built-in downlight in black or white and the swivelling ball-spot. They were relatively simple products to design, manufacture, assemble and install at the point of use. They were standard products of average quality, usually bought by electricians or electrical contractors for easy installation in private homes, shops, offices and so forth. The 'branches' - the 13 sales representatives with their own warehouse - sold indiscriminately and massively, without distinguishing between different types of customer. JFP published a single price list, which carried a 45 per cent discount for all customers.

Tensions in the Range

From 1988, competition in Spain became much fiercer. A large number of lamp manufacturers appeared, Hooding the market with lighting elements that had

designs very similar to Troll's, Some even used Troll products to take the photographs for some competitor's catalogue. By the end of 1991, between 25 and 30 Spanish lamp manufacturers offered virtually identical, standard accent lighting elements. The resulting price war severely eroded sales margins from about .30 per cent in 1988 to about 15 per cent in 1991.

Miguel's response was to decide that if Troll products sold well in Spain, they should also be successful in France, which had accounted for almost Pta4 million of the company's exports. Always impulsive and quick off the mark, Miguel went to Lyon, bought an old building near the high-speed train (TGV) station and recruited Josep Sitja as general manager of Troll-France. A Catalan by birth, he had worked until that time as an electrical contractor in Marseilles.

By 1988 JFP was exporting Pta46 million worth of products to France, but part of this export figure included the start-up stock of finished product shipped to Lyon. The standard products also had serious difficulties in the French market. The quality was not right, the price was not right and they were not certified as conforming to the French standards. However, aesthetically they were very well accepted and that could become the decisive factor differentiating Troll lamps.

It was very difficult to achieve a significant level of sales in France without offering an integral, complete and coherent product range. The Troll range was solely interior accent lighting elements: that is, tracks and spots, down-lights and suspended fluorescent lights self-connected by jacks. The company had no built-in fluorescent panels (used mainly in offices), industrial lights (for lighting factories) or any type of righting elements for installation and use outdoors, to light public highways, parks and gardens, tunnels, sports facilities and so on.

Miguel and Javier's reaction to this setback was a firm resolve to gain a presence in the European market, and to do this by changing their product range, slowly phasing out their standard products and starting to design, manufacture and sell technical architectural lighting elements. Rocasalbas explains:

> We considered that the more sophisticated features of the new generation of lighting elements we wanted to design and launch onto the market would be more difficult for our direct competitors, most of which were small companies, to imitate. We were up against companies which were limited riot only by their technical skills but also by their financial possibilities, as an 'architectural' lighting element of this type may mean investing about Pta20 million in design, tooling, moulds, etc.
>
> It was rather an intuitive change; I don't think we really knew what we were letting ourselves in for. Or, at least, at that time, we were not aware that the change in foeus of the product range would also necessarily involve a drastic change in the type of final customer, in distribution channels, and in the marketing resources to be used to promote our products.

When they launched the first new-generation lighting elements on the market, the electrical goods wholesaicr-stockholders neither bought nor distributed technical architectural lighting products. These were too sophisticated, designed for specific applications and slow-selling, and their installation required a prior analysis to ensure their match with specific lighting needs, circumstances or environments.

The Prescribe™

Technical architectural lighting was promoted by persuading (he prescribers to use them. Within the field of technical lighting, a prescriber could be an

architect, an interior decorator, a shop window designer, an engineer or **technician** specializing in lighting, an engineering firm, and so on. When *faced* with a lighting requirement (a hotel, a stadium, a modern shop, a hospital, etc.), the preseriher studied the lighting needs (light intensity, eolorimetry, possible combinations within the surroundings, etc.) and decided the type, quantity, characterINtics and location of each lighting point to he installed in order to obtain the desired decorative and lighting results. In the case of new buildings, it was vital to incline the prescribe! in favour of a certain light brand and model while the architectural design was still on the drawing-board. Roeasalbas explains:

> The prescriber was a new factor to be reckoned with during the sales process carried out by JFP ... Until then, we had not taken any steps to influence their decisions because, given the relative simplicity of our products, it was simply not necessary ... We realized that the image they had of us - if they had any at all - would be something like that of SEAT, when it was manufacturing the '600', while now we had decided to make Mercedes-Benz! ... Perhaps at that time we might have given other strategic responses to our competitors, such as trying to cut them short by lowering prices or creating a second 'fighting' brand name but the fact is we consciously didn't. This does not mean, however, that we did not fight hard to defend our position in the standard product market, as we were fully aware that the bulk of our sales were precisely composed - and, at the close of 1991, they still are - of these standard products.

Meanwhile the Madrid and Barcelona representatives had secretly come to an agreement in 1988 to propose a change in their role. They wanted to be fully independent and exclusive distributors in their geographical area, buying set quantities and reselling the product on their own account, thus earning a margin instead of a commission. The proposal had a mixed reception from the four manufacturers in the alliance. The transformer manufacturer accepted the proposed change, but the cable manufacturer not only rejected the proposal but also cancelled the agency agreement with them.

Rocasalbas turned down the proposal but continued to work with them, trying to get them to start promoting to prescribcrs while continuing to sell the standard lighting elements. To help them they took on four middle-aged, well-groomed women (two in Madrid and two in Barcelona). These women would start to contact prescribcrs, introducing them to the company and telling them that JFP was entering the technical architectural lighting market. Said Rocasalbas:

> We were not yet out 'project hunting'. But we soon realized that 'good grooming' was not enough. We had to be able to solve the preservers' problem or at least to be able to provide them with all the necessary means for them to solve it themselves. This included providing prescribers with all the necessary technical data and free product samples, and having a showroom where they could handle the lights and test lighting effects.
>
> The selling process was very complex because the final decision on the light brand and model to be installed depends not only on the prescriber but also on the contractor installing the entire electrical and lighting system and, in the final analysis, on the building's owner, as the person footing the bill.

JFP managed slowly to penetrate the technical architectural lighting market, selling by promoting and carrying out projects for the prescriber. However, in 1990, this market only accounted for ahout 5 per cent of JFP's total sales, and marketing and sales costs had increased substantially.

To speed up the change process, in 1991 JFP decided to terminate their relationship with the Barcelona and Madrid representatives and open a sales office with showroom. Its Barcelona branch - responsible for promotion and sales through Catalonia - had two sales teams. One team of three full-time employed salesmen covered the electrical goods wholesaler-stockists, while the other focused on speciality retailers, mainly selling them the more 'standard' product range. By the end of 1991, the other Barcelona-Catalonia sales team targeted the prescription market. It had three salaried salesmen who visited prospective customers and another person who drew up the design projects. The first team was much more profitable than the second as, at the end of 1991, sales of standard products continued to account for about 80 per cent of the company's total sales.

There was a possibility that, in the future, JFP would open similar fully owned branches in other large Spanish cities. The decision would depend on two factors: first, the degree of sales and financial success achieved by the two JFP branches already operating (Barcelona and Madrid);and second, the current 'old' representatives' attitude and behaviour. They had to show their willingness and effectiveness in promoting the new generation of architectural technical lighting products.

At the end of 1991, Javier Rocasalbas commented:

> Perhaps I'm wrong, but I think that even the minimally observant person had realized that lighting in houses and apartments, offices, shops, public areas, etc., had become increasingly sophisticated. Indeed, lighting was becoming an increasingly important part of the building's or premises' aesthetics. The challenge for us, then, is *to give* Troll lamps the technical capacity to contribute lighting solutions, on the one hand, and to be able to integrate themselves aesthetically with their surroundings, on the other hand. But we also have to explain this to prescribers, without forgetting to 'close the loop', that is, acting actively and positively on the contractor and on the building's owner or his purchasing manager. Any one of these people, at any particular time, can act for or against a type, brand or model of lamp. It is crucial to identify new projects at an early stage, in order to mature the final decision in our favour. This selling and 'maturing' process can take several months, with a significant investment in time. And even with all that, we only manage to get one out of every ten projects we bid for! To put it another way, when we 'mature' a project, we are not selling 'lighting elements'. We are selling 'a particular lighting solution'.

In 1991 the company had spent a total of about PtalOO million in advertising expenses, brochures and product catalogues, and attending trade fairs. This amount includes the cost of similar expenses by Troll-France, SA.

Internationalization

in mid-1990 Philippe Martinez became Troll-France, SA's new general manager. He was of Spanish descent, but was very knowledgeable about the French lighting market. lie quickly established a team of six salaried sales reps selling only Troll products. They had two tasks: to 'sell in' to the whole-

saler-stockists and to promote to preseribers. As in Spain, they never sold directly to contractors or to end customers.

By the end of 1991, JFP re-evaluated its French venture. Troll-France had used Pta250 million start-up funds and between 1988 and 1991 had had Ptal20 million. 'From a strictly economic point of view, the economic effort undertaken in France was highly questionable,' commented Miguel Tey. 'But,' he continued, 'if we had not taken the good (even if expensive) decision to go out of Spain at the time the Spanish economy was buoyant, we would find ourselves in a difficult position today, when the Spanish market isstagnant.'

The Contacts and Negotiations with AEG

Dr Kappler of AFX! made contact with JFP in April 1990. AEG belongs to the Daimler-Benz Group. AEG-LT specialized in manufacturing lighting elements, particularly fluorescent strip lighting. Its product range included almost all categories of technical lighting for indoors or outdoors, the only exception being accent lighting. Its sales were Pta23 billion in 1990, two-thirds indoor-lighting elements and the remainder outdoor lighting.

From the start, Dr Kappler's proposal was crystal-clear, in that he was offering JFP a double contract for reciprocal distribution. AEG-LT did not have a range of technical decorative indoor accent lighting elements. Its present customers in Germany were asking for this type of lighting element, but they did not want to develop this new line themselves as the investment required would be too large. They preferred an agreement with a company like JFP that had already developed such a product line. The German company's managers had been watching the development of JFP since 1987, mainly at the international trade fairs, and considered that the company was following a line that could be interesting for them.

Initially, JFP's management, especially Miguel, was very wary of starting discussions. The early contacts were fairly informal: visits to each other's factory, lunches together, and so on. However, they picked up pace and consolidated significantly when Dr Kappler transferred to another area and Dr Herbert Willmy became the business area's new president. Until then, Dr Willmy had been the area's marketing and sales director. 'Willmy is overwhelmingly straightforward and clear. He is a person who immediately wins you over with his humanity and honesty,' reports Rocasalbas.

The negotiator for AEG was Willmy in person. The negotiators for JFP were Miguel Tey and Javier Rocasalbas, who explains: 'The negotiation was very much based on the human relationship between both parties and was by no means plain sailing because Miguel had difficulties in following the English.'

Apparently AEG-LT's managers were attracted by JFP's advanced and original design, goad in-house and subcontract industrial production capacity, and good range of indoor accent lighting elements - all in an effectively managed and economically sound company. Rocasalbas commented:

> 1 think that they were aware that there was only 'an embryo' AEG distributor in Spain and France. However, even so, we were perhaps the best distributor available to them.
>
> Sometimes, the negotiations were even fun. For example, sometimes we were wary and even expressed fears that, should we sign an agreement with AEG-LT. somehow we would be putting ourselves in their power and that 'if they sneezed, we could catch a double pneumonia'. On these occasions, in order to get the negotiations out of

> *the* rut, Willmy suggested that we do a kind of role-playing, challenging us to put ourselves in his place, as if Miguel and I were the managers of the AEG-LT business area, and try to identify decisions or actions that could harm ,IFP, As soon as we said something, each time Willmy would come up with the defensive or protective coiintcniieasurc that .IFF could take, thus effectively knocking down all our objections. Willmy caught on very quickly to JFP's way of operating and doing business.

The possibility of obtaining a high-volume and almost instantaneous distribution of Troll lighting elements in Germany, through AEG-LT's sales network of about 70 sales engineers attracted JFP. Also, the link with the Daimler-Benz Group, ;md through them Deutsche Bank, could lead to 'captive' or induced safes. The other companies in the Group presumably gave purchasing priority to AEG-LT. They also hoped that their association with AEG-LT would be a decisive factor in helping them rapidly to obtain the 'VDE' certifications in Germany for their lighting elements. In addition, wherever AEG had subsidiaries in Europe, JF1' could sell through them its accent lighting elements. However, if JFP managers considered that some or any of AEG's subsidiaries were not adequate for this task, they could freely choose any other distributor or marketing channel.

JFP also saw big advantages in distributing AEG-LT's products in Spain and France:

> Obviously, the AEG brand, and its German origin, count for a lot. We realised that AEG-LT's products would be positioned in the high-quality, high-price segment in Spain, so perhaps we might not achieve high sales volumes or high margins for JFP as importers-distributors. However, it was clear to us that the 'partnership' with AEG-LT would give prestige to JFP in Spain and would help us consolidate the image of the Troll products and our image as a company. This would help us to gain easier access to prescribers.
>
> Also, it would obviously help us complete the product range we eould offer in France and Spain, Now, we would be able to quote virtually all the lighting elements needed for an entire new building or for a complete architectural project. In other words, we would have a complete product range, and we could suggest a solution for any technical lighting need, in the broadest sense.

Rocasalbas expected that distributing AEG-LT lighting elements in Spain and France would not require any more salespeople, but would need higher stocks and more warehouse space. Negotiating the agreement had not been without its problems and there had even been moments when it seemed that negotiations would break down. One of them concerned setting each company's sales targets and purchase commitments for the other company's products. Another difficulty appeared when Miguel Tey said that he would not stop supplying Troll lamps to L'lrich Settler, an electrical contractor with a retail store in Stuttgart. He had been JFP's importer-distributor since 1989 and had bought about DM1 million worth in 1991. Miguel did not want to lose this sales volume and thought it would be wise to keep Settler on, just in case the agreement with AEG did not happen or did not work out properly.

Reflections before the Signing

Everything seemed taken care of, but there were still a number of points that worried Miguel. On one hand, there was the 'big guy will eat the little

guy' complex. He felt that if AEG's purchases were to attain very high volumes, the Germans would have too much power over the Catalans and would end up taking them over. Was this a real danger? How could he prevent it? Another point was that he did not know to what extent he should commit himself to this alliance. Should it be a purely commercial alliance or should it include other aspects? How could they get maximum benefit from the allianceV What other synergies were there that might be yet untapped? He also wondered what he should do with Settler, the (ierman distributor, and whether AEG had any kind ofhidden agenda[1].

It was late afternoon on 21 January 1991 when Miguel got up, went to his desk and started to read, once again, the contracts that had to be signed the next day. It seemed to him that for both companies, the 'Spain sells to Germany' flow or relationship was much more important than the 'Germany sells to Spain and France' relationship. Miguel estimated the weighting of the former as 90 and that of the latter at perhaps only 10.

QUESTIONS

1. What are the chief strengths and weaknesses of the Catalan company? How and why did they change over time?
2. What were the vital strategic shifts of JFP and what stimulated them?
3. What are the roles in the buying centre for lamps towards the end of the case? How does JFP seek to influence people in the buying process?
4. How does the market vary across Europe? What mistakes were made in Spain and France?
5. What is JFP looking for in its joint ventures?
d. Would you recommend the company to sign the deal with AEG-LT?

8

Market Information and Marketing Research

CHAPTER OBJECTIVES

After reading this chapter, you should be able to:

Explain the importance of information to the company.

Define the marketing information system and discuss its parts.

Describe the four steps in the marketing research process.

Compare the advantages and disadvantages of various methods of collecting **information.**

Discuss the main methods for estimating current market demand.

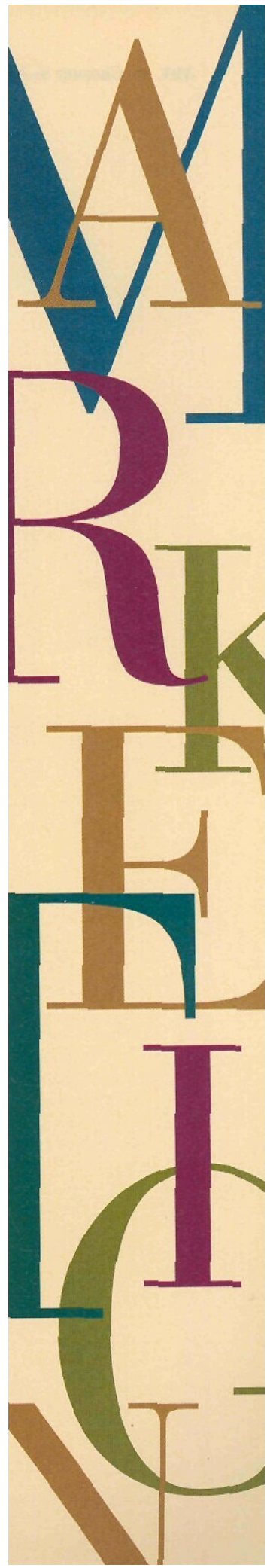
Explain specific techniques that companies use to forecast future demand.



Preview Case

Qantas: Taking Off in Tomorrow's Market

QANTAS, AUSTRALIA'S INTERNATIONAL AIRLINE, WAS experiencing a demand bonanza. Its market area in the Pacific Basin contained some of the fastest-growing economies in the world - including Australia, China, Japan and the newly industrializing countries of Hong Kong, Malaysia, Singapore, South Korea, Taiwan and Thailand, The area's growth in air travel far exceeded world averages. Industry forecasts suggest that Pacific Basin air travel would grow





at 10-14 per cent per year through 1998. By the year 2000 the area will have a 40 per cent -share of all international air passenger traffic.

Such explosive growth presents a huge opportunity for Qantas and the other airlines serving the Pacific Basin. However, it also presents some serious headaches. To take *advantage* of the growing demand, Qantas must first *forecast* it accurately and prepare to *meet* it. Air-travel demand has many dimensions. Qantas must forecast how many and what kinds of people will he travelling, where they will want to go and when. It must project total demand as well as demand in each specific market it intends to serve. And Qantas must estimate what share of this total demand it can capture under alternative marketing strategies and in various competitive circumstances. Moreover, it must forecast demand not just for next year, but also for the next two years, five years and even further into the future.

Forecasting air-travel demand is no easy task. A host of factors aft'eet how often people will travel and where they will go. To make accurate demand forecasts, Qantas must first anticipate changes in the factors that influence demand: worldwide and country-hy-country economic conditions, demographic characteristics, population growth, political developments, technological advances, competitive activity and many other factors. Qantas has little control over many of these factors.

Demand can shift uuiekly and dramatically. For example, relative economic growth and political stability in Japan, Australia and die other Pacific Basin countries have caused a virtual explosion of demand for air travel there. Ever-increasing numbers of tourists from around the world arc visiting these areas. In Australia, for instance, foreign tourism more than doubled between 1984 and 1988, and could triple between 1988 and the year 2000. Also, people from the Pacific Basin countries are themselves travelling more. For example, almost 12 million Japanese took holidays abroad

in 1996, a 10 per cent increase over the previous year. Pampered business travellers bolstered the profitability of airlines in the region, but most new travellers are non-business people. By the turn of the century fewer than one in five passengers worldwide will be flying for business reasons — and many of those will be sitting in the economy section. Forecasting demand in the face of such drastic shifts can be difficult. There was also talk about southern Asia's boom going to bust. China's regaining Hong Kong had gone smoothly, but there were warning signals that the economies of some of the newly industrialized countries in the region were over heating. What if the bubble bursts?

To make things even more complicated, Qantas must forecast more than just demand. The airline must also anticipate the many factors that can affect its ability to meet that demand. For example, what airport facilities will be available and how will this affect Qantas? Will there be enough .skilled labour to staff and maintain its aircraft? In the Pacific Basin, as demand has skyrocketed, the support system has not. A shortage of runways and airport terminal space already limits the number of flights Qantas can schedule. As a result, Qantas may decide to buy fewer but larger planes. Fewer planes would require fewer crews, and larger planes could hold more passengers at one time, which might make flights more profitable.

Competition in the region is hotting up too. Efficient non-Asian carriers, such as American Airlines, British Airways, United and Virgin, are attacking the region's markets and slashing fares in the process. Meanwhile, new local competitors, such as Taiwan's EVA Airways and Malaysia's Air Asia, are cutting into the market. Singapore Airlines and Cathay Pacific are two of the world's most profitable airlines and are fighting to hold on to their strong positions in the market. Singapore Airlines already has 62 aircraft including 42 Boeing 747 jumbos. It plans to buy at least 50 more jets - all 747s or large wide-body Airbuses,

Qantas bases many important decisions on its forecasts. Perhaps the most important decision involves aircraft purchases. To meet burgeoning demand, Qantas knows that it will need more planes. But how many more planes? At about A>S'200 million for each new Boeing 747-400, ordering even a few too many planes can be very costly. On the other hand, if Qantas buys too few planes, it has few short-run solutions. It usually takes about two years to get delivery of a new plane. If Qantas overestimates demand by even a few percentage points, it will have costly overcapacity. If it underestimates demand, it could miss out on profit opportunities and disappoint customers who prefer to fly Qantas, resulting in long-term losses of sales and goodwill. Airlines have got these numbers badly wrong in the past, resulting in thousands of redundant jets parked in the deserts of the United States.

Besides rapid growth, Qantas needs to know about the changing nature of demand in the region. The declining proportion ot business passengers means airlines are fighting harder for them, by offering not just cheaper fares but also extra service. In Europe, where the battle for the business traveller is well developed, Lufthansa has completed a huge study to find out what its business traveller wants. More leg and elbow room said most travellers, but others want separate check-ins and passport controls. Fine, but all these options cost money, so what is the best set of benefits to offer and are the needs to be standardized across the region? There are even more unknowns about the needs of the hugely growing non-business market. What do these new flyers want and what is the best way to look after them economically?

Ultimately, tor Qantas, the forecasting problem is more than a matter of temporary gains or losses of customer satisfaction and sales - it's a matter of survival. Thus Qantas has a lot flying on the accuracy of its forecasts.[1]

QUESTIONS

1 Why is market forecasting so important ro airlines like Cathay Pacific and Qantas?

2. Is it realistic for Qantas to conduct a single forecast for passenger traffic in the region, or should it base its projections on several separate forecasts? If so, what separate forecasts should be conducted?

3. Does the past steady growth of the economies in the region mean it is reasonable to project similar levels of growth for the next decade?

4. Are Lufthansa's findings from its study likely to apply in south-cast Asia? What is likely to make customer research in southern Asia more complicated than in Europe?

5. What techniques should Qantas use to forecast overall demand over the next ten years? How should it estimate what customers[1] tastes are likely to be over the next decade?

6. If Qantas's conclusion is that the market is uncertain, how should it proceed in acquiring new airliners?

Introduction

To carry out marketing analysis, planning, implementation and control, managers need information. Like Qantas, they need information about market demand, customers, competitors, dealers and other forces in the marketplace. One marketing executive put it this way: 'To manage a business well is to manage its future; and to manage the future is to manage information.[2] Increasingly, marketers are viewing information as not just an input for making better decisions, but also a marketing asset that gives competitive advantage of strategic importance.[3]

During the twentieth century, most companies have been small and have known their customers at first hand. Managers picked up marketing information by being around people, observing them and asking questions. However, many factors have increased the need for more and better information. As companies become national or international in scope, they need more information on larger, more distant markets. As incomes increase and buyers become more selective, sellers need better information about how buyers respond to different products and appeals. As sellers use more complex marketing approaches and face more competition, they need information on the effectiveness of their marketing tools. Finally, in today's rapidly changing environments, managers need up-to-date information to make timely decisions.

The supply of information has also increased greatly. John Neisbitt suggests that the world is undergoing a 'mega-shift' from an industrial to an information-based economy.[4] He found that more than 65 per cent of the US workforce now work at producing or processing information, compared to only 17 per cent in 1950. Using improved computer systems and other technologies, companies can now provide information in great quantities. Many of today's managers sometimes receive too much information. For example, one study found that with companies offering all the information now available through supermarket scanners, a brand manager gets one million to one *billion* new numbers each week.[5] As Neisbitt points out: 'Running out of information is not a problem, but drowning in it is,'(>

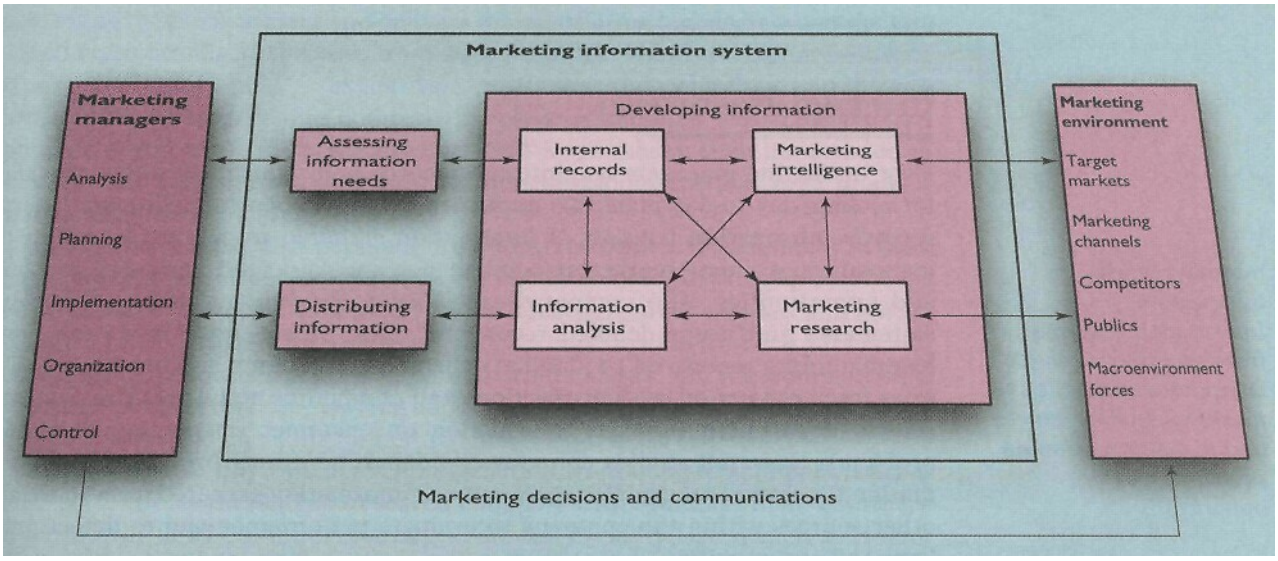


Figure 8.1 **The marketing information system**

Marketers frequently complain that they lack enough information of the *right* kind or have too much of the *throng* kind. Regarding the spread of information throughout the company, they say that it takes great effort to locate even simple facts. Subordinates may withhold information that they believe will reflect badly on their performance. Often, important information arrives too late to be useful, or on-time information is not accurate. Companies have greater capacity to provide managers with information, but have often not made good use of it. Many companies are now studying their managers' information needs and designing information systems to meet those needs.

The Marketing Information **System**

A marketing **information system (MIS)** consists of people, equipment and procedures to gather, sort, analyze, evaluate and distribute needed, timely and accurate information to marketing decision makers. Figure 8.1 illustrates the marketing information system concept. The MIS begins and ends with marketing managers. First, it interacts with these managers to assess their information needs. Next, it develops the needed information from internal company records, marketing intelligence activities and the marketing research process. **Information** analysis processes the information to make it more useful. Finally, the MIS distributes information to managers in the right form at the right time to help them in marketing planning, implementation and control.

marketing information system (MIS)
People, equipment and procedures to gather, sort, analyze, evaluate and distribute needed, timely and accurate *information to marketing decision makers.*

Developing **Information**

The information needed by marketing managers comes from *internal company records, marketing intelligence* and *marketing research.* The information

analysis system then processes this information to make it more useful for managers.

Internal **Records**

internal records information *Information gathered from sources within the company to evaluate marketing performances and to detect marketing problems and* opportunities.

Most marketing managers use internal records and reports regularly, especially for making day-to-day planning, implementation and control decisions. Internal records information consists of information gathered from sources within the company to evaluate marketing performance and to detect marketing problems and opportunities. The company's accounting department prepares financial statements and keeps detailed records of sales, orders, costs and cash flows. Manufacturing reports on production schedules, shipments and inventories. The sales force reports on reseller reactions and competitor activities. The eustomer service department provides information on customer satisfaction or service problems. Research studies done for one department may provide useful information for several others. Managers can use information gathered from these and other sources within the company to evaluate performance and to detect problems and opportunities.

Here are examples of how companies use internal records information in making better marketing decisions:[7]

> *Office World* offers shoppers a free membership card when they make their first purchase at their store. The eard entitles shoppers to discounts on selected items, but also provides valuable information to the chain. Since Office World encourages customers to use their card with each purchase, it can track what customers buy, where and when. Using this information, it can track the effectiveness of promotions, trace customers who have defected to other stores and keep in touch with them if they relocate.
>
> *Istel* is a cross-fertilization scheme set up by AT & T in Europe. The system helps retailers share information about customers. Under the programme customers join the Istel club, which gives them discounts when buying a range of products from member stores. AT & T estimates that its card will save the average customer £180 a year. The retailers then use the information to build databases and to target incentives to valuable customers. 'The grocer may like to know who is a high spender in the scheme but is not shopping with them,' says Ruth Kemp of Istel. "Then they can offer incentives to use their store.'

Information from internal records is usually quicker and cheaper to get than information from other sources, but it also presents some problems. Because internal information was for other purposes, it may be incomplete or in the wrong form for making marketing decisions. For example, accounting department sales and cost data used for preparing financial statements need adapting for use in evaluating product, sales force or channel performance. In addition, the many different areas of a large company produce great amounts of information, and keeping track of it all is difficult. The marketing information system must gather, organize, process and index this mountain of information so that managers can find it easily and get it quickly.

marketing intelligence *Everyday information about developments inchemarketing environment that helps managers prepare and adjus! marketing plans.*

Marketing Intelligence

Marketing intelligence is everyday information about developments in the marketing environment that helps managers prepare and adjust marketing plans.

The marketing intelligence system determines the intelligence needed, collects **it** by searching the environment and delivers it to marketing managers who need it.

Marketing intelligence comes from many sources. Much intelligence is from the company's personnel - executives, engineers and scientists, purchasing agents and the sales force. But company people are often busy and fail to pass on important information. The company must 'sell' its people on their importance as intelligence gatherers, train them to spot new developments and urge them to report intelligence hack to the company.

The company must also persuade suppliers, resellers and customers to pass along important intelligence. Some information on competitors conies from what they say about themselves in annual reports, speeches, press releases and advertisements. The company can also learn about competitors from what others say about them in business publications and at trade shows. Or the company can watch what competitors do - buying and analyzing competitors' products, monitoring their sales and cheeking for new patents.

Companies also buy intelligence information from out.side suppliers. Dun & Bradstreet is the world's largest research company with branches in 40 countries and a turnover of SI.26 billion. Its largest subsidiary is Nielsen, which selis data on brand shares, retail prices and percentages of stores stocking different brands. Its Info[a]Act Workstation offers companies the chance to analyze data from three sources on the PCs: Retail Index, which monitors consumer sales and in-store conditions; Key Account Scantrack, a weekly analysis of sales, price elasticity and promotional effectiveness; and Homesean, a new consumer panel. Alliances between marketing research companies allow access to pan-European research. Other big international research companies are WPP; Taylor Nelson, which owns AGB; GfK; MAI, which owns MOP; and Infratest. The globalization of markets has led both large and small firms to form alliances in order to gain better international coverage and wider services, Taylor Nelson's AGB has joined with Information Resources Inc. of the United States to strengthen their position as international suppliers of retail audit and scanner data." The services of these and other agencies now provide over 500 accessible computer databases:

> Doing business in Germany? Check out CompuServe's German Company Library of financial and product information on over 48,000 German-owned firms. Want biographical sketches of key executives? Punch up Dun & Bradstreet Financial Profiles and Company Reports. Demographic data? Today's Associated Press news wire reports? A list of active trademarks? It's all available from on-line databases.[9]

Marketing intelligence can work not only for, but also against a company. Companies must sometimes take steps to protect themselves from the snooping of competitors. For example, Kellogg's had treated the public to tours of its plants since 1906, but recently dosed its newly upgraded plant to outsiders to prevent competitors from getting intelligence on its high-tech equipment. In Japan corporate intelligence is part of the industrial culture. Everyone from assembly-line workers to top executives considers it their duty to filter intelligence about the competition back to management. Western companies are less active, although most of America's Fortune 500 now have in-house corporate intelligence units. Businesses are becoming increasingly aware of the need both to gather information and to protect what they have. In its Bangkok offices one European organization has a huge poster outside its lavatory saying: 'Wash and hush up! You never know who's listening! Keep our secrets secret.'[11]

Some companies set up an office to collect and circulate marketing intelligence. The staff scan relevant publications, summarize important news and send news

bulletins to marketing managers. They develop a file of intelligence information and help managers evaluate new information. These services greatly improve the quality of information available to marketing managers. The methods used to gather competitive information range from the ridiculous to the illegal. Managers routinely shred documents because wastepaper baskets can be an information source. Other firms have uncovered more sinister devices such as Spycatcher's TFR recording system that 'automatically interrogates telephones and faxes. Also a range of tiny microphones.' These and other methods appear in Marketing Highlight 8.1."

Marketing Research

Managers cannot always wait for information to arrive in bits and pieces from the marketing intelligence system. They often require formal studies of specific situations. For example, Apple Computer wants to know how many and what kinds of people or companies will buy its new ultralight personal computer. Or a Dutch pet product firm needs to know the potential market for slimming tablets for dogs. What percentage of dogs are overweight, do their owners worry about it, and will they give the pill Co their podgy pooches?[1^] In these situations, the marketing intelligence system will not provide the detailed information needed. Because managers normally do not have the skills or time to obtain the information on their own. they need formal marketing research.

marketing research *The junction that links the consumer, customer and public to the marketer through information - information used to identify and define marketing* opportunities *and problems; to generate, refine and evaluate marketing actions; to monitor marketing performance; and to improve understanding of the marketing* process.

Marketing research is the function linking the consumer, customer and public to the marketer through information - information used: to identify and define marketing opportunities and problems; to generate, refine and evaluate marketing actions; to monitor marketing performance; and to improve understanding of the marketing process.[13] Marketing researchers specify the information needed to address marketing issues, design the method for collecting information, manage and implement the data collection process, analyze the results and communicate the findings and their implications.

Marketing researchers engage in a wide variety of activities, ranging from analyses of market potential and market shares to studies of customer satisfaction and purchase intentions. Every marketer needs research. A company can conduct marketing research in its research department or have some or all of it done outside. Although most large companies have their own marketing research departments, they often use outside firms to do special research tasks or special studies. A company with no research department will have to buy the services of research firms.

Many people think of marketing research as a lengthy, formal process carried out by large marketing companies. But many small businesses and non-profit organizations also use marketing research. Almost any organization can find informal, low-cost alternatives to the formal and complex marketing research techniques used by research experts in large firms.

The Marketing Research Process

The marketing research process (see Figure 8.2) consists of four steps: defining the problem and research objectives; developing the research plan; implementing the research plan; and interpreting and reporting the findings,

• *Defining the Problem and Research Objectives*

The marketing manager and the researcher must work closely together to define the problem carefully and must agree on the research objectives. The manager

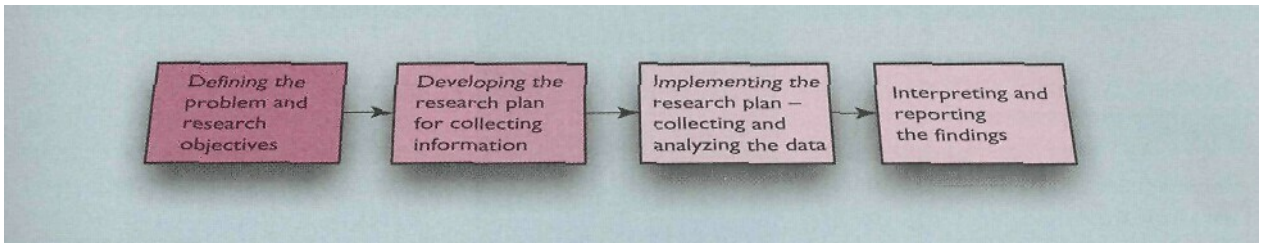


Figure 8.2 **The marketing research process**

understands the decision for which information is needed; the researcher understands marketing research and how to obtain the information.

Managers must know enough about marketing research to help in the planning and in the interpretation of research results, if they know little about marketing research, they may obtain the wrong information, aecept wrong conclusions, or ask for information that costs too much. Experienced marketing researchers who understand the manager's problem also need involvement at this stage. The researcher must be able to help the manager define the problem and to suggest ways that research can help the manager make better decisions.

Defining the problem and research objectives is often the hardest step in the research process. The manager may know that something is wrong, without knowing the specific causes. For example, managers of a discount retail store chain hastily decided that poor advertising caused falling sales, so they ordered research to test the company's advertising. It puzzled the managers when the research showed that current advertising was reaching the right people with the right message. It turned out that the chain stores were not delivering what the advertising promised. Careful problem definition would have avoided the cost and delay of doing advertising research. It would have suggested research on the real problem of consumer reactions to the products, service and prices offered in the chains stores.

After the problem has been defined carefully, the manager and researcher must set the research objectives. A marketing research project might have one of three types of objective. The objective of exploratory research is to gather preliminary information that will help define the problem and suggest hypotheses. The objective of descriptive research is to describe things such as the market potential for a product or the demographics and attitvides of consumers who buy the product. The objective of causal research is to test hypotheses about cause-and-cffect relationships. For example, would a 10 per cent cut in CD prices increase sales sufficiently to offset the lost margin? Managers often start with exploratory research and later follow with descriptive or causal research.

The statement of the problem and research objectives guides the entire research process. The manager and researcher should put the statement in writing to be certain that they agree on the purpose and expected results of the research.

exploratory- research Marketing *research Co gather preliminary information that will help better to define problems and* suggest *hypotheses.*

descriptive research *Marketing research to better describe marketing problems, situations or markets,* suc/i *as the market potential for a product or the demographics and attitudes e/consumers,*

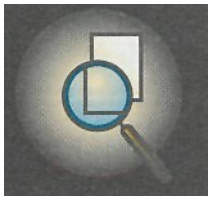
causal research *Marketing* research *to test hypotheses about* cans*e-and-effect relationships.*

» *Developing the Research Plan*

The second step of the marketing research process calls for determining the information needed, developing a plan for gathering it efficiently and presenting the plan to marketing management. The plan outlines sources of existing data and explains the specific research approaches, contact methods, sampling plans and instruments that researchers will use to gather new data.

Marketing Highlight 8.1

Snooping **on Competitors**



European firms lag behind their Japanese and American competitors in gathering competitive intelligence. In Japanese companies it is a long-established practice, for, as Mitsui's corporate motto says: "Information is the life blood of the company.' In thy United States, competitive intelligence gathering has grown dramatieaHy as more and more companies need to know what their competitors are doing. Such well-known companies as Ford, Motorola, Kodak, Gillette, Avon, Kraft, Mitsubishi and the 'Big Six' accounting firms arc known to be busy snooping on their competitors, TMA, FC1 and Kirk Tyson International specialize in this sort of business. The techniques they use to collect intelligence fall into four main groups.

Getting Information from Published Materials and Public Documents
Keeping track of seemingly meaningless published information can provide competitor intelligence. For instance, the types of people sought in help-wanted ads can indicate something about a competitor's new strategies and products. Government agencies are another good source. For example, according *to* Fortune:

> Although it is often illegal for a company to photograph a competitor's plant from the air ... Aerial photos often are on file with geological survey or environmental protection agencies. These arc public documents, available for a nominal fee.

According to Leonard Fuld. founder of FCl; 'in some countries the government is a rare font of information ... France has the Minitel, in the US we have an opus of information databases and networks.'

Getting Information by Observing Competitors or Analyzing Physical Evidence
Companies can get to know competitors better by buying their products or examining other physical evidence. An increasingly important form of competitive intelligence is benchmarking, taking apart competitors' products and imitating or improving upon their best features. Benchmarking has helped JGB keep ahead in earth-moving equipment. The company takes apart its international competitors' products, dissecting and examining them in detail. JGB also probed the manufacturing operations, the types of machine tools used, their speeds, manning levels, labour costs, quality control and testing procedures, and raw material. It built up a profile of all its main competitors' operations and performance ratios against which to benchmark. In this way, the company knew the extent to which competitors could vary their prices, what their strengths and weaknesses were, and how JCB could exploit these data to its advantage.

Beyond looking at competitors' products, companies can examine many other types of physical evidence:

> In the absence of better information on market share and the volume of product competitors are shipping, companies have measured the rust on rails ot" railroad sidings to their competitors' plant or have counted the tractor-trailers leaving loading bays.

Some companies even rifle their competitors' rubbish:

> Once it has left the competitors' premises, refuse is legally considered abandoned property. While some companies now shred the paper coming out of their design labs, they often neglect to do this for all most revealing refuse from the marketing or public relations departments.

Avon hired private detectives to paw through Mary Kay Cosmetics' rubbish skips. Although an outraged Mary Kay sued to get its rubbish back, Avon claimed that it had done nothing illegal. The skips had been located in a public car park and Avon had videotapes to prove it.

Getting Information from People who Do Business with Competitors

Key customers can keep the company informed about competitors and their products:

> For example, a while back Gillette told a large account the date on which it planned to begin selling its new Good News disposable razor. The distributor promptly called Bic and told it about the impending product launch. Bic put on a crash programme and was able to start selling its razor shortly after Gillette did.

Intelligence can also be gathered by infiltrating customers' business operations:

> Companies may provide their engineers free of charge to customers ... The close, cooperative relationship that the engineers on loan cultivate with the customers' design staff often enables them to learn what new products competitors are pitching.

Getting Information from Recruits and Competitors Employees*

Companies can obtain intelligence through job interviews or from conversations with competitors' employees.

> When they interview people for jobs, some companies pay special attention to those who have worked for competitors, even temporarily.
>
> Companies send engineers to conferences and trade shows to question competitors' technical people.
>
> Companies sometimes advertise and hold interviews for jobs that don't exist in order to entice competitors' employees to spill the beans.

In the United States one of the most common ploys is to telephone competitors' employees and ask direct and indirect questions. 'The rule of thumb,' says Jonathan Lax, founder of TMA, 'is to target employees a level below where you think you should start, because that person often knows just as much as his or her senior, and they are not as frequently asked or wary.' Secretaries, receptionists and switchboard operators regularly give away information inadvertently.

One European company is now being accused of beating the Americans at their own game. When Spanish-born Jose" Ignacio Lopez de Arriotua defected from General Motors to Volkswagen to be its new purchasing and production chief, he took seven GM executives with him.

Why Europe is Different

Niame Fine, founder of Protce Data, believes there are two main differences between US and European companies. Language and cultural blocks limit cross-border intelligence gathering. Approaching competitors' employees is a subtle business and people are often put on their guard if approached by someone from a different country. She also says Europeans have greater loyalty than their job-hopping American counterparts.

Although most of these techniques are legal and some are considered to be shrewdly competitive, many involve questionable ethics. The company should take advantage of publicly available information, but avoid practices that might be considered illegal or unethical. A company does not have to break the law or accepted codes of ethics to get good intelligence. So far European businesses 'do as they would be done by' and linger at the ethical end of the spectrum of competitive intelligence. Will they be able to stay there?

SOURCES: Excerpts from Steven Flax, 'How to snoop on your competitors', *Fortune* (14 May 1984), pp. 29–33; Brian Dumaine, 'Corporate spies snoop to conquer', *Fortune* (7 November 1988), pp. 68–76; Jeremy Main, 'How to steal the best ideas around', *Fortune* (19 October 1992), pp. 102–6. Copyright © 1984, 1988 and 1992, Time Inc. All rights reserved. Also see Wendy Zellner and Bruce Hager, 'Dumpster raids? That's not very ladylike, Avon', *Business Week* (1 April 1991), p. 32; Michele Galen, 'These guys aren't spooks, they're "competitive analysts"', *Business Week* (14 October 1991), p. 97; Richard S. Teitalbaum, 'The new race for intelligence', *Fortune* (2 November 1992), pp. 104–8; 'Mr Lopez's many parts', *The Economist* (23 May 1993), p. 89; Tony McBurnie and David Clutterbuck, *The Marketing Edge* (London: Penguin, 1988); Kate Button, 'Spies like us', *Marketing Business* (March 1994), pp. 7–9.

DETERMINING INFORMATION NEEDS. Research objectives need translating into specific information needs.

Bolswessanen, the Dutch food and drinks company, decides to conduct research to find out how consumers would react to a new breakfast cereal aimed at the adult market. Across Europe young health-conscious people are abandoning croissants in France, rolls in Belgium and lonely espresso in Italy. Since Nestle and General Mills set up Cereal Partners Worldwide as a joint venture, they have been very active in the market and the project has started to develop. The European breakfast cereal market has been growing fast, but own labels dominate the adult sector.[14] Can Bolswessanen successfully compete with Kellogg's, the market leader, and the aggressive new competitor, Cereal Partners Worldwide? The company's research might cail for the following specific information:

- The demographic, economic and lifestyle characteristics of current breakfast cereal users. (How do social and demographic trends affect the breakfast cereal market?)
- Consumer-usage patterns for cereals: how much do they eat, where and when? (Will all the family eat the cereal or does each family member have their favourite?)
- Retailer reactions to the new product. (Failure to get retailer support could hurt its sales.)
- Consumer attitudes towards the new product. (Will consumers switch from own brands and is the product attractive enough to compete with Kellogg's?)
- Forecasts of sales of the new product. (Will the new packaging increase Bolswessanen's profits?)

Bolswessanen's managers will need this and many other types of information to decide whether to introduce the new product.

GATHERING SECONDARY INFORMATION. TO meet the manager's information needs, the researcher can gather secondary data, primary data or both. Secondary data is information that already exists somewhere, having been collected for another purpose. Primary data consist of information collected for the specific purpose at hand.

secondary datii
Information that already exists somewhere, having been collected for another purpose.

primary **data**
Information collected for [he specific purpose at hand.

Researchers usually start by gathering secondary data. Table 8.1 shows the many secondary data sources, including *internal* and *external* sources." Secondary data are usually quicker and cheaper to obtain than primary data. For example, a visit to the library might provide all the information Bolswessanen needs on cereal usage, at almost no cost. A study to collect primary information might take weeks or months and cost a lot. Also, secondary sources can sometimes provide data that an individual company cannot collect on its own - information that either is not directly available or would be too expensive to collect. For example, it would be too expensive for Bolswessanen to conduct a continuing retail store audit to find out about the market shares, prices and displays of competitors' brands. But it can buy Neilsen's Scantrack service.

Secondary data also have problems. The needed information may not exist - researchers can rarely obtain all the data they need from secondary sources. For example, Bolswessanen will not find existing information about consumer reactions to a new product that it has not yet placed on the market. Even when data arc found, they might not be very usable. The researcher must evaluate

Table 8.1 Sources of **secondary** data

Internal sources

Internal sources include company profit and loss statements, balance sheets, sales figures, sales call reports, invoices, inventory records and prior research reports.

Government publications

Statistical Abstract, usually updated annually, provides summary data on demographic, economic, social and other aspects of the economy and society.

Industrial Outlook provides projections of industrial activity by industry and includes data on production, sales, shipments, employment, etc.

Marketing Information Guide provides a monthly annotated bibliography of marketing information. Other government puhlications include the *Annual Survey of Manufacturers; Business Statistics; Census of Manufacturers; Census of Population; Census of Retail Trade, Wholesale Trade,* and *Selected Service Industries; Census of Transportation; Federal Reserve Bulletin; Monthly Labor Review, Survey of Current Business;* and *Vital Statistics Report.*

Periodicals and books

Business Periodicals Index, a monthly, lists business articles appearing in a wide variety of business publications.

Standard & Poor's Industry Surveys provide updated statistics and analyses of industries.

Moody's Manuals provide financial data and names of executives in big companies.

Encyclopaedia of Associations provides information on every large trade and professional association in the United States.

Marketing journals include *(he Journal of Marketing, Journal of Marketing Research,.Journal of Consumer Research and International Journal, of Research in Marketing.*

Useful trade magazines include *Advertising Age, Chain Store Age, Progressive Grocer, Sales and Marketing Management, Stores, Marketing Week* and *Campaign.*

Useful general business magazines include *Business Week, Fortune, Forbes, The Economist* and *Harvard Business Review.*

Commercial data

Here are just a few of the dozens of commercial research houses selling data to subscribers:

AC. *Nielsen Company* provides supermarket scanner data on sales, market share and retail prices (Scantrack), data on household purchasing (Scantraek National Electronic Household Panel), data on television audiences (Nielsen National Television Index) and others.

IMS International provides reports on the movement of Pharmaceuticals, hospital laboratory supplies, animal health products and personal care products.

Information Resources, Inc. provides supermarket scanner data for tracking grocery product movement (InfoScan) and single-source data collection (BehaviorSean).

MRB Group (Simmons Market Research Bureau) provides annual reports covering television markets, sporting goods and proprietary drugs. The reports give lifestyle and geodemographic data by sex, income, age and brand preferences (selective markets and media reaching them).

jVFO *Research* provides data for the beverage industry (SIPS), for mail order businesses (MOMS), and for carpet and rug industries (CARS). It also provides a mail panel for concept and product testing, attitude and usage studies, and tracking and segmentation (Analycor).

International data

Here are only a few of the many sources providing international information:

United Nations publications include the *Statistical Yearbook,* a comprehensive source of international data for socioeconomlc indicators; *Demographic Yearbook,* a collection of demographies data and vital statistics for 220 countries- and the *Internatumal Trade Statistics Yearbook,* which provides information on foreign trade for specific countries and commodities.

Europa Yearbook provides surveys on history, politics, population, economy and natural resources for most countries of the world, along with information on the chief international organizations.
Political Risk Yearbook contains information on political situations in foreign countries, with reference to US investment. It predicts the political climate in each country.
Foreign Economic Trends and Their Implications for the United States provides reports on recent business, economic and political developments in specific countries.
International Marketing Data and Statistics provides marketing statistics by country, including data on consumer product markets for countries outside the United States and Europe.

Other sources include Country *Saulics, QECQ Kcatiomic Surveys,* Economic *Nurvey of Europe, Asian Kccinomic Ilantibtjok* and *International Financial Sratistics.*

secondary information carefully to make certain it *isrelevant* (fits research project **needs), accurate** (reliably collected and reported), current (sufficiently up to date for current decisions) and *impartial* (objectively collected and reported).

Secondary data provide a good starting point for research and often help to define problems and research objectives. In most cases, however, secondary sources cannot provide all the needed information and the company must collect primary data.

PLANNING PRIMARY DATA COLLECTION. Good decisions require good data. Just as researchers must carefully evaluate the quality of secondary information they obtain, they must also take great care in collecting primary data to ensure that they provide marketing decision makers with relevant, accurate, current and unbiased information. This could be **qualitative** research that measures a small sample of customers' views, or quantitative research that provides statistics from a large sample of consumers. Table 8.2 shows that designing a plan for primary data collection calls for a number of decisions on research approaches, contact methods, sampling plan and research instruments.

qualitative research *Kxptoratory research used to uncover consumers' motivations, attitudes and behaviour. Focus-group interviewing, elicitation intervitruDS ami repertory grid techniques arc typical methods used in this type of research.*

quailtit:tlive research *Research which involves data collection by mail or personal interviews from a sufficient volume of customers to allow statistical analysis.*

observational research *The gathering of primary data by observing relevant people, actions and situations.*

RESEARCH APPROACHES. **Observational** research is the gathering of primary data by observing relevant people, actions and situations. Por example:

- A food-products manufacturer sends researchers into supermarkets to find out the prices of competing brands or how much shelf space and display support retailers give its brands.
- A bank evaluates possible new branch locations by checking traffic patterns, neighbourhood conditions and the locations of competing branches.
- A maker of personal-care products pretests its ads by showing them to people and measuring eye movements, pulse rates and other physical reactions.
- A department store chain sends observers who pose as customers into its stores to cheek on store conditions and customer service.
- A museum checks the popularity of various exhibits by noting the amount of floor wear around them.

Several companies sell information collected through *mechanical observation.* For example, Nielsen and AGB attach 'people meters' to television sets in selected homes to record who watches which programmes. They provide summaries

Table 8.3 Strengths and weaknesses of the four contact **methods**

	MAIL	TELEPHONE	PERSONAL	INTERNET
1. Flexibility	Poor	Good	Excellent	Fair
2. Quantity of data that can be collected	Good	Fair	Excellent	Good
3. Control of interviewer effects	Excellent	Fair	Poor	Excellent
4. Control of sample	Fair	Excellent	Fair	Fair
5. .Speed of data collection	Poor	Excellent	Good	Excellent
6. Response rate	Poor	Good	Good	Poor
7. Cost	Good	Fair	Poor	Excellent
8. Sample frame	Good	Excellent	Fair	Poor

SOURCE: Adapted with permission of Macmillan Publishing Company from *Marketing Research: Measurement and Method*, 6th edn, by Donald S. Tull and Del I. Hawkins. Copyright © 1993 by Macmillan Publishing Company.

Respondents may answer survey questions even when they do not know the answer, simply in order to appear smarter or more informed than they are. Or they may try to help the interviewer by giving pleasing answers. Finally, busy people may not take the time, or they might resent the intrusion into their privacy. Careful survey design can help to minimize these problems.

experimental research *Thegathering ofprimary data by selecting matched groups of subjects, giving them different treatments, controlling related factors and checkingfor differences in group responses.*

Experimental research gathers *causal* information. Experiments involve selecting matched groups of subjects, giving them different treatments, controlling unrelated factors and checking for differences in group responses. Thus experimental research tries to explain oause-and-effect relationships. Observation and surveys can collect information in experimental research.

Before extending their product range to include fragrances, researchers at Virgin Megastores might use experiments to answer questions such as the following:

- How much will the fragrances increase Virgin's sales?
- How will the fragrances affect the sales of other menu items?
- Which advertising approach would have the greatest effect on sales of their fragrances?
- How would different prices affect the sales of the product?
- How will the product affect the stores' overall image?

For example, to test the effects of two prices, Virgin could set up a simple experiment. It could introduce fragrances at one price in one city and at another price in another city. If the cities are similar and if all other marketing efforts for the fragrances are the same, then differences in the price charged could explain the sales in the two cities. More complex experimental designs could include other variables and other locations.

CONTACT METHODS. Mail, telephone, personal interviews and the Internet, a recent development, can collect data. Table 8.3 shows the strengths and weaknesses of each of these contact methods.

Postal questionnaires have many advantages. They can collect large amounts of information at a low cost per respondent. Respondents may give more honest

answers to more personal questions on a postal questionnaire than to an unknown interviewer in person or over the phone, since there is no interviewer to bias the respondent's answers.

However, posta! questionnaires also have disadvantages. They are not very flexible: they require simple and clearly worded questions; all respondents answer the same questions in a fixed order; and the researcher cannot adapt the questionnaire based on earlier answers. Mail surveys usually take longer to complete and the response rate — the number of people returning completed questionnaires - is often very low. Finally, the researcher often has little control over the postal questionnaire sample. Even with a good mailing list, it is often hard to control 'K'hoat the mailing address fills out thequestionnaire.[IK]

Telephone intervie<wing is the best method for gathering information quickly and it provides greater flexibility than postal questionnaires. Interviewers can explain questions that arc not understood. Depending on the respondent's answers, they ean skip some questions or probe further on others. Telephone interviewing also allows greater sample control. Interviewers can ask to speak to respondents with the desired characteristics, or even by name. Response rates tend to be higher than with postal questionnaires.[1']

However, telephone interviewing also has drawbacks. The cost per respondent is higher than with postal questionnaires and people may not want to discuss personal questions with an interviewer. Using interviewers increases flexibility, hut also introduces interviewer bias. The way interviewers talk, small differences in how they ask questions and other differences may affect respondents' answers. Finally, different interviewers may interpret and record responses differently, and under time pressure some interviewers might even cheat by recording answers without asking questions.

Persona/ *interviewing,* takes two forms - individual and group interviewing. *Individual interviewing* involves talking with people in their homes or offices, in the street, or in shopping malls. The interviewer must gain their co-operation and the time involved can range from a few minutes to several hours. Sometimes people get a small payment in return for their time.

Group *interviewing* consists of inviting six to ten people to gather for a few hours with a trained moderator to talk about a product, service or organization. Tim moderator needs objectivity, knowledge of the subject and industry, and some understanding of group and consumer behaviour. The participants are normally paid a small sum for attending. The meeting is usually in a pleasant place and refreshments are served to foster an informal setting. The moderator starts with broad questions before moving to more specific issues, and encourages easy-going discussion, hoping that group interactions will bring out aetual feelings and thoughts. At the same time, the moderator 'focuses' the discussion — hence the name focus-group interviewing. The comments arc recorded by written notes or on videotapes for study later. Focus-group interviewing has become one of the key marketing research tools for gaining insight into consumer thoughts and feelings.[20]

focus group
*A small sample of epical consumers under the direction of a group leailer*TO/IO*elicits their reaction to a stimulus* .swc.'/i *as an ad or product concept.*

Personal interviewing is quite flexible and can collect large amounts of Information. Trained interviewers can hold a respondent's attention for a long time and ean explain difficult questions. They can guide interviews, explore issues and probe as the situation requires. Personal interviews can utilize any type of questionnaire. Interviewers can show subjects actual products, advertisements or packages, and observe reactions and behaviour. In most cases, personal interviews can be conducted fairly quickly.

The main drawbacks of personal interviewing are costs and sampling problems. Personal interviews may cost three to four times as much as telephone interviews. Group interview studies usually employ small sample sizes to keep

time and costs down, and it may he hard to generalize from the results. Because interviewers have more freedom in personal interviews, the problem of interviewer bias is greater.

Which contact method is best depends on what information the researcher wants and on the number and types of respondents needed. Advances in computers and communications have had an impact on methods of obtaining information. For example, most research firms now do Computer Assisted Telephone Interviewing (CATI). Professional interviewers eall respondents, often using phone numbers drawn at random. When the respondent answers, the interviewer reads a set of questions from a video screen and types the respondent's answers directly into the computer. Although this procedure requires a large investment in computer equipment and interviewer training, it eliminates data editing and coding, reduces errors and saves time. Other research firms set up terminals in shopping centres - respondents sit down at a terminal, read questions from a screen and type their answers into the computer.[21]

Internet data collection is still in its infancy. But as the use of the World Wide Web and online services widens, online research is becoming a quick, easy and inexpensive method.[22] Online researchers recognize that Web surfers are not representative of the population. Online users tend to be better educated, more affluent and younger than the average consumer, and a higher proportion are male. These are important consumers to companies offering products and services online. They are also some of the hardest to reach when conducting a research study. Online surveys and chat sessions (or online focus groups) often prove effective in reaching elusive groups, such as teen, single, affluent and well-educated audiences.

When appropriate, online research offers marketers two distinct advantages over traditional surveys and focus groups: speed and cost-effectiveness. Online researchers can field quantitative studies and fill response quotas in only a matter of days. Online focus groups require some advance scheduling, but results are practically instantaneous. Research on the Internet is also relatively inexpensive. Participants ean dial in for a focus group from anywhere in the world, eliminating travel, lodging and facility costs, making online ehats cheaper than traditional focus groups. And for surveys, the Internet eliminates most of the postage, phone, labour and printing costs associated with other survey approaches. Moreover, sample size has little influence on costs. There is little difference between 10 and 10,000 on the Web. There is also no difference in the speed and cost of conducting an international survey rather than a domestic one.

However, using the Internet to conduct marketing research does have some drawbacks. The method shares a problem with postal surveys: knowing who's in the sample. Trying to draw conclusions from a 'self-selected' sample of online users, those who clicked through to a questionnaire or accidentally landed in a chat room, can be troublesome. Online research is not right for every company or product. For example, mass marketers who need to survey a representative cross-section of the population will find online research methodologies less useful, since most low-income consumers do not have online access.

Rye contact and body language are two direct, personal interactions of traditional focus-group research that are lost online. And while researchers can offer seasoned moderators, the Internet format - running, typed commentary and online 'emoticons' (punctuation marks that express emotion, such as :-) to signify happiness or :-o for surprise) - greatly restrict respondent expressiveness. Similarly, technology limits researchers' capability to show visual cues to research subjects. But just as it hinders the two-way assessment of visual cues, Web research can actually permit some participants the anonymity necessary to elicit an unguarded response.

Table 8.4 Data collection methods: quantitative and qualitative (% of expenditure toi 1991)

	POSTAL SURVEY (%)	TELEPHONE (%)	FACE-TO-FACE (%)	GROUP DISCUSSIONS (%)	IN-DEPTH INTERVIEWS (%)
Belgium	7	15	57	10	8
Denmark	16	24	31	6	21
Finland	19	38	37	n.a.	n.a.
France	n.a.	n.a.	n.a.	n.a.	n.a.
Germany	5	18	56	6	10
Greece	[a]	3	82[b]	10	3
Ireland	1	2	72	23	3
Italy	4	27	44	10	10
Luxembourg	–	10	65	5	–
Netherlands	31	18	34	4	9
Norway	10	20	50	10	5
Portugal	12	9	65	7	3
Spain	3	16	63	13	3
Sweden	23	39	23	4	5
Switzerland	8	27	46	n.a.	n.a.
Turkey	6	4	60	15	5
United Kingdom	8	15	67	10	–

NOTES: [a] Less than 0.5 per cent; [b] including panel turnover.

SOURCE: *Report of ESOMAR Working Party on 1991 Market Statistics* (1992).

To overcome such sample and response problems, NPD and many other firms that offer online services construct panels of qualified Web regulars to respond to surveys and participate in online focus groups. NPD's panel consists of 15,000 consumers recruited online and verified by telephone; Greenfield Online picks users from its own database, then calls them periodically to verify that they are who they say they arc. Another online research firm, Research Connections, recruits in advance by telephone, taking time to help new users connect to the Internet, if necessary.

Some researchers arc wildly optimistic about the prospects for marketing research on the Internet; others are more cautions. One expert predicts that in the next few years, 50 per cent of all research will be done on the Internet, although others are more sceptical.

There is no one best contact method to use. The one chosen depends on the information needs, cost, speed and other issues. Table 8.4 shows the traditional data collection methods used across Europe. Rational reasons may account for only part of the variation shown. Face-to-facc interviews account for half the number, hut these figures are particularly high in southern Europe and the United Kingdom. The low penetration of telephones in some of these countries may be an influence, but it may also reflect cultures who like socializing. Ireland's high use of group discussions may show that land's love of conversation. The Scandinavians' use of telephone interviews is partly explained by their being large countries with small populations. Their mobile phone use also shows their telephone orientation:

10 per cent are mobile phone users compared with 6 per cent in the United States and about 3 per cent in Germany and Japan.[23] In some countries, postal surveys do not work because of low literacy, but another reason is the unwillingness of people to respond. Research agencies and managers also have preferred methods, so they will also exert some personal influence on the choice of method. The relatively low use of the Internet in Europe means that Internet data collection in Europe will lag behind the United States. In addition, the large differences in penetration of the Internet across Europe mean that its use will not be uniform.

Increasing consumer resentment has become a major problem for the research industry. This resentment has led to lower survey response rates in recent years - one study found that 38 per cent of consumers now refuse to be interviewed in an average survey, up dramatically from a decade ago. Another study found that 59 per cent of consumers had refused to give information to a company because they thought it was not really needed or too personal, up from 42 per cent just five years earlier.[21] The research industry is considering several options lor responding to this problem. One is to educate consumers about the benefits of marketing research and to distinguish it from telephone selling and database building. Another option is to provide a freephone number that people can call to verify that a survey is legitimate. The industry has also considered adopting broad standards, such as Europe's International Code of Marketing and Social Research Practice. This code outlines researchers' responsibilities to respondents and to the general public. For example, it says that researchers should make their names and addresses available to participants, and it bans companies from representing activities like database compilation or sales and promotional pitches as research.

SAMPLING PLANS. Marketing researchers usually draw conclusions about large groups of consumers by studying a small sample of the total consumer population. A sample is a segment of the population selected to represent the population as a whole. Ideally, the sample should be representative, so that the researcher ean make accurate estimates of the thoughts and behaviours of the larger population.

sample
A segment of the population selected/or marketing research to represent the population as a "whole.

Designing the sample calls for three decisions. First, to/io is to be surveyed (what *sampling unit)?* The answer to this question is not always obvious. *For* example, to study the decision-making process for a family car purchase, should the researcher interview the husband, wife, other family members or all of these? The responses obtained from different family members vary, so the researcher must determine the information needed and from whom.[23]

Second, *hv*us many* people are to be surveyed (what *sample sise)?* Large samples give more reliable results than small samples. However, it is not necessary to sample the entire target market or even a large portion to get reliable results. If well chosen, samples of less than 1 per cent of a population can often give good reliability.

Third, *how* are the people in the sample *to be chosen* (what *sampling procedure)?* Table 8.5 describes different kinds of sample. Using *probability samples,* each population member has a known chance of being included in the sample, and researchers can calculate confidence limits for sampling error. But when probability sampling costs too much or takes too long, marketing researchers often take *non-probability samples,* even though their sampling error is not measurable. These varied ways of drawing samples have different costs and time limitations, as well as different accuracy and statistical properties. Which method is best depends on the needs of the research project.

RESEARCH INSTRUMENTS. In collecting primary data, marketing researchers have a choice of two main research instruments: the *questionnaire tmd mechanical de-vices.*

Table 8.5 **Types** of sampling

Probability sample	
Simple random sample	Every member of the population has a known and equal chance of selection.
Stratified random sample	The population is divided into mutually exclusive groups (such as age groups), and random samples are drawn from each group.
Cluster (area) sample	The population is divided into mutually exclusive groups (such as blocks), and the researcher draws a sample of the groups to interview.
Non-probability sample	
Convenience sample	The researcher selects the easiest population members from which to obtain information.
Judgement sample	The researcher uses his or her judgement to select population members who are good prospects for accurate information.
Quota sample	The researcher finds and interviews a prescribed number of people in each of several categories.

The *questionnaire* is by far the most common instrument. Broadly speaking, a questionnaire consists of a set of questions presented to a respondent for his or her answers. The questionnaire is very flexible - there are many ways to ask questions. Questionnaires need to be developed carefully and tested before their large-scale use. A carelessly prepared questionnaire usually contains several errors (see Table 8.6).

In preparing a questionnaire, the marketing researcher must decide what questions to ask, the form of the questions, the wording of the questions and the ordering of the questions. Questionnaires frequently leave out questions that need answering, hut include questions that cannot be answered, will not be answered, or need not be answered. Each question should be checked to see that it contributes to the research objectives.

The/orm of the question can influence the response. Marketing researchers distinguish between closed-cud and open-end questions. Closed-end questions include all the possible answers, and subjects make choices among them. Part A of Table 8,7 shows the most common forms of closed-end questions as they might appear in an SAS survey of airline users. Open-end questions allow respondents to answer in their own words. The most common forms are shown in part R of Table 8.7. Open-end questions often reveal more than closed-end questions because respondents are not limited in their answers. Open-end questions are especially useful in exploratory research in which the researcher is trying to find *out what* people think, but not measuring *how many* people think in a certain way, Closed-end questions, on the other hand, provide answers that are easier to interpret and tabulate.

closed-end questions
Questions *that include all the possible answers and allow subjects to make c-hoices amtmg them.*

open-end questions
Questions *that allow respondents to answer in their own words.*

Researchers should also use care in the *wording* of questions. They should use simple, direct, unbiased wording. The questions should he pretested before use. The *ordering* of questions is also important. The first question should create interest if possible. Ask difficult or personal questions last, so that respondents do not become defensive. The questions should be in a logical order.

Table 8.6 **A 'questionable questionnaire'[1]**

Suppose that an adventure holiday director had prepared the following questionnaire to use in interviewing the parents of prospective campers. How would you assess each question?

1. What is your income to the nearest hundred pounds?
   People don't usually know their income to the nearest hundred pounds nor do they want to reveal their income that closely. Moreover, a researcher should never open a questionnaire with such a personal question.
2. Arc you a strong or a weak supporter of overnight camping for your children?
   What do 'strong'and 'weak'mean?
3. Do your children behave themselves well on adventure holidays?
   Yes"( ) No( )
   'Behave' is a relative term. Furthermore, are 'yes' and 'no' the best response options for this question? Besides, will people want to answer f/ii.s? *Why ask the question in the first place?*
4. How many adventure holiday operators mailed literature to you last April? This April?
   Wlio can remember this?
5. What are the most salient and determinant attributes in your evaluation of adventure holidays?
   What are 'salient' and 'determinant' attributes? Don't use big words on me!
6. Do you think it is right to deprive your child of the opportunity to grow into a mature person through the experience of adventure holidays?
   A loaded question. Given the bias, how can any parent answer 'yes'?

Although questionnaires are the most common research instrument, *mechanical instruments* are also used. We discussed two mechanical instruments - people meters and supermarket scanners - earlier in the ehapter. Another group of mechanical devices measures subjects' physical responses. For example, a **galvanometer** (lie detector) measures the strength of interest or emotions aroused by a subject's exposure to different stimuli: for instance, an ad or picture. The galvanometer detects the minute degree of sweating that accompanies emotional arousal. The taehistoscupe flashes an ad to a subject at an exposure range from less than one-hundredth of a second to several seconds. After each exposure, the respondents describe everything they recall. Eye cameras study respondents' eye movements to determine at what points their eyes focus first and how long they linger on a given item.[2][1]

• *Presenting the Research Plan*

At this stage, the marketing researcher should summarize the plan in a *written proposal.* A written proposal is especially important when the research project is large and complex, or when an outside firm carries it out. The proposal should cover the management problems addressed and the research objectives, the information obtained, the sources of secondary information or methods for collecting primary data, arid the way the results will help management decision making. The proposal should also include research costs. A written research plan or proposal makes sure that the marketing manager and researchers have considered all the important aspects of the research and that they agree on why and how to do the research.

• *Implementing the Research Plan*

The researcher next puts the marketina research plan into action. This involves collecting, processing and analyzing the information. Data collection can be by the company's marketing research staff or, more usually, by outside firms. The company keeps more control over the collection process and data quality by using its staff. However, outside firms that specialize in data collection can often do the job more quickly and at lower cost.

The data collection phase of the marketing research process is generally the most expensive and the most subject to error. The researcher should watch fieldwork closely to make sure that the plan is implemented correctly and to guard against problems with contacting respondents, with respondents who refuse to co-operate or who give biased or dishonest answers, and with interviewers who make mistakes or take short cuts.

Researchers must process and analyze the collected data to isolate important information and findings. They need to check data from questionnaires for accuracy and completeness, and code it for computer analysis. The researchers then tabulate the results and compute averages and other statistical measures.

t *Interpreting and Reporting the Findings*

The researcher must now interpret the findings, draw conclusions and report them to management. The researcher should not try to overwhelm managers with numbers and fancy statistical techniques. Rather, the researcher should present important findings that are useful in the important decisions faced by management.

However, interpretation should not be by the researchers alone. They are often experts in research design and statistics, hut the marketing manager knows more about the problem and the decisions needed. In many cases, findings can be interpreted in different ways and discussions between researchers and managers will help point to the best interpretations. The manager will also want to check that the research project was conducted properly and that all the necessary analysis was completed. Or, after seeing the findings, the manager may have additional questions that can be answered from the data. Finally, the manager is the one who must ultimately decide what action the research suggests. The researchers may even make the data directly available to marketing managers so that they can perform new analyses and test new relationships on their own.

Interpretation is an important phase of the marketing process. The best research is meaningless if the manager blindly accepts wrong interpretations irom the researcher. Similarly, managers may have biased interpretations - they tend to accept research results that show what they expected and to reject those that they did not expect or hope for. Thus managers and researchers must work together closely when interpreting research results and both share responsibility lor the research process and resulting decisions.[27]

Demand Estimation

When a company finds an attractive market, it must estimate that market's current size and future potential carefully. The company can lose a considerable amount of profit by overestimating or underestimating the market.

Demand is measured and forecast on many levels. Figure 8.3 shows 90 types of demand measurement! Demand might be measured for six different *product* lewis (product item, product form, product line, company sales, industry sales

Table 8.7 Types of question

A. CLOSED-END QUESTIONS

NAME	DESCRIPTION
Dichotomous	A cluestion offering two answer choiees.
Multiplechoice	A question offering three or more choiees.
Likert scale	A statement with which the respondent shows the amount of agreement or disagreement.
Remantic differential	A scale is inscribed between two bipolar words, and the respondent selects the point that represents the direction and intensity of his or her feelings.
Importance scale	A scale that rates the importance uf some attribute from 'not at all important' to 'estremely important'.
Rating scale	A scale that rates some attribute from 'poor' to 'excellent'.
Intention-to-buy scale	A seale that describes the respondent's intention's to buy.

B. OPEN-ISND QUESTIONS

NAME	DESCRIPTION
Completely unstructured	A question that respondents can answer in an almost unlimited number of ways.
\Vbrd association	Words arc presented, one at a time, and respondents mention the first word that comes to mind.
Sentence completion	Incomplete sentences are presented, one at a time, and respondents complete the sentence
Story completion	An incomplete story is presented, and respondents arc asked to complete it. in me the following thoughts and feelings.' .Vote *complete the* story.
Picture completion	A picture of two characters is presented, with one making a statement. Respondents are asked to identify with the other and fill in the empty balloon.
Thematic Apperception Tests (TAT)	A picture is presented, and respondents are asked to make up a story about what they think is happening or may happen in the picture.



EXAMPLE

'In arranging this trip, did you personally phone SAS?' Yes ☐ No ☐

'With whom are you travelling on this flight?'

No one	☐	Children only	☐
Spouse	☐	Business associates/friends/relatives	☐
Spouse and children	☐	An organized tour group	☐

'Small airlines generally give better service than large ones.'

Strongly disagree	Disagree	Neither agree nor disagree	Agree	Strongly agree
1 ☐	2 ☐	3 ☐	4 ☐	5 ☐

SAS Airlines

Large	×	___	___	___	___	___	Small
Experienced	___	___	___	___	×	___	Inexperienced
Modern	___	___	___	×	___	___	Old-fashioned

'Airline food service to me is'

Extremely important	Very important	Somewhat important	Not very important	Not at all important
1 ____	2 ____	3 ____	4 ____	5 ____

'SAS's food service is'

Excellent	Very good	Good	Fair	Poor
1 ____	2 ____	3 ____	4 ____	5 ____

'If in-flight telephone service were available on a long flight, I would'

Definitely *buy*	Probably *buy*	Not *certain*	Probably *not buy*	Definitely *not buy*
1 ____	2 ____	3 ____	4 ____	5 ____

EXAMPLE

'What is your opinion of SAS?' _____

'What is the first word that comes to your mind when you hear the following?'

Airline _____

Delta _____

Travel _____

'When I choose an airline, the most important consideration in my decision is _____.'

'I flew SAS a few days ago. I noticed that the exterior and interior of the plane had very bright colours. This aroused

Fill in the empty balloon.



Make up a story about what you see.



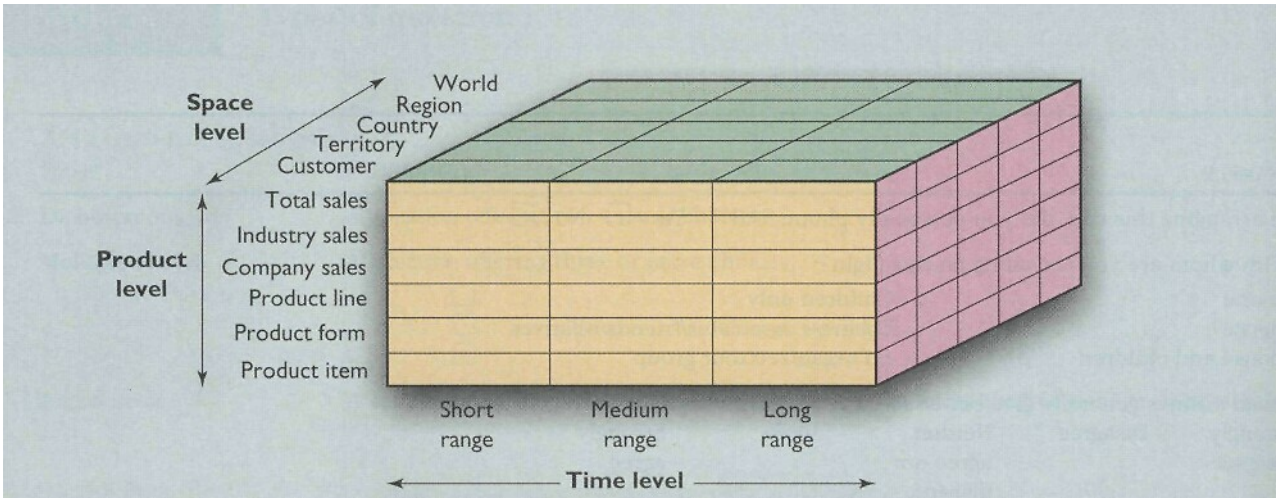


Figure 8.3 **Ninety types of demand measurement (6x5x3)**

and total sales); five different *apace levels* (customer, territory, country, region, world); and three different *time levels* (short range, medium range and long range).

Each demand measure serves a specific purpose. A company might forecast short-run total demand for a product as a basis for ordering raw materials, planning production and borrowing cash. Or it might forecast long-run regional demand for a big product line as a basis for designing a market expansion strategy.

Defining' the Market

Market demand measurement calls for a clear understanding of the market involved. The term *market* has acquired many meanings over the years. In its original meaning, a market is a physical place where buyers and sellers gather to exchange goods and services. Medieval towns had market squares where sellers brought their goods and buyers shopped for goods. Markets still dominate retailing in the Third World and remain in many towns, but most of today's buying and selling occurs in shopping areas.

market
The set of all actual and potential buyers of a product or service.

Industry
,4 group offirms which offer a product or L'kus.s *of products that are clout- substitutes far each other. The set of all sellers of a produce or service.*

To an economist, a market describes all the buyers and sellers who transact over some good or service. Thus the soft-drink market consists of sellers such as Coea-Cola, Pepsi-Cola, Tango and Lilt and all the consumers who buy soft drinks. The economist's interest is the structure, conduct and performance of each market.

To a marketer, a market is the set of all actual and potential buyers of a product or service. A market is the set of buyers and an industry is the set of sellers. The size of a market hinges on the number of buyers who might exist for a particular market offer. Potential buyers for something have three characteristics; *interest, income* and access.

Consider the consumer market for Finnish Tunturi exercise cycles. To assess its market, Tunturi must first estimate the number of consumers who have a potential interest in owning an exercise bike. To do this, the company could

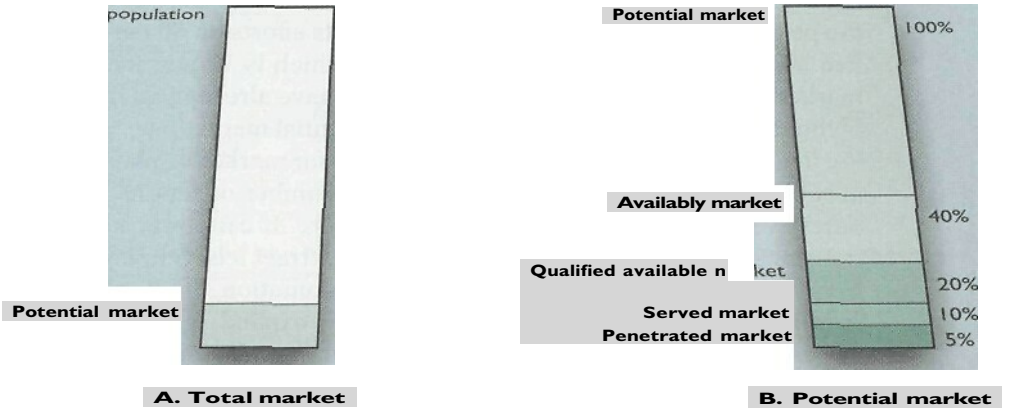


Figure 8.4 **Levels oC** market **definition**

contact a random sample of consumers and ask the following question: 'Do you have an interest in buying and owning an exercise bike?' If one person out of ten says yes. Tunturi can assume that 10 per cent of the total number of consumers would constitute the potential market for exercise hikes. The potential market is the set of consumers who profess some level of interest in a particular product or service.

Consumer interest alone is not enough to define the exercise hike market. Potential consumers must have enough income to afford the product. They must he able to answer yes to the following question: 'Would you pay Fmkl ,000 for an exercise hike?' The higher the price, the lower the number of people who can answer yes to this question. Thus market size depends on both interest and income.

Access barriers further reduce exercise hike market size. If Tunturi has no distributors for its products in some areas, potential consumers in those areas are not available as customers. The available market is the set of consumers who have interest, income and access to a particular product or service.

Tunturi might restrict sales to certain groups. Excessive repetitive exercise can damage young children, so sale of exercise hikes to anyone under 12 years of age may be discouraged. The remaining adults make up the qualified available market - the set of consumers who have interest, income, access and qualifications for the product or service.

Tunturi now has the choice of going after the whole qualified available market or concentrating on selected segments. Tunturi's served market is the part of the qualified available market it decides to pursue. For example, Tunturi may decide to concentrate its marketing and distribution efforts in northern Europe, where the winter nights are cold and long. This becomes its served market.

Tunturi and its competitors will end up selling a certain number of exercise hikes in their served market. The penetrated market is the set of consumers who have already bought exercise bikes.

Figure 8.4 brings all these market ideas together using hypothetical numbers. The bar on the left of the figure shows the ratio of the potential market - all interested persons - to the total population. Here the potential market is 10 per cent. The bar on the right shows several possible breakdowns of the potential market.

potential **market**
The set *of consumers 'who profess sonic level of interest in a particular product or service.*

available market
The set o/consumers *voho have interest, income and access to a panivuliir produce or scrvice.*

qualified available market
The set of consumers izho have interest, income, access and qualifications for a particular product *or*

served market (target market)
The *pan of the qualified available market that the company decides Co pursue.*

penetrated market
The set of consul?!crs *who have already bought a particular product or service.*

The available market - those who have interest, income and access - is 40 per cent of the potential market. The qualified available market - those who can meet the legal requirements — is 50 per cent of the available market (or 20 per cent of the potential market). Tunturi concentrates its efforts on 50 per cent of the qualified available market - the served market, which is 10 per cent of the potential market. Finally, Tunturi and its competitors have already penetrated 50 per cent of the served market (or 5 per cent of the potential market).

These market definitions are a useful tool for marketing planning- If Tunturi is unsatisfied with current sales, it can take a number of actions. It can expand to other available markets in Europe or elsewhere. It can lower its price to expand the size of the potential market. It can try to attract a larger percentage of buyers from its served market through stronger promotion or distribution efforts to current target consumers. Or it can try to expand the potential market by increasing its advertising to convert non-interested consumers into interested consumers. Concern over heart diseases means that many middle-aged people who have avoided exercise for years are being encouraged to do more. Perhaps Tunturi can work through the health industry to attract these.

Measuring Current **Market Demand**

Marketers need to estimate three aspects of current market demand: total market demand; area market demand; and actual sales and market shares.

Estimating Total Market Demand

total market **demand** *The total volume of a product or service that would be bought by a defined consumer group in a defined geographic area in a defined time period in a defined marketing environment under a defined level and mix of industry marketing effort.*

The total market demand for a product or service is the total volume that would be bought by a defined consumer group in a defined geographic area in a defined time period in a defined marketing environment under a defined level and mix of industry marketing effort.

Total market demand is not a fixed number, but a function of the stated conditions. One of these conditions, for example, is the level and mix of industry marketing effort. Another is the state of the environment. Part A of Figure *8.5* shows the relationship between total market demand and these conditions. The horizontal axis shows different possible levels of industry marketing expenditure in a given period. The vertical axis shows the resulting demand level. The curve represents the estimated level of market demand for varying levels of industry marketing expenditure. Some base sales (called the *market minimum)* would take place without any marketing expenditure. Greater marketing expenditures would yield higher levels of demand, first at an increasing rate and then at a decreasing rate. Marketing expenditures above a certain level would not cause much more demand, suggesting an upper limit to market demand called the *market potential.* The industry market forecast shows the level of market demand corresponding to the planned level of industry marketing expenditure in the given environment. ^

The distance between the market minimum and the market potential shows the overall sensitivity of demand to marketing efforts. We can think of two extreme types of market: the *expandable* and the *non-expandable.* An expandable market, such as the market for compact disc players, is one whose size depends upon the level of industry marketing expenditures. For Figure B.5A, in an expandable market, the distance between $Q_{()}$ and $Q\backslash$ would be fairly large. In a

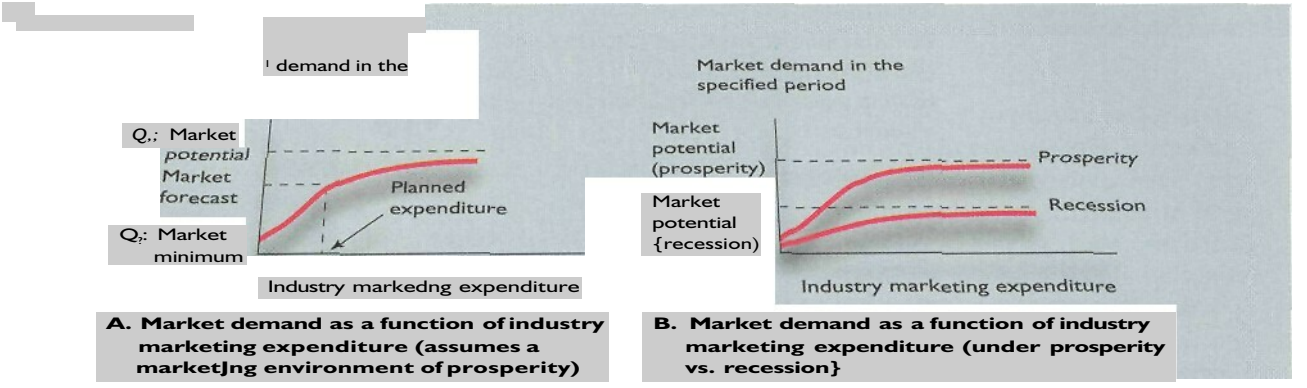


Figure 8.5 **Marked** demand

lien-expandable market, such as that for opera, marketing expenditures generate little demand; the distance between Q_0 and Qi would be fairly small. Organizations selling in a non-expandable market can take primary demand - total demand for all brands of a given product or service - as given. They concentrate their marketing resources on building selective demand - demand for *their* brand of the product or service.

primary **demand**
The level of total demand for all brands', of a given product or service -for example, the total demand for motor cycles.

selective demand
The demand for a given brand of a product or service.

Given a different marketing environment, we must estimate a new market demand curve. For example, the market for exercise bikes is stronger during prosperity than during recession. Figure 8.5B shows the relationship of market demand to the environment. A given level of marketing expenditure will always result in more demand during prosperity than it would duriug a recession. The main point is that marketers should carefully define die situation for which they arc estimating market demand.

Companies have developed various practical methods for estimating total market demand. We will illustrate two here. Suppose Dutch-owned Polygram wants to estimate the total annual sales of recorded eompaet discs. A common way to estimate total market demand is as follows:

$$Q = nx<yxp$$

where

Q = total market demand;
n - number of buyers in the market;
q = quantity purchased by an average buyer per year; and
p = price of an average unit.

Thus, if there arc 10 million buyers of CDs each year and the average buyer buys sis discs a year and the average price is DK1 40, then the total market demand for cassette tapes is DPI 2,400 million (= 10,000,000 x 6 x DPI 40).

A variation on the preceding equation is the *chain ratio method.* Using this method, the analyst multiplies a base number by a chain of adjusting percentages. For example, the United Kingdom has no national service, so the British Army needs to attract 20,000 new male recruits each year. There is a problem here, since the Army is already under strength and the population of 16 to 19-year-olds is declining. The marketing question is whether this is a reasonable target in relation to the market potential. The Army estimates market potential using, the following method:

Estimating total market demand for a new product like RCA's Digital Satellite System presents a difficult challenge.



Total number of male secondary-school leavers	1,200,000
Percentage who are militarily qualified (no physical, emotional, or mental handicaps)	× 0.50
Percentage of those qualified who are potentially interested in military service	× 0.05
Percentage of those qualified and interested in military service who consider the Army the preferred service	× 0.60

This chain of numbers .shows a market potential of 18,0(10 recruits. Since this is less than the target number of recruits sought, the Army needs to do a better job of marketing itself. They responded by doing motivational research that showed existing advertising did not attract the target age group, although a military career did give them what they wanted. A new campaign therefore aimed to increase the attractiveness of a military career to both men and women,[29]

Estimating Area and Market Demand

Companies face the problem of selecting the best sales territories and allocating their marketing budget optimally among these territories. Therefore they need to estimate the market potential of different cities, regions and even nations (see Marketing Highlight 8.2). Two main methods are available; the market-build-up method, used primarily by business-goods firms; and the market-factor index method, used primarily by consumer-goods firms.

market-build-up method *A method used mainly by business products firms to estimate the market potential of a city, region or country based on determining all the potential buyers in the market and estimating their potential purchases.*

The market-build-up method identifies all the potential buyers in each market and estimates their potential purchases. Suppose a manufacturer of mining instruments developed an instrument for assessing the actual proportion of gold content in gold-bearing ores. The portable instrument tests gold ore in die field. By using it, miners would not waste their time digging deposits of ore containing too little gold to be commercially profitable. It sees each mine as buying one or more instruments, depending on the mine's size. The company wants to determine the market potential for this instrument in each gold-mining country and whether to hire a salesperson to cover it.

To estimate the market potential in each country, the manufacturer first finds out the number of gold-mining operations in each country, their locations, the

Marketing Highlight 8.2



KFC Gets **Japan** Finger **Lickin"**

Everyone is familiar with complaints about the bilateral trade deficits of the European Union (EQ) and United States with .Japan. Many reasons are suggested for why the Japanese market is 'impenetrable': because it is a closed market, the non-tariff barriers, the stranglehold of the *ktiretsu kigyi* {banking groups), the archaic tied distribution system of mama and papa stores, or just because the Japanese are 'workaholics' who live in 'little more than rabbit hutches'. If these claims are true, the fast-food market must be particularly hard to crack in a country that cooks creatures alive in Cruel Grill and Hell Tut'o cuisine.

But not so -- RFC (previously known as Kentucky Fried Chicken) is now the second largest fast-food chain in Japan. It is also the market leader in China, South Korea, Malaysia, Thailand and Indonesia, and it is second only to McDonald's in Singapore. KPC's 1,470 Asian outlets average $1.2 million per store, about 60 per cent more than its US average. In Tiananmen Square, RFC operates its busiest outlet, a 701-seat restaurant serving 2.5 million customers a year. No wonder KFC plans to double its number of Asian outlets during the next five years.

Why is KFC so successful in Asia? First, many of the large Asian cities have a growing concentration of young middle-class urban workers with rising incomes. Past-food oxitlets represent a step up from buying food at hawkers' stalls, and Asians are willing to pay more for sitting in an American-style restaurant. Second, Asian women have been entering the labour force in large numbers, leaving them with less time for cooking meals at home. Third, chicken is more familiar to the Asian palate than pizza, and more available than beef. Further, chicken faces none of the religious strictures that beef faces in India or that pork faces in Muslim countries. KFC serves its standard chicken, mashed potatoes and coleslaw throughout Asia, but has offered a few adaptations, such as Hot Wings, a spicier chicken, in Thailand, and fried fish and chicken curry in Japan.

As *Le Monde* recognized years ago: 'To continue to complain about the bilateral deficit with Japan as the result of Japanese protectionism only serves to obscure the problem, not resolve it.' All markets have entry barriers and Japan's are more discouragement to enter than real costs. Japan is the largest market that the United States and Europe have never been close to. It has a strong culture that is so different from the West's that we have to try very hard to grasp it. The trade barriers are often an excuse for European and US failures to penetrate the Japanese market. Often those who complain most loudly about the barriers are businesspeople who have never tried or who have tried once and failed. The Japanese rarely give up after only one attempt.

KFC has tried and won. So has Nestle, and KitKat is now Japan's second-best-selling confectionery. Clearly companies can succeed if they view the world as their market and take the time to learn. They must find those areas that promise the greatest potential sales and profit growth, whether in their neighbourhood, state or nation, or even in Japan.



SOURCES: Andrew Tanzer, 'Hot wings take off', *Forbes* (18 January 1993), p. 74; George Staunton, 'Tokyo: aller au fond des choses', *Le Monde* (12 December 1977), p. 7; Endymion Wilkinson, *Japan Versus the West: Image and reality* (London: Penguin, 1990); Leonard Koren, *283 Useful Ideas from Japan* (San Francisco, CA: Chronicle, 1988); Sheridan M. Tatsumo, *Created in Japan: From imitation to world-class innovators* (London: Harper & Row, 1990).

number of employees, annual sales and net worth. This will be harder in some countries than others, since some have poor records and others, like China, are secretive about gold mining. Using these data, the company can estimate the market potential of each country based on the number of mines that are big enough and wealthy enough to buy the instrument.

market-factor index method
A metliod used mainly by consumer-products firms lo estimate the market potential far consumer products.

The market-factor index metliod estimates the market potential for consumer goods. Consider the following example. An American manufacturer of men's dress shirts wishes to evaluate its sales performance with market potential in the Indianapolis region. It estimates total national potential for drews shirts at $2 billion per year. The company's current nationwide sales are S140 million - about a 7 per cent share of the total potential market. Its sales in the Indianapolis metropolitan area are SI,100,000. It wants to know whether its share of the Indianapolis market is higher or lower than its national 7 per cent market share. To find this out, the company first needs to calculate market potential in the Indianapolis area.

The company calculates this by multiplying together population and the areas income per capita by the average share of income spent on shirts. The product then compares with that for the whole country. Using this calculation, the shirt manufacturer finds that Indianapolis accounts for 0.51 per cent of the nation's total potential demand for dress shirts. Since the total national potential is *$2* billion each year, total potential in Indianapolis equals 810,200,000 (= ⅉ>2 billion x 0.0051). Thus the company's sales in Indianapolis of SI,100,000 amount to a 10,8 per cent share (= $1,100,000/$10,200,000} of area market potential. Comparing this with the 7 per cent national share, the company appears to be doing better in Indianapolis than in other parts of the country.

Estimating Actual Sales and Market Shares

Besides estimating total and area demand, a company will want to know the actual industry sales in its market. Thus it must identify its competitors and estimate their sales.

The industry's trade association will often collect and publish total industry sales, although not listing individual company sales separately. In this way, each company can evaluate its performance against the industry- as a whole. Suppose the company's sales are increasing at a rate of 5 per cent a year and industry sales are increasing at 10 per cent. This company is losing its relative standing in the industry.

Another way to estimate sales is to buy reports from marketing research firms that audit total sales and brand sales. For example, Nielsen, AGR and other marketing research firms use scanner data to audit the retail sales of various product categories in supermarkets and pharmacies, and sell this information to interested companies. A company can obtain data on total product category sales as well as brand sales. It can compare its performance with that of the total industry or any particular competitor to see whether it is gaining or losing in its relative standing,[30]

forecasting
The art of estimating future demand by anticipating what buyers are likely to do under a given set of conditions.

Forecasting **Future Demand**

Having looked at ways to estimate current demand, we now examine ways to forecast future market demand. Forecasting is the art of estimating future demand by

Table 8.8 **Common** sales forecasting techniques

BASED OK:	METHODS
What, people say	Surveys of buyers' intentions
	Composite sales force opinions
	Expert opinion
What people do	Test markets
What people have done	Time-series analysis
	Leading indicators
	Statistical demand analysis

anticipating what buyers are likely to do under a given set of **Conditions,** Very few products or servioes lend themselves to easy forecasting. Those that do **generally** involve a product with steady sales, or sales growth in a stable competitive situation. But most markets do not have stable total and company demand, so good forecasting becomes a key factor in company success. Poor forecasting can lead to excessively large inventories, costly price mark-downs, or lost sales due to being out of stock. The more unstable the demand, the more the company needs accurate forecasts and elaborate forecasting procedures.

Companies commonly use a three-stage procedure to arrive at a sales forecast. First they make an *environmental forecast,* followed by an *industry forvwist,* followed by a company *sales forecast.* The environmental forecast calls for projecting inflation, unemployment, interest rates, consumer spending and saving, business investment, government expenditures, net exports and other environmental events important to the company. The result is a forecast of gross national product, which is used along with other indicators to forecast industry sales. Then the company prepares its sales forecast assuming a certain share of industry sales.

Companies use several specific techniques to forecast their sales. Table 8.8 lists some of these techniques.[1] All forecasts build on one of three information bases: what people say, what people do, or what people have done. The first basis - *what people say* - involves surveying the opinions of buyers or those close to them, such as salespeople or outside experts. It includes three methods: surveys of buyer intentions, composites of sales force opinions and expert opinion. Building a forecast on *what* peopfe *do* involves another method, that of putting the product into a test market to assess buyer response. The final basis —'*what people have done* — involves analyzing records of past buying behaviour or using time-series analysis or statistical demand analysis.

Survey of Buyers' Intentions

One way to forecast what buyers will do is to ask them directly. This suggests that [lie forecaster should survey buyers. Surveys are especially valuable if the buyers have clearly formed intentions, will carry them out and can describe them to interviewers.

Several research organizations conduct periodic surveys of consumer buying intentions. These organizations ask questions like the following:

DO YOU INTEND TO BUY A GAR WITHIN THE NEXT SIX MONTHS?

0.0	0.1	0.2	0.3	0.4	0.5	0.6	0.7	0.8	0.9	1.0
No chance		Slight chance		Fair chance		Good chance		Strong chance		For certain

This is a *purchase probability* .scu/e. In addition, the various surveys ask aboul: the consumer's present and future persona! finances and their expectations about the economy. Consumer durable goods companies subscribe to these indices to help them anticipate significant shifts in consumer buying intentions, so that they can adjust their production and marketing plans accordingly. For *business buying,* various agencies carry out intention surveys about plant, equipment :ind materials purchases. These measures need adjusting when conducted across nations and cultures. Overestimation of intention to buy is higher in southern Europe than it is in northern Europe and the United States, in Asia, the Japanese tend to make fewer overstatements than the Chinese.[32]

Composite of Sales Force **Opinions**

When buyer interviewing is impractical, the company may base its sales forecasts on information provided by the sales force. The company typically asks its salespeople to estimate sales by product for their individual territories. It then adds up the individual estimates to arrive at an overall sales forecast.

Few companies use their sales force's estimates without some adjustments. Salespeople are biased observers. They may be naturally pessimistic or optimistic, or they may go to one extreme or another because of recent sales setbacks or successes. Furthermore, they are often unaware of larger economic developments and do not always know how their company's marketing plans will affect future sales in their territories. They may understate demand so that the company will set a low sales quota. They may not have the time to prepare careful estimates or may not consider it worthwhile.

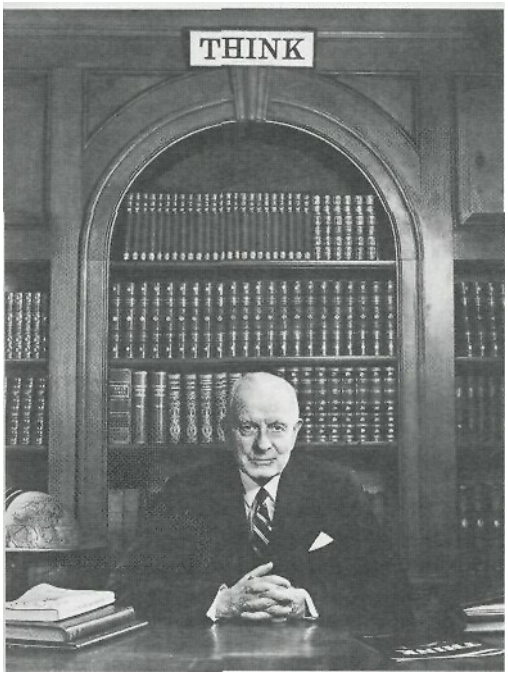
Accepting these biases, a number of benefits can be gained by involving the sales force in forecasting. Salespeople may have better insights into developing trends than any other group. After participating in the forecasting process, the salespeople may have greater confidence in their quotas and more incentive to achieve them. Also, such grass-roots' forecasting provides estimates broken down by product, territory, customer and salesperson.[33]

Expert Opinion

Companies can also obtain forecasts by turning to experts. Experts include dealers, distributors, suppliers, marketing consultants and trade associations. Thus motor vehicle companies survey their dealers periodically for their forecasts of short-term demand. Dealer estimates, however, are subject to the same strengths and weaknesses as sales force estimates.

Many companies buy economic and industry forecasts. These forecasting specialists are in a better position than the company to prepare economic forecasts because they have more data available and more forecasting expertise.

Occasionally companies will invite a special group of experts to prepare a forecast. They may exchange views and come up with a group estimate (group



In 1945, then IBM chairman Thomas Watson forecast a worldwide market for about/toe computers.

discussion method). Or they may supply their estimates individually, with the company analyst combining them into a single estimate (pooling of individual estimates). Or they may supply individual estimates and assumptions reviewed by a company analyst, revised and followed by further rounds of estimation (Delphi method).-[14]

Experts can provide good insights upon which to base forecasts, but they can also be wrong (see Marketing Highlight 8.3). Where possible, the company should hack up experts' opinions with estimates obtained using other methods.

Test-Market Method

Where buyers do not plan their purchases carefully or where experts are not available or reliable, the company may want to conduct a direct test market. This is especially useful in forecasting new-product sales or established-product sales in anew distribution channel or territory. Test marketing is discussed in (Chapter 13.

Time-Series Analysis

Many firms base their forecasts on past sales. They assume that statistical analysis can uncover the causes of past sales. Then analysts can use the causal relations to predict future sales. Time-scries analysis consists of breaking down the original sales into four components - trend, cycle, season and erratic components - then reeombining these components to produce the sales forecast.

Trend is the long-term, underlying pattern of growth or decline in sales resulting from basic changes in population, capital formation and technology. It is found by fitting a straight or curved line through past sales. Cycle captures the medium-term, wavelike movement of sales resulting from changes in general economic and competitive activity. The cyclical component can be useful for medium-range forecasting. Cyclical swings, however, are difficult to predict because they do not occur on a regular basis. Scasonality refers to a consistent

time-series analysis
Breaking down past .srites into its crcnd, cycle, season and erratic components, then recombining these components to produce a sales forecast.

trend
The long-term, underlying pattern of sales growth or decline resulting from baxiv changes in population, capital formation and technology.

cycle
Tlie medium-term 'watoelike movement of sales resulting from changes in general economic and competitive activity.

seasonality
The recurrent consistent pattern of sales movements-within the year.

Marketing Highlight

Sometimes 'Expert Opinion'Isn't All It Should Be

Before you rely too heavily on expert opinion, you might be interested in learning how some past "experts' did with their predictions:

Technology

- 'Everything that can be invented has been invented' (Director of the US Patent Office, 1899)
- 'Rail travel at high speed is not possible, because passengers, unable to breathe would die of asphyxia' (Or Dioysy Larder in 1828 - the year Stephenson's *Rocket* commenced service).
- 'No large steamship will ever cross the Atlantic, since it would require more coal than it could carry' (Dr Larder again, this time in 1859). Two years later the *Great Eastern* crossed the Atlantic.
- 'Flight by machines heavier than air is unpractical and insignificant, if not impossible' (Simon Newcombe, 1901). Eighteen months later the Wright brothers flew.
- 'My imagination refuses to see any sort of submarine doing anything but suffocating its crew and foundering at sea' (II. G. Wells, 1902).
- 'Airplanes are interesting toys, but of no military value' (France's Marshal Foch, 1911).
- 'The energy produced by the breaking down of the atom is a very poor kind of thing. Anyone who expects a source of power from the transformation is talking moonshine' (Ernest Rutherford, 1919, after he had split the first atom).
- 'I think there's a world market for about five computers' (Thomas J. Watson, IBM Chairman, 1943).
- 'By 1980, all power (electric, atomic, solar) is likely to be virtually costless' (Henry Luce, founder and publisher of *Time, Life* and *Fortune,* 1956).
- 'With over 50 foreign cars already on sale here, the Japanese auto industry isn't likely to carve out a big slice of the US market for itself *(Business Week,* 1958).

Entertainment

- 'If Beethoven's 7th Symphony is not by some means abridged, it will soon fall into disuse' (Philip Hale, nineteenth-century music eritic).
- 'Can't act, can't sing, slightly bald. Can dance a littie' (comments after Fred Astake's first movie audition).
- 'TV won't be able to hold on to any market it captures after the first six months. People will soon get tired of staring at a plywood box every night' (Daryl K Zanuck, head of 20th Century Fox, 1946).

13M D-flta Uf B* US PdHMfifh* *vynt* "• "•" MWO"

Everything that can be invented has *been* invented.

,;. NOP

- '[He] is an unspeakably untalented and vulgar young entertainer. Where *do* you go from Elvis Presley, short of obscenity - which is against the law' (John Crosby, syndicated TV critic, 1954).
- 'We don't like their sound. Groups of guitars are on the way out' (Decca Recording Company, 1962. when turning down the Beatles). The Beatles were also rejected by Pyc, Columbia and HMV before signing with EMI.
- 'The singer [Mick Jaggerj will have to go; die BBC won't like him' (Eric Easton's suggestion to the Rolling Stones).
- 'Unsinkable' (claim made by the *Titanic's* builders, Harland and Wolff, in 1912, for the ship that cost *$7.5* million to build).
- 'James Cameron has spent S200 million on a movie and it's a dog. He's finally had it!' (quote repeated by film critie Adam Smith, referring to the blockbuster film Titanic).

Environment

- 'Since populations tend to increase geometrically [1, 2, 4, 8...] and food supply arithmetically [1, 2, 3, 4...], the starvation of Great Britain is inevitable and imminent' (Thomas Robert Mai thus, 1798).
- 'The battle to feed humanity is over. In the 1970s the World will undergo famine - hundreds of millions of people are going to starve to death' (Paul Ehrlich, environmentalist author, in the 1970s).
- 'Population will soon outstrip food production' (Lester Brown of the Worldwatch Institute, 1973).
- 'Population will increase faster than world food production, so food prices will rise between 35% and 115% by 2000' *(Global 2000,* report to the President of the United States).
- 'American oil reserves will last 10 years' (United States Bureau of Mines, 1914).
- 'American oil reserves will last 13 years' (United States Bureau of Mines, 1939).
- 'American oil reserves will last 13 years' (United States Bureau of Mines, 1951).
- 'We could use up all of the proven reserves of oil in the entire world by the end of the next decade' (Club of Rome, 1972). They also made similar predictions for the reserves of aluminium, copper, lead, natural gas, silver, tin and zinc.

The results so far: known oil reserves are over 1,000 billion barrels, supplies have pushed metals, mineral and food prices down 40% since 1960, and calories consumed per capita in the Third World are 27% higher than in the 1960s!

SOURCES: 'Sometimes expert opinion isn't all it should be', *Go* (September–October 1985), p. 2; Terry Coleman, *The Liners* (Harmondsworth: Penguin, 1976); Stephen Pile, *The Book of Heroic Failures* (London: Futura, 1980); Charles Gillett, *The Sound of the City: The rise of rock and roll* (London: Souvenir, 1983); 'Environmental scares: plenty of gloom', *The Economist* (20 December 1997); *Encarta: Multimedia encyclopaedia* (Microsoft, 1997).

pattern of sales movements within the year. The term season describes any recurrent hourly, weeldy, monthly or quarterly sales pattern. The seasonal component may relate to weather factors, holidays and trade customs. The seasonal pattern provides *a* norm for forecasting short-range sales. Finally, erratic *events* include fads, strikes, snow storms, earthquakes, riots, fires and other disturbances. These components, by definition, are unpredictable and should be removed from past data to see the more normal behaviour of sales.

Suppose an insurance company sells 12,000 new life insurance policies this year and wants to predict next year's December sales. The long-term trend shows a 5 per cent sales growth rate per year. This information alone suggests sales next year of 12,600 (= 12,000 x 1.05). However, a business recession is expected next year, which will probably result in total sales achieving only 90 per cent of the expected trend-adjusted sales. Sales next year are therefore more likely to be 11,340 (= 12,600 x 0.90). If sales were the same each month, monthly sales would

be 945 (= 11.340/12). However, December is an above-average month for insurance policy sales, with a seasonal index standing at 1.30. Therefore December sales may be as high as 1,228.5 {= 945 x 1.3). The company expects no erratic events, such as strikes or new insurance regulations. Thus it estimates new policy sales next December at 1,228.5 policies.

Leading **Indicators**

leading indicators
Time series that change in the same direction but in advance tif company sales.

Many companies try to **forecast** their sales by finding one or more leading indicators: chat is, other time series that change in the same direction b.ut ahead of company sales. For example, a plumbing supply company might find that its sales lag behind the housing starts index by about four months. An index of housing starts would then be a useful leading indicator.

Statistical Demand Analysis

statistical demand **analysis**
A set of statistical procedures used to discover the most important *real factors {.tffectiri[> sales and their relative influence; the most commonly analyzed factors are prices, income, population and promotion.*

Time-series analysis treats past and future sales as a function of time, rather than as a function of any real demand factors. But many real factors affect the sales of any product. Statistical demand analysis is a set of statistical procedures used to discover the most important real factors affecting sales and their relative influence, The factors most commonly analyzed are prices, income, population and promotion.

Statistical demand analysis consists of expressing sales (Q) as a dependent variable and trying to explain sales as a function of a number of independent demand variables $X,,X_2$ $..X,,$. That is:

Using multiple-regression analysis, various equations can be fitted to the data to find the best predicting factors and equation.

For example, the South of Scotland Electricity Board developed an equation that predicted the annual sales of washing machines (Q) to be:-[15]

$$Q = 210{,}739 - 703P + 69/7 + 20F$$

where

P - average installed price:
H = new single-family homes connected to utilities; and
Y = per capita ineome.

Thus in a year when an average installed price is £387, there are 5,000 new connected homes, and the average per capita income is £4,800, from die equation we would predict the actual sales of washing machines to be 379,678 units:

$$Q = 210{,}739 - 703(387) + 69(5{,}000\} + 20(4{,}800\}$$

The equation was found to be 95 per cent accurate. If the equation predicted as well as this for other regions, it would serve as a useful forecasting tool. Marketing management would predict next year's per capita income, new homes and prices, and use them to make forecasts.

Statistical demand analysis can be very complex and the marketer must take care in designing, conducting and interpreting such analysis. Yet constantly improving computer technology has made statistical demand analysis an increasingly popular approach to forecasting.

Information Analysis

Information gathered by the company's marketing information systems often requires more analysis, and sometimes managers may need more help in applying it to marketing problems and decisions. This help may include advanced statistical analysis to learn more about both the relationships within a set of data and their statistical reliability (Chapters 9 and 10 show these factors used in segmentation and positioning research). Such analysis allows managers to go beyond means and standard deviations in the data. In an examination of consumer nondurable goods in the Netherlands, regression analysis gave a model that forecast a brand's market share *(B,)* based upon predicted marketing activity:[3!1]

$$B_i = -7.85 - 1.45P_i + \ldots + 1.23Z_i,$$

where

P_i = relative price of brand;
A_{t-1} = advertising share in the previous period; and
D_i = effective store distribution.

This, and models like it, can help answer marketing questions such as:

- What are the chief variables affecting my sales and how important is each one?
- If 1 raised my price 10 per cent and increased my advertising expenditures 20 per cent, what would happen to sales?
- How much should 1 spend on advertising?
- t What are the best predictors of which consumers are likely to buy my brand versus my competitor's brand?
- What arc the best variables for segmenting my market and how many segments exist?

Information analysis might also involve a collection of mathematical models that will help marketers make better decisions. Each model represents some real, system, process or outcome. These models can help answer the questions *of what if?* and *which is best?* During the past 20 years, marketing scientists have developed numerous models to help marketing managers make better marketing-mix decisions, design sales territories and sales-call plans, select sites for retail outlets, develop optimal advertising mixes and forecast new-product sales.-"

Distributing Information

Information has no value until managers use it to make better marketing decisions. The information gathered needs distributing to the right marketing managers at the right time. Most companies have centralized marketing information systems that provide managers with regular performance reports, intelligence updates and reports on the results of studies. Managers need these routine reports tor making regular planning, implementation and control decisions. But marketing managers may also need non-routine information for special situations and on-the-spot decisions. For example, a sales manager having trouble with a large customer may want a summary of the account's sales and profitability over the past year. Or a retail store manager who has run out of a best-selling product

Marketing Highlight 8.4



European Research

Neither Europe nor even the European Union can be researched as one market. The market is getting closer to fulfilment, but some difficulties remain. The market research industry structure is fairly standard across the EU and most services are available everywhere. However, many large agencies including Control Data Corporation, IRI, GfK and Video Research, cover only a few countries.[1] Frequently, if conducting international studies, agencies have to use the facilities provided by local research companies. To serve multinational clients better, many large and small firms are now forming alliances in order to ease cross-border research. Co-operative ventures have allowed medium-sized companies to build a reputation for international research. For example, Research Services and its associates conduct both the European Businessman's Readership Survey and the Asian Businessman's Readership Survey. Euroline is a one-stop-shop telephone interviewing consorthim set up by agencies in France, Germany, Italy, Spain and the United Kingdom. This will allow one questionnaire to be written, transmitted to other countries, translated, then hopefully checked carefully.

There is a huge disparity of incomes and consumption within the E1U: Denmark, Germany and Luxembourg have a gross domestic product per capita more than four time;; that of Portugal and three times that of Greece. New members from eastern Europe will make the gap even wider. Differences in wealth account for only a small part of the variation in consumption and eonstimer behaviour. Home differences, like eating habits, are clearly rooted in the different languages, cultural traditions and cuisine of the EU, but there are also big differences in the consumption of modern industrial goods. In Spain, the penetration of consumer durables shows they are in the early stages of a slowly unwinding product life cycle, whereas the same products are maturing elsewhere. For example, in Spain penetration of home computers (11 per cent), CD players (9 per cent) and microwave ovens (9 per cent) contrasts with the penetration of home computers in Belgium (29 per cent), CD players in the Netherlands (60 per cent) and microwave ovens in the United Kingdom (6G per cent).

Competition and distribution also vary. Many European markets have locally dominant companies and competitive structures that are unique to them. The big multinationals now operate in most markets, but their strength in each market varies. The structure of retailing within the EU varies massively. The greatest contrast is between the United Kingdom, dominated by a few large retailers, and Italy where mama and papa stores dominate. Europe has many large chains, such as Germany's Tengelmann, France's Leclerc, Britain's J. Sainsbury and Dutch Ahold, but most

TAHLE 1 THE EUROPEAN UNION 1998: IN THE CLUB, IN THE QUEUE AND IN THE DISTANCE

STATUS	POPULATION (MILUON)	COUNTRIES
EU	372.5	Austria, Belgium. Denmark. Finland, France, (lerniany, Greece, Holland, Ireland, Italy, Luxembourg, Portugal, Spain, Sweden and United Kingdom
Fast-track applicants	63.1	Cyprus, Czech Republic, Estonia, Hungary, Poland Slovenia
Pre-aceession partnership applicants	42.7	Bulgaria, Latvia. Lithuania, Romania and Slovakia
Other applicants	60.8	Turkey

of these are little known outside their home country.[2]

European primary and secondary data sources have yet to harmonize. Differences exist in the most basic of issues: variations in life-cycle groupings make comparisons awkward. In Germany, adulthood ranges from IS upwards, but in other countries it is as low as 12 years, thus eliminating the teenage market. In Japan, adulthood docs not depend on age: all persons living at home with their parents arc defined as children. Social class scales also differ. The British scale - A, B, Cl, C2, D and E - which is built up from ten components (e.g. age, income, occupation), is widely used, but Germany uses a point scale roughly depending upon three components: income, profession and education. In France, the scale depends upon where as well as what is done: for example, working in public or private sectors.-[1]

The European Society for Opinion and Marketing Research (ESOMAR) set up working parties in 1982 to find a set of demographic questions that could be asked in any European country. The questions cover basic issues like sex, age and economic status. Thtsc questions have been adopted by the European Barometer Service, Soon ESOMAR will be publishing a standardized format in a book that includes a sample questionnaire and information on how to code the answers.

While ESOMAR moves slowly towards a single research market, the growth of the EU will make it less of a standardized market. The list is always changing, but Table 1 shows the present position. Expect the EU to be an ever-expanding and diverging marketplace.[4]

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may want to know the current inventory levels in the chain's other stores. In companies with only centralized information systems, these managers must request the information from the MIS staff and wait. Often, the information arrives too late to be useful.

Developments in information handling are now making Chat task easier With recent advances in computers, software and telecommunications, many companies are decentralizing their marketing information systems. They are giving managers direct access to information stored in the system. In some companies, marketing managers ean use a personal computer to tie into the company's information network. From any location, they ean obtain information from internal records or outside information services, analyze the information using statistical packages and models, prepare reports on a word processor, and communicate with others in the network.

Such systems offer cxeiting prospects. They allow the managers to get the information they need directly and quickly, and to tailor it to their needs. As managers develop the skills needed and as the systems become cheaper, companies will increasingly use decentralized marketing information systems.

International Studies

The globalization of business is extending the task facing managers. Now managers have to manage campaigns across countries and with different countries, international marketing researchers follow the same steps as domestic researchers, from defining the research problem and developing a research plan to interpreting and reporting the results. However, these researchers often face more and different problems. Whereas domestic researchers deal with fairly homogeneous markets within a single country, international researchers deal with markets in many different countries. These different markets often vary dramatically in their levels of economic development, cultures and customs, and buying patterns. Even gathering basic secondary information in many countries is difficult, and primary information can present even more problems. Despite the EU's increased integration and expansion, information gathering across the EU is far from integrated (see Marketing Highlight 8.4).

In many foreign markets, the international researcher has a difficult time finding good *secondary data.* Whereas many marketing researchers can obtain reliable secondary data on their domestic market, many countries have almost no research services at all. Some international market research firms operate in several large economies, but most countries are not covered by any. Thus, even when secondary information is available, it must usually be obtained from many different sources on a country-by-country basis, making the information difficult to combine or compare.

Because of the scarcity of good secondary data, international researchers must often collect their own primary data. Here again, researchers face problems not encountered domestically. For example, they may find it difficult simply to develop appropriate samples. Whereas researchers in developed countries can use current telephone directories, census data and any of several sources of socioeconomic data to construct samples, such information is lacking or unreliable in many countries. Reaching respondents is often not so easy in other parts of the world. In some countries, few people have telephones - there are only 4 phones per thousand people in Egypt, 6 in Turkey and 32 in Argentina. In other countries, the postal system is notoriously unreliable. In Brazil, for instance, an estimated 30 per cent of the mail is never delivered. In many developing countries, poor roads and transportation systems make certain areas hard to reach, and personal interviews difficult and expensive.[3"]

Differences in cultures from country to country cause additional problems for international researchers. Language is the most obvious culprit. For example, questionnaires must be prepared in one language and then translated into the languages of each country researched. Responses must then be translated back into the original language for analysis and interpretation. This adds to research costs and increases the risks of error:

> Translating a questionnaire from one language to another is far from easy, ... Many points are [lost], because many idioms, phrases and statements mean different things in different cultures. A Danish executive observed: 'Cheek this out by having a different translator put back into English what you've translated from the English. You'll get the shock of your life. I remember [an example in which] "out of sight, out of mind" had become "invisible things are insane"'.[111]

Buying roles and consumer decision processes vary greatly from country to country, further complicating international marketing research. Consumers in

different countries also vary in their attitudes towards marketing research. People in one country may be very willing to respond, while in other countries non-response can be a difficult problem. For example, custom in some Islamic countries prohibits people from talking with strangers — a researcher simply may not be allowed to speak by phone with women about brand attitudes or buying behaviour. In certain cultures, research questions are often considered too personal. For example, in many Latin American countries, people may feel too embarrassed to talk with researchers about their choice of shampoo, deodorant or other personal care products. Even when respondents are *willing* to respond, they may not be *able* to because of high functional illiteracy rates. And middle-class people in developing countries often make false claims in order to appear well-off. For example, in a study of tea consumption in India, over 70 per cent of middle-income respondents claimed that they used one of several national brands. However, the researchers had good reason to doubt these results - more than 60 per eent of the tea sold in India is unbranded generie tea.

Despite these problems, the recent growth of international marketing has resulted in a rapid increase in the use of international marketing research. Global companies have little choice but to conduct such research. Although the costs and problems associated with international research may be high, the costs of not doing it - in terms of missed opportunities and mistakes - might be even higher. Once recognized, many of the problems associated with international marketing research can be overcome or avoided.

Summary

!n carrying out their marketing responsibilities, marketing managers need a great deal of information. Despite the growing supply of information, managers often lack enough information of the right kind or have too much of the wrong kind. To overcome these problems, many companies are taking steps to improve tbeir marketing information systems.

A well-designed *marketing information system* (MIS) begins and ends with the user. The MIS first assesses *information* needs by interviewing marketing managers and surveying their decision environment to determine what information is desired, needed and feasible to offer. The MIS next *develops information* and helps managers to use it more effectively, *Interned records* provide information on sales, costs, inventories, cash flows and aecounts receivable and payable. Such data are quick and cheap, but must often be adapted for marketing decisions. The *marketing intelligence system* supplies marketing executives with everyday information about developments in the external marketing environment. Intelligence can be from company employees, customers, suppliers and resellers; or by monitoring published reports, conferences, advertisements, eompetitor actions and other activities in the environment.

Marketirig research involves collecting information relevant to a specific marketing problem facing the company. All marketers need marketing research and most large companies have their own marketing research departments. Marketing research involves a four-step process. The first step consists of the manager and researcher carefully *defining the problem and setting the research objectives.* The objectives may be *exploratory, descriptive* or *causal.* The second step consists of developing die *research plan* for collecting data from primary and secondary sources. Primary *data collection* calls for choosing *a research approach* (observation, survey, experiment); choosing a *contact method* (mail, telephone, personal); designing a

sampling plan (whom to survey, how many to survey and how to choose them); and developing *research instruments* (questionnaire, mechanical). The third step consists of *implementing die marketing research plan* by collecting, processing and analyzing the information. The fourth step consists of *interpreting anil reporting the findings.* Further information analysis helps marketing managers to apply the information, and provides advanced statistical procedures and models to develop more rigorous findings from the information.

Finally, the marketing information system distributes information gathered from internal sources, marketing intelligence and marketing research to the right managers at the right times. More and more companies are decentralizing their information systems through networks that allow managers to have direct access to information. To carry out their responsibilities, marketing managers need measures of current and future market size. We define a *market* as the set of actual and potential consumers of a market offer. Consumers in the market have *interest, income* and access to the market offer. The marketer has to distinguish various levels of the market, such as the *potential market, available market, qualified available market, served market* and *penetrated market.*

One task is to *estimate current demand.* Marketers can estimate total demand through the chain ratio method, which involves multiplying a base number by successive percentages. Estimating actual industry sales requires identifying competitors and using some method of estimating the sales of each. Companies then estimate the market shares of competitors to judge their relative performance. For *estimating future demand,* the company can use one or a combination of seven possible forecasting methods, based on what consumers say *(buyers' intentions surveys, composite of sales force opinions, expert opinion);* what consumers do *(market tests);* or what consumers have done (time-series *analysis, leading indicators* and *statistical demand analysis).* The best method to use depends on the purpose of the forecast, the type of product and the availabilitvand reliability of data.

Key Terms

Available market 339
Causal research 321
Closed-end questions 333
Cycle 347
Descriptive research 321
Experimental research 328
Exploratory research 321
Focus group 329
Forecasting 344
Industry 338
Internal rceords information 318
Leading indicators 350
Market 338
Market-build-up method 342
Market-factor index method 344
Marketing information system (MIS) 317
Marketing intelligence 318
Marketing research 320
Observational research 326
Open-cud questions 333
Penetrated market 339
Potential market 339
Primary data 324
Primary demand 341
Qualified available market 339
Qualitative research 326
Quantitative research 326
Sample 332
Seasonably 347
Secondary data 324
Selective demand 341
Served market (or target market) 339
Single-source data systems 327
Statistical demand analysis 350
Survey research 327
Time-scries analysis 347
Total market demand 340
Trend 347

Discussing the Issues

1. You arc a marketing research supplier, designing and conducting studies for a variety of companies. What is the most important thing you may do to ensure your clients will get their money's worth from your services?
2. Companies often face rapidly changing environments. Can market research information go stale? What issues does a manager face in using these research results?
3. What type of research would be appropriate in the following situations and why?
   - Nestle wants to investigate the impaet of children on their parents' decisions to buy breakfast foods.
   - A college or university bookshop wants to get sonic insights into how students feel about the shop's merchandise, prices and service,
   - Gillette wants to determine whether a new line of deodorants for teenagers will IIB profitable.
   - Virgin is considering where to locate a new music store in a fast-growing suburb.
   - Nintendo intends to develop a new range of multimedia products for older children and adults, and wants to test the feasibility of the idea.
4. In market measurement and forecasting, which is the more serious problem: overestimating demand or underestimating it? (live your reasons.
5. As marketing manager for 1'edigrce Chnm cat food, you have seen sales jump 50 per cent in the last year after years of relatively stable sales. How will you forecast sales for the coming year?
6. What leading indicators migllt help you predict .sales of ears? mobile phones? baby foods? Describe a general procedure for finding leading indicators of product sales.

Applying the Concepts

People often make their own judgements about the potential for new products. You may hear someone say a new product will 'never sell' or that it will 'sell like hot cakes'. Recall some recent iiew products or services that you saw or heard about, and about which you made an informal prediction. What attracted your attention enough to get you to comment on the future of the products or service? What was your forecast? Were you correct?

Run a small focus group to learn about the pros and cons of this technique.

- Piek one member in the group as a moderator and. select six to eight other volunteers. Try to include at least one strong personality and one shy member. Set the group up in a circle in front of the class.

Discuss a moderately controversial issue that is of interest to the class, but avoid issues that are very controversial or emotional. Run the group for 10 to 15 minutes.

Discuss the focus-group 'results' with the class. Were the conclusions fair or biased?

What did the class find useful about the technique and what problems did they see?

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Case 8

ACT: Feeling Out the Appliance Controls Market

WALLACE LEYSHON, HEAD OF APPLIANCE Control Technology (ACT), looked up from the copy of *Appliance Manufacture Magazine* that he was reading as Gregory Pearl, ACT's marketing director, entered his office. Levshon had recently founded ACT after leaving his position as business director of Motorola's electronic control appliance division. Levshon had felt that Motorola was pursuing conventional industry strategies by manufacturing its products in foreign countries (offshore). Leyshon believed that the industry was ready for an unconventional strategy, and he had left Motorola to begin his own business. ACT would focus on designing, manufacturing and selling couch-sensitive digital control panels for home appliances such as microwave ovens, cookers and washing machines. The panels allow consumers to control appliances at the touch of a finger to set cooking time or to select the 'cook' or 'defrost' cycles on a microwave oven, for example. These controls replace the buttons and dials found on many appliances.

The home appliance industry is mature. Furthermore, the Association of Home Appliance Manufacturers estimates that the number of home appliances per household rose from 3.3 in 1960 to 4.1 in 1970, to 5.4 in 1982, and to 6.1 in 1987. Industry analysts question whether this level of penetration can increase further. However, despite slow growth in the appliance industry as a whole, Leyshon's research predicts that sales of digital control panels for appliances could grow at 22 per cent a year in the future. Only about 20 per cent of appliances now include digital controls. However, one industry analyst notes chat, with the success of microwave ovens and video-

cassette recorders, consumers have bceome increasingly comfortable with digital touch-sensitive controls. Leyshon believes that increased consumer familiarity has opened the way for manufacturers to include digital control panels in other types of home appliance that users currently control with dials and buttons (electromechanical controls). With a digital control, for example, a standard clcetric cooker could offer users the wide range of special cooking programmes that microwave ovens now provide.

After starting ACT, Leyshon landed a significant contract with a major microwave oven manufacturer. With this customer's business to support ACT, Leyshon realized he needed to conduct marketing research to help him develop a marketing strategy to attack the appliance controls market. Although there were only a limited number of digital control suppliers and five major manufacturers in the industry, Leyshon could find very little readily available marketing research on the appliance controls **industry,** especially on digital controls.

'How's your morning going?' Gregory Pearl asked as he entered Leyshon's office.

'Fine. I was just looking through this magazine to see if I could find anything to help us with our marketing research. It appears that appliance shipments are tuning down again. What have you got for me?'

'Well, during our last discussion, we outlined the market research process we want to follow' (see Exhibit 8.1). 'Based on that outline, I've tried to write sonic research goals, develop a list of specific questions for our proposed telephone interviews, and figure out just whom we should call' (see Exhibit 8.2). 'In fact, I've even drafted a preliminary version of the questionnaire' (see Exhibit 8.3).

Leyshon was pleased with his marketing director's progress. 'OK, let's take a look at what you've done. Then we can decide where we go from here.'

EXHIBIT 8.1 STEPS IN ACT MARKETING RESEARCH PROCESS

1. Identify and articulate the problem.
2. Identify research goals.
3. Determine the information needed to achieve the research goals.
4. Determine research design.
5. Decide on research sample (i.e., whom to call).
6. Determine content of the individual questions.
7. Construct a questionnaire.
8. Test the questionnaire,
9. Adjust the questionnaire based on the test results.
10. Conduct the interviews.
11. Write up the results of each interview.
12. Write a report.

EXHIBIT 8.2 ACT MARKETING RESEARCH DESIGN ISSUES

I. Survey goals
   A. Gain insight into best strategy for approaching the electronic controls market.
      1. Type of appliances
      2. Features
      3. Cost issues
      4. Tactical selling issues
   B. Determine how ACT can best serve original equipment manufacturers (OEMs).

1. Research and development
2. Partnering
3. Product development cycle

U. Specific questions to be addressed
   A. What problems do equipment manufacturers and retailers face in making and selling home appliances? Flow can ACT help solve those problems?
   B. Who are the decision makers in the electronics buying process? Who has the power between the retailer and the equipment manufacturer?
   G. Are there any unidentified issues from AGT's. the manufacturers' or the retailers' perspectives?
   D. How rapidly will manufacturers adopt electronic controls for their appliances, by category of appliances?
   E. How sensitive are manufacturers to the price of electronic controls versus standard electromechanical controls?
   P. What arc the manufacturers' impressions of suppliers' strengths and weaknesses?
   G. What features and issues other than price drive the use of electronic controls?
   I-I. How can manufacturers use electronic controls to add value to mid-level appliances?
   I. How can a supplier be a better partner to manufacturers?
   ,1. What can a supplier do to speed up manufacturers' product development efforts?

III. Who should be interviewed?
   A. Manufacturers
      1. Functional areas
         a. Purchasing
         b. Marketing
         c. Engineering
      2. Specific companies
         a. Whirlpool
         b. Frigidairc
         c. General Electric
         d. Maytag
         e. Ravtheon
   R. Retailers
      1. Functional areas
         a. Buyers
         b. Store-level management
         o. Floor sales personnel
      2. Specific companies
         a. Sears
         b. Montgomery Ward
         C. Highland
         d. Wal-Mart
   C. Other
      1. Association of Home Appliance Manufacturers

EXHIBIT 8.3 VERSION 1 - ACT MARKETING RESEARCH QUESTIONNAIRE

Introduction

ACT is conducting a survey of decision makers and industry experts in the electronic appliance controls industry. We would appreciate your help in answering our questions. Your responses will be reported anonymously, if they are reported at all. Yoxir responses will be used to help ACT determine how to serve the appliance industry better.

Questions

1. A. What are your opinions on the level of electronic control usage, expressed in percentages, in the following appliance categories for 1991 and 1996?

B. What arc your opinions on the average cost per electronic control by appliance category in 1991 and 1996?

	Percentage of units using electronic controls in:		*Average cost per control unit in:*	
Category	7997	1996	*1991*	7996
Cookers, electric				
Cookers, gas				
Dishwashers				
Dryers, electric				
Dryers, gas				
Microwaves				
Refrigerators				
Washers				
Room air conditioners				

2. For each of the following categories, what price must a supplier charge for an electronic control unit such that a manufacturer would be indifferent as to using electronic or electromechanical controls, taking into account the differences in functions and features?

Category	*Price per electronic unit*
Cookers, electric	
Cookers, gas	
Dishwashers	
Dryers, electric	
Dryers, gas	
Microwaves	
Refrigerators	
Washers	
Room air conditioners	

3. What features, functions and attributes do electronic controls need to have if they are to be used more often in appliances?
4. What impact will the forthcoming Department of Energy regulations have on the appliance industry?
5. What can an electronic controls company do to be a better supplier?

QUESTIONS

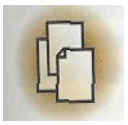
1. Based on information in the case and in Exhibits 2 and 3, just what *in* Leyshon trying to learn through marketing research? What additional trends and information might he want to monitor as part of his ongoing marketing information system?
2. What sources of marketing intelligence can ACT use to gather information on the industry and its competition?
3. What decisions has ACT made about its research approach, contact method and sampling plan?
4. Evaluate ACT's proposed questionnaire (Exhibit 3). Does it address the issues raised in Exhibit 2? What changes would you recommend?
5. Based on the marketing research process discussed in the text, what is ACT's marketing research objective, and what problem is the company addressing?
6. Evaluate ACT's marketing research process (Exhibit 1).

Overview Case Two

Ballygowan Springs into New Age Kisqua

*Brenda Cullen**

Introduction



IN JANUARY 1991 GEOFF READ, managing director of Ballygowan Spring Water Company, had to make a decision that could alter the whole direction of the company. Since August 1988 the management team had shaped a strategy to launch a drink to develop upon the success of Ballygowan Spring Water. The objective was to provide Ballygowan with a product to enter the soft-drinks market and so remove the weakness of being a one-product company. After identifying the market for 'new age' products, and carrying out research at each stage in the product development process, the results of a final test market were disappointing, Ballygowan had to consider whether to withdraw the product, to redesign and reposition the new range, or to go ahead and launch as originally planned.

Geoff Read founded Ballygowan in 1981 and by 1991 the company exported to IS countries and held 77 per cent of the 12.5 million litre water market in Ireland and had developed an extensive range of bottled spring water products. Tipperary was no. 2 in the market with 13.5 per cent market share. Since 1987 Pcrrier's share had dropped from 13 to 4 per cent.

Between 1987 and 1989 the company grew to be a medium-sized enterprise geared for expansion and growth. A joint investment with Anheuser Busch provided a very modem production facility covering 30,000 square metres with a capacity of 600 bottles per minute. Ballygowan's success came from being an innovator in the market for water-based products, and also from astute management of the Ballygowan brand franchise. Management now saw the need to exploit the assets of the company more profitably. In particular, the plant was not at mil capacity and the company's strong distribution network and experienced management were not being fully utilized.

• *Bottled Water Market*

By the end of 1985 the bottled water market in Ireland was IS1.2 million (2.8 million litres) with about 10 per cent of adults drinking mineral water regularly.

* University College Dublin, Ireland.

By 1990 it had grown to IS12.5 million (12.5 million litres), 5.5 per cent of the Irish soft-drinks market. The bottled water market was 'one of the fastest growing sectors in the food trade in both Ireland and the UK'. Reasons for this were a reduction in the quality of tap water and changing attitudes towards health and fitness, which led to an increase in the demand for drinks perceived as natural, alcohol free and with fewer calories. Furthermore, *increasingly* stringent drink-driving legislation was leading to an increase in the consumption of bottled water, A Euromonitor survey in 1989 showed that the Irish consumed far less bottled water per person than other countries (Ireland: 3 litres; United Kingdom: 5,5; Italy: 80; Germany: 76; France: 68; and the United States: 30).

The market potential for spring water in Ireland was small considering the number of competitor brands on the market. While some niche brands had high prices, low prices were becoming common because of aggressive high-street pricing, own-label products and cheap imports. With a proliferation of products and the threat of commoditization, it was becoming difficult to develop new niches in the market.

• *Ballygowan Spring Water*

Ballygowan's success came from the sparkling and non-sparkling waters - Ballygowan Sparkling Irish Spring Water and Ballygowan Natural Irish Spring Water, A later addition to the range was Ballygowan Light, and in 1988 Ballygowan successfully launched a range of flavoured spring waters. By 1990 the company's turnover was I£10 million, a figure it hoped to double within the next two years. An important part of this strategy was the launch of soft drinks - a market where the company saw significant volume potential.

The management wanted to launch a new drink to bring Ballygowan further into the mainstream soft-drinks market, it would enhance the company's reputation for innovation, market leadership, excellence and product quality. The product would be purer, juicier, fruitier and healthier than any other soft drink on the market. The brand should be consistent with developing consumer behaviour, particularly attitudes and behaviours towards healthy diets and lifestyles.

The Irish carbonated soft-drinks market in 1990 was about 235 million litres, including approximately 40 million litres of adult soft drinks, up from 179 million litres in 1987. Soft-drink consumers were the target market for the proposed new product. They were likely to be more adult than young and would prefer to drink 7-Up (38 per cent) or Club Orange (25 per cent) to Coke or Pepsi (24 per cent). The profile of this consumer was 'a sophisticated, self-righteous and reasonably health-conscious adult', 18-30 years old, who wants and will pay for drinks that look good, taste good and portray a certain image.

• *Product Development Process*

A product development process identified product development, brand development and business planning stages. In December 1988, Ballygowan employed a marketing consultancy firm, Dimension, to help in the first two stages. The consultancy's brief was as follows:

A

- Identify and brief three companies to develop prototype products based on pure juices and Ballygowan Spring Water with natural flavours and sweeteners, carbonated, containing preservatives, but not pasteurized.
- Develop formulations for up to six flavours.
- Develop name, branding, positioning, communication and marketing Strategies.

- Target the branded soft-drink sector - Coke, 7-Up, Club, Lilt, and so on.
- Develop a brand with a premium but accessible imagery, and superior product quality, but priced competitively with major brands.
- t The brand should have no overt Ballygowan endorsement,
- It should be packed in 1.5 litre plastic bottles, 330 ml cans and 250 ml glasses.
- Primary focus to be the Irish market, but with export potential.

• *Product Sourcing*

The first task was to find a company that could manufacture the pure fruit juice to mix with Ballygowan Spring Water. Criteria for the selection of a company were degree of technological sophistication, ability to produce :\ range of flavours, expertise in producing fniit juices and flavours, product quality, hygiene standards and speed of response. Three short-listed companies were briefed. Visits to each company appraised their production processes and capabilities.

The three companies each made laboratory-scale products, which were tested using a structured questionnaire assessing aroma, appearance, taste and overall opinion on each of the test products. All tests were 'blind', and the products were compared with successful brands already on the market as 'controls'. The range of flavours screened included orange, lemon, apple, passion fruit, grapefruit, peach, pineapple, blackberry and blackcurrant. The aim was to achieve product ratings competitive with the 'controls' (see Exhibit 2.1).

EXHIBIT 2.1 TASTE TEST

PRODUCT	*AROMA.*[1]	APPEARANCE[11]	TASTE[11]	OVERALL SCORE	LIKELIHOOD OK PURCHASE[11]
Club Orange	*6.9*	7.5	7.3	7.4	3.5
Dohler Orange	5.9	5.6	6.1	6.1	2.6
Dohler Orange and Peach	7.4	7.2	7.1	7.5	3.3
Dohler Orange and Passion Fruit	6.6	6.3	7.0	7.0	3.2
Dohler Orange and Lemon	6.4	6.4	6.9	7.2	3.2
Club Lemon	6-7	6.5	7.2	7.4	3.5
Dohler Lemon	6.5	6.9	6.9	7.4	3.2
Dohler Grapefruit and Pineapple	5.8	6.2	5.5	6.1	2.5

NOTES * Average scores cm nine-point scale, **in** which 9 = most favourable **and 1** = **least favourable; *ona** scale of 1 to 5.

SOURCE: Dimension. March 1989.

After the analysis of each batch, the three companies were rebriefed, shown the taste test results and told the changes required. After repeating the process six times, a German company, which responded particularly well to the product brief and to the taste tests, was appointed as the supplier. Both companies then agreed plant and equipment specifications.

• *Product Formulations*

Six products were produced for a quantitative market research survey conducted in May 1989 by Behaviour & Attitudes, a market research agency in Dublin. A questionnaire, developed from Dimension's earlier one, focused on aroma, appearance and flavour. The flavours tested were 10 per cent orange juice, 15 per cent orange and peaeh juice, 15 per cent orange and passion fruit juice, 10 per cent orange and lemon juice, 10 per cent lemon juice, and 15 per cent grapefruit and pineapple juice, with Club Orange and Club Lemon as 'controls'. Eaeh of 200 respondents taste-tested two Ballygowan samples and one of the 'controls', to give 75 assessments of each Ballygowan product.

The results convinced the Ballygowan team to focus on orange, orange and peach, orange and passion fruit, and orange and lemon. Lemon, and grapefruit and pineapple, could extend the range later (see Exhibit 2.2). Since the results of the orange formulation were not satisfactory, a second round of quantitative market research would take place with performance isolated from packaging and advertising effects.

EXHIBIT 2.2 SUMMARY RATINGS

	ORANGE PEACH (15% JUICE)	ORANGE LEMON (10% JUICE)	GI-UR ORANGE	ORANGE 00% JUICE)	ORANGE PASSION FRUIT (15% JUICE)	LEMOK (10% JUICE)	GLUE LEMON	GRAPEFRUIT AND PINEAPPLE (15% JUICE)
Aroma								
Attractiveness	5	3	4	2	3	4	4	2
Naturalness	5	2	2	2	4	3	3	2
Overall	5	3	3	2	3	4	4	2
Appearance								
Attractiveness	4	2	5	r	3	5	2	3
Naturalness	5	3	4	j	3	5	3	3
Overall	5	3	5	2	3	5	4	2
Flavour								
Good taste	4	3	5	1	3	4	5	1
Real fruit flavour	5	3	3	1	4	5	3	1
Sweetness (right)	5	3	3	3	3	5	5	3
Refreshment	5	3	5	1	3	5	5	1
Overall taste	5	3	4	1	4	4	4	1
Overall rating	5	4	4	1	3	4	5	1

Key: 5 Well above average
4 Above average
3 Average
2 Below average
1 Well below average

SOURCE: Behaviour & Attitudes, Market Research Survey. May I9S9.

Some questions remained. Should the products be pasteurized, and should essence or preservatives be TisedV Eaeh of these options had complications. Pasteurization meant that it would not be possible to use plastic bottles and there were also shelf-life implications. However, with pasteurization, the' product

ingredients are '100 per cent natural'. Using essence would overcome shelf-life difficulties, hut would not he consistent with the hrand propositions. Finally, preservatives were in most soft drinks on the market, but the management felt that they could compromise Ballygowan's image of purity and naturalness.

• *Product Concept and Brand Name Development*

The development of the product concept and branding began with braiustorming sessions by Dimension. Ballygowan's specification for the name was that it should be relevant, attractive, distinctive, memorable and registenable, and should have the attributes of a global brand name. Out of the hundreds of names generated, .luisca, Jnzze, Artesia, Kisqua, Prima and Viva became prototype brand names. Five positioning options also helped explore the attitudes and motivations of soft-drink consumers:

1. *Health drink.* A pure, natural and healthy drink for mainstream soft-drink consumers who care about what they consume.
2. *S»j)liisticated.* A high-status drink of superior quality for discerning consumers.
3. *Healtliy lifestyle.* For those who unselfconsciously lead and aspire to a healthy but full lifestyle in terms of diet, exercise and a relaxed but full life.
4. *Youthful peer groups.* The Pepsi/Club generation.
5. *Generic.* Refreshment, cooling, youthful and Coke sociability values.

Behaviour & Attitudes designed and conducted four focus groups representing market segments with different relationships to soft drinks (see Exhibit 2.3). The focus groups aimed to:

- Investigate the response to five prototype brand names.
- Explore reaction to seven prototype pack designs.
- Consider pack dosigns and bottling formats,

t Give direction to brand positioning.

EXHIBIT 2.3 Focus GROUPS

The four groups were:		
1. Young teenage girls	Middle class	
2. Young men	18-24	01 02
3. Women	22-32	(12 with children
4, Women	22-32	Bl 132 with children

Target markets:	
Primary	Secondary
Healtli/body conscious	Soft-drink consumers
A B Cl	
Late teens/twenties	
Young and early teens	
Teenage adults	

SOURCE: Behaviour & Attitudes. Market Research, August 1980.

Discussions with each group followed a similar pattern. Initially respondents freely discussed their use and **purchase** of soft drinks. This naturally led to conversations about different brands. Next, the groups were told about the new

idea for a soft drink and shown a board illustrating the new produet concept. Following their responses to the concept, the groups were told that there were alternative prototype brand names and packaging designs. These were presented one by one, with the order of presentation being rotated between different groups. Proposed brand names and pack designs were presented separately.

Later, discussion group members were asked to help market the new brand; 'mood boards' were presented and associated with the different brand names and pack designs. Finally, copy statements, presented on boards representing different positioning options, were discussed.

EXHIBIT 2.4 GENERAL CONSUMER ATTITUDES TO SOFT DRINKS

YOUNGMEN	YOUNG GIRLS	YOUNG MARRIED WOMEN
Perceived as the province of children and teenagers	Very involved with brands as badges of both individuality and groups	Regular purchasers for themselves and their families
Believe they are not emotionally involved in the market	Very conscious of style and fashion	Soft drinks are an essential household purchase item
Yet they are regular consumers - for thirst/refreshment	Very high level of health consciousness	Oriented towards health and exercise, reflected in their attitude to food and drink brands
Therefore taste and refreshment are their criteria for judging soft drinks	Brands reflect social valuations and status	Disposed towards natural products and low-calorie products
Coca-Cola is the preferred brand	Ballygowan, Perrler and 7-Up are stylish, sophisticated and healthy	'Natural' products identified as contemporary and fashionable
They associate 7-Up with contemporary youth, and refreshment	Are high-volume users of soft drinks	Working class want brands to be accessible; middle class focus on style
Will be difficult to impress - little emotional interest in soft drinks		

In September 1989, Behaviour & Attitudes debriefed Ballygowan about the research. First, it presented consumer attitudes to soft drinks generally (see Exhibit 2.4). The research indicated that teenage boys, teenage girls and young married women had different attitudes and motivations to soft drinks. Secondly, it examined consumer attitudes to soft-drink brands (see Exhibit 2.5) and consumer reaction to the five prototype brands (see Exhibit 2.6). Behaviour & Attitudes made the following points about reactions to the product concept:

1. The ingredients make it more sophisticated than mainstream soft drinks.
2, It was not seen as a totally novel idea. Consumers were aware of Nashs, Citrus Spring and Britvic.

3. The pleasant product and the endorsement of Ballvgowan aroused a high predisposition to try it.
4. Price parity with Coke and 7-Up raised consumers' disposition to try the product.

EXHIBIT 2.5 CONSUMER ATTITUDES TO SOFT-DRINK BRANDS

Coke
- Perceived as the archetypal soft drink.
- Strong consistent branding, massive advertising support.
- Two problems: perceived by some as harsh, causing tooth decay, overly **masculine** personality.

Club Orange
- The archetypal orange soft drink.
- Its appeal is primarily based on its product characteristics - real orange taste with lots of orange in it.
- Advertising not consistent with the brand.

Lilt
- Has no clear product focus - a mix of different things.
- Dissonance between advertising and product knowledge.

7-Up
- Very coherent brand, with well-rounded persona.
- Very popular and the most contemporary soft drink.
- 'The soft drink for the 1990s.'
- Healthy perception - clean and clear,
- Appeals to male and female.
- Not limited to teenagers: helped by its mixer usage; helped by its healthy image.
- Strong perception of being refreshed.

Club Lemon
- Valued for its product characteristics of taste and refreshment.
- Very loyal consumers - almost a eult.

Luoosade
- Strong healthy drink imagery.
- Regarded as a soft drink by young men.
- Well out of its old bospital/sick bed positioning.
- Reparative quality for handling hangovers.

EXHIBIT 2.6 CONSUMER REACTIONS TO FIVE PROTOTYPE BRANDS

PROTOTYPE BRAND	REACTION TO NAME	REACTION TO DESIGN
Artesia	• Distinctive but difficult to come to terms with. • Far too up-market/exclusive. • Not appropriate to the product concept. • Will not appeal to a mass market. • More relevant to wine.	Very up-market, albeit very beautiful. Very 'designery', 'yuppie' and exclusive. Very aspirational. Very distinctive, but so sophisticated as to exclude the large majority.
Prima	• Very favourably received by working class - very easy to empathize with. • Straightforward, direct and **impactful** for the working class. • Targeted at mass market - no pretensions.	Appealed only to a small minority, and contemporary. Otherwise perceived as oriented to very young children. Very dissonant with product concept.

PROTOTYPE BRAND	REACTION TO NAME	REACTION TO DKSIC.K
	• But: rejected by middle class. • Just another name, pedestrian. • Little depth of imagery. • Association with Pennys gives it a down-market image. • No di.stinctiveness.	
Viva	• Strong appeal to teenage girls - they associated it with beauty, fashion and style. • International - but cliched and pedestrian. • Strong negative Spanish association: eheap. • Spanish orange drink; 'Viva Espaiia'; Costa del Sol. • Lively, bright, extrovert and exuberant. • Dynamic and modern brand,	Lacked novelty, not stylish, not sophisticated. Cheap. Dissonant with the Ballygowan heritage. Looked Spanish - negative imagery. • Blue colour not liked.
Juzze	• Significant pronunciation difficulties. • Superficial and artificial. • Yet youthful, contemporary[1] and up to date, • International. • Correlated with the product concept, except for a phoniness in its spelling. • Associated with zest, zing and vitality. • Suggested pure fruit juice.	• In mainstream of soft-drinks market. • Very OK, but no surprise or aspirations! qualities. • Lacks excitement or fun, too logical. • Consistently compared with Squeez and Britvic - but concentrated - is not pure orange juice. • Might position it against Britvic rather than Club.
Kisqua	• Pronunciation initially difficult, but quickly overcome. • Very definite and individualisticname. • Novel and unique brand name. • Drew favourable emotional relationships. • International and cosmopolitan - potential to be a 'world brand'. • Elegant and sophisticated. • High quality and accessible.	• The best representative of the new product. • Much more depth than other concept alternatives. • Good impact, will generate trial easily. • Stylish yet solidly in the mainstream of soft drinks - but a bit too straightforward? • Very good typography.

A series of meetings between Dimension and the Ballygowan management team considered brand positioning and target market strategics. They chose Kisqua as the brand name. It was stylish, novel, distinctive, memorable, appropriate and warm, and had the attributes of a world brand name. Ballygowan Spring Water's name would endorse Kisqua, Ballygowan also applied for registration of Artcsia in case the company should wish to launch an up-market spring water.

Marketing Mix

The Ballygowan company next needed to know the impact of the brand name, label design, price, positioning and advertising options on Kisqua's branding strategy. A further question was the reason for people's preference for Kisqua or Club Orange. In October 1989 Behaviour & Attitudes researched these key areas. It used a central location to approach a quota sample of 200 respondents. The respondents were in two equal subgroups: one group to taste-test Club Orange and Kisqua blind, and the other group with both products branded. The results in percentages were:

	Blind	*Branded*
Prefer Club a lot	59	39
Prefer Club a little	16	19
Prefer Risqua a lot	19	0
Prefer Risqua a little	6	6
No preferences	6	3

Ballygowan believed that by working on **Kisqua's** colour and sweetness it could significantly improve its appeal to the market, and also develop much higher ratings by fine-tuning Risqua's advertising strategy. Response to Risqua's name was positive: 71 per cent liked the name Kisqua compared to 20 per cent who did not. When assessing Kisqua's label, 36 per cent of respondents considered it above average, 36 per cent average and 26 per cent below average.

Two advertising concepts were presented. 'Kisqua - what could be more natural' received better than average scores from 38 per cent of respondents, while 45 per cent rated it average. Projective tests associated Kisqua with sports-minded and health-conscious people and with people who really care about quality and who may be described as trendsetters. The target market was confirmed as soft-drink consumers in social classes A, B, Cl and C2, 15-30 years old and of either sex. Following the research, Dimension made the appropriate adjustment to the advertising concept.

Pack design was a very important aspect of this project. Ballygowan had proprietorial rights to the distinctive bottle designs used for its spring water range. However, it believed that Kisqua should be differentiated from Ballygowan's other products and that the branding and bottle design of Kisqua should help distinguish it within the soft-drinks **market.** The pack design assumed that Kisqua would compete directly with Club Orange.

• Business Plan

Initially the business plan had Risqua available in three pack sizes; 1,5 litre plastic, 250 ml glass and 330 ml cans. Distribution would be through the existing Ballygowan network of grocery, wholesalers (grocery and bottlers), cash-and-carry and independent outlets.

Three pricing options were considered: a low-pricing strategy that would put Kisqiia into the market with prices comparable to Coke and 7-Up, a medium-pricing strategy, and a high-pricing strategy positioning Kisqua as a premium brand. Early projections gave strategies yielding the following percentage market shares in 1990:

	Plastic	*Cans*	*Overall*[1]
Low-price strategy	4.2	3.1	3.0
Medium-price strategy	3.3	2.2	2.1
High-price strategy	*2.1*	1.5	1.6

[1] Includes plastic bottles, cans and glass bottles.

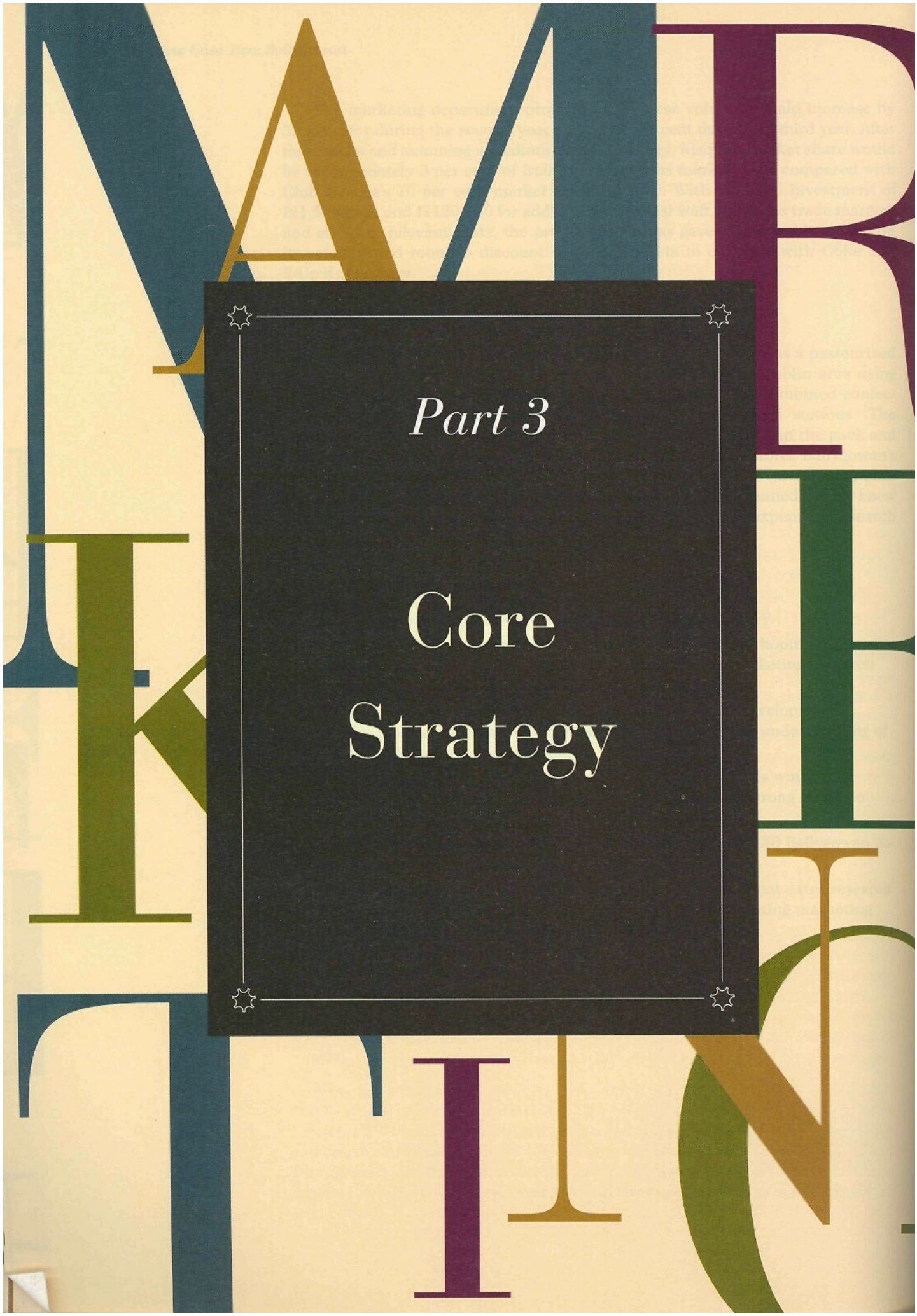
The marketing department projected that these volumes would inerease by 33 per cent during the second year and by 16 per cent during the third year. After three years and assuming a medium pricing strategy, Kisqua's market share would be approximately 3 per cent of Ireland's soft-drinks market. This compared with *Ciub* Orange's 10 per cent market share in 1990. With a capital investment of I£1.5 million and [£120,000 for additional technical staff, generous trade margins and all other relevant costs, the profits projections gave a reasonable return on investment and room to discount to supermarkets to compete with Coke and 7-Up if necessary.

• *Test Market*

From August to October 1990 Ballygowan test marketed Kisqua as a pasteurized drink in 250 ml glass bottles. The test was conducted in the Dublin area using Ballygowan's main independent distributor serving 250 GTNs (combined confectioner, tobacconist and newsagents), delicatessens and petrol stations. The results were discouraging. Most of the negative reaction centred on the pack and retailers not knowing where to position the range in their store. Ballygowan's management now faced a difficult decision. Should they withdraw Kisqua altogether, redesign and reposition it, or go ahead as originally planned? They knew that if they were to delay and relaunch, the payback on the expensive research and development would be put back considerably.

QUESTIONS

1. What types of market research method did Ballygowan use?
2. What sorts of information were Ballygowan's management hoping to get from the different methods they used? Is quantitative marketing research intrinsically more reliable than qualitative research?
3. Relate the market research to the stages in the product development process and explain how they contributed to Ballygowan's understanding of the strategy for launching Kisqua.
4. Were the methods appropriately used and what alternatives would you suggest? Why could in-depth marketing research lead to wrong strategic choices?
5. What explains Ballygowan's poor showing in the market? Did Ballygowan do too much, or too little, market research?
6. Where should Ballygowan's management go from here? What extra research should they do, if any? Should they go ahead with the existing marketing strategy, reposition the product, start again or give up?


Part 3
Core
Strategy

'*The meek shall inherit the earth, but they'll not increase market share.*'

WILLIAM G. McGowAN

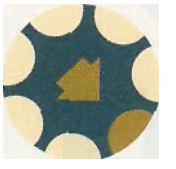
Part Introduction

PART THREE OF *PRINCIPLES Of MARKETING* covers core strategy, the centre of the marketing process.

Within core strategy, marketing knowledge is made into the strategies that guide marketing action. Businesses mostly succeed by concentrating on a group of customers they can serve better than anyone else. Chapter 9 explains how markets can be broken down into customer segments and how to choose the ones to target. Chapter 10 then looks at ways to address the target segments **by** creating mental associations that attract customers to the product or services.

A Levi ad once claimed that 'quality never goes out of style'. That has become a hyword for much of modern marketing, as marketers try to escape from making single transactions with customers to establishing relationships that both enjoy. Chapter 11 returns to marketing's central belief in customer satisfaction to see how quality, value and service can help.

Increasingly, it is not enough for marketers to look at customers; they must also look at what their competitors are doing and respond to them. Chapter 12 shows that success in marketing does not mean direct confrontation with competitors. It is often best to find new ways to please customers that build upon abusiness's unique strengths.



CHAPTER 9

Market Segmentation and Targeting

CHAPTER 10

Positioning

CHAPTER 11

Building Customer Relationships; Customer Satisfaction, Quality, Value and Service

CHAPTER 12

Creating Competitive Advantages

PART OVERVIEW CASE:

Cadlmry's 'llmeOut: Choc Around the Clock



9

Market Segmentation and Targeting

Satisfying Human Needs

CHAPTER OBJECTIVES

After reading this chapter, you should be able to:

Define market segmentation and market targeting.

List and discuss the primary bases for segmenting consumer and business markets.

Explain how companies identify attractive market segments and choose a market-coverage strategy.



Preview Case

Procter & Gamble: How Many is Too Many?

PROCTER & GAMBIA is THE market leader in the United States and the European detergent markets. In the United Ktat.es it markets nine brands of laundry detergent (Tide, Cheer, Gain, Dasb, Bold 3, Dreft, Ivory Snow, Oxydol and Era). The cultural and competitive diversity in Europe means that even more brands, such as Ariel, are used to serve that market. Why so many?

Besides its many detergents Procter & Gamble sells eight brands of hand soap (Zest, Coast, Ivory, Safeguard. Camay, Oil of Ulay, Kirk's and Lava); sis shampoos (Prell, Head & Shoulders, Ivory, Pert, Panicno and Vidal Sassoon); four brands each of liquid dish-washing detergents (Joy, Ivory, Dawn and Liquid Cascade), toothpaste (Crest, Gleam, Complete and Dcnquel), coffee



(Folger's, High Point, Butternut and Maryland Club) and toilet tissue (Cliarmin, White Cloud, Banner and Summit); three brands of floor cleaner (Spic & Span, Top Job and Mr Clean); and two brands each of deodorant (Secret and Sure), cooking oil (Criseo and Puritan), fabric softener (Downy and Bounce) and disposable nappies (Pampers and TAWS). Moreover, many of the brands art; offered in several sb.es and formulations (for example, you can buy large or small packages of powdered or liquid Tide in any of three forms - regular, unscented or with bleach).

These P & G brands compete with one another on the same supermarket shelves. Why would P & G introduce several brands in one category instead of concentrating its resources on a single leading brand? The answer lies in different people wanting different *mixes of benefits* from the products they buy. Take laundry detergents as an example. People use laundry detergents to get their clothes clean. They also want other things from their detergents - such as economy, bleaching powder, fabric softening, fresh smell, strength or mildness and suds. We all want *some* of every one of these benefits from our detergent, but we may have different *priorities* for each benefit. To some people, cleaning and bleaching power are most important; to others, fabric softening matters most; still others want a mild, fresh-scented detergent. Thus there are groups - or segments - of laundry detergent buyers and each segment seeks a special combination of benefits.

Procter & Gamble has identified at least nine important laundry detergent segments, along with numerous subsegments, and has developed a different brand designed to meet the special needs of each. The nine P & G brands aim at different segments:

1. *Tide* is 'so powerful, it cleans down to the fibre'. It's the all-purpose family detergent for extra-tough laundry jobs. 'Tide's in, dirt's out.' *Tide with Bleach* is 'so powerful, it whitens down to the fibre'.
2. *Cheer* with Colour Guard gives 'outstanding cleaning *and* colour protection. So your family's clothes look clean, bright and more like new,' Cheer is also formulated for use in hot, warm or cold water - it's 'all tempera-Cheer'. *Cheer Free is* 'dermatologist tested ... contains no irritating perfume or dye',
3. *Oxydol* contains bleach. It 'makes your white clothes really white and your coloured clothes really bright. So don't reach for the bleach - grab aboxof Ox!'
4. *Gain,* originally P & G's 'enzyme' detergent, was repositioned as the detergent that gives you clean, fresh-smelling clothes - it 'freshens like sunshine'.
5. *Bold* is the detergent with fabric softener. It 'cleans, softens and controls static'. Bold liquid adds 'the fresh fabrie softener scent*.
6. *Ivory Snow* is 'Ninety-nine and forty-four one hundredths percentages pure'. It's the 'mild, gentle soap for diapers and baby clothes'.
7. *Dreft* is also formulated for baby's nappies and clothes. It contains borax, 'nature's natural sweetener' for 'a clean you can trust'.
8. *Dash* is P & G's value entry. It 'attacks tough dirt', but 'Dash does it for a great low price'.
9. *Era Plus* has 'built-in stain removers'. It 'gets tough stains out and does a great job on your whole wash too'.

By segmenting the market and having several detergent brands, P & G has an attractive offering for customers in all importsuit preference groups. All its brands combined hold a market share much greater than any single brand could obtain.

QUESTIONS

1. Why does P & G spread its marketing effort across so many brands rather than concentrating on oneV
2. When a company like P & G has so many brands, many of them often do not make money. That being the case, why do you think it keeps the loss-making brands?
3. If you were in competition with P & G, would you match it brand for brand, concentrate on fewer segments or try to find new ones?
4. Why do competitors in the same market segment the market differently?
5. Many people without babies use Dreft. Why do you think that is the case and would you encourage such 'off target' consumption?
6. Suggest alternative segments for P & G to enter and suggest how the brands for Chat segment should be promoted.

Introduction

Organizations that sell to consumer and business markets recognize that they cannot appeal to all buyers in those markets, or at least not to all buyers in the saint way. Buyers are too numerous, too widely scattered and too varied in their needs and buying practices. Companies vary widely in their abilities to serve different segments of the market. Rather than trying to compete in an entire market, sometimes against superior competitors, each company must identity the parts of the market that it can serve best. Segmentation is thus a compromise between mass marketing, which assumes everyone can be treated the same, and the assumption that each person needs a dedicated marketing effort.

Few companies now use mass marketing. Instead, they practise target marketing - identifying market segments, selecting one or more of them, and developing products and marketing mixes tailored to each. In this way, sellers can develop the right product for each target market and adjust their prices, distribution channels and advertising to reach the target market efficiently. Instead of scattering their marketing efforts (the 'shotgun' approach), they can focus on the buyers who have greater purchase interest (the'rifle' approach).

Figure 9.1 shows the major steps in target marketing. Market segmentation means dividing a market into distinct groups of buyers with different needs, characteristics or behaviours, who might require separate products or marketing mixes. The company identifies different ways to segment the market and develops profiles of the resulting market segments. Market targeting involves evaluating each market segment's attractiveness and selecting one or more of the market segments to enter. Market positioning is setting the competitive positioning for the product and creating a detailed marketing mix. We discuss each of these steps in turn.

tiirgct marketing
Directing a company's *effort towards serving one or more groups of* customers *sharing common needs or* characteristics.

market segmentation
Dividing a market into distinct groups of buyers with different needs, characteristics or behaviour, who might require separate produces or marketing mixes.

market targeting
The process of evaluating each market segment's attractiveness and selecting one or more segments tn enter.

market positioning
Arranging for a product to occupy a clear, distinctive and desirable place relative to competing products in the minds of targe! consumers. Formulating competitive positioning for a product and a detailed marketing mix.

Market Segmentation

Markets consist of buyers, and buyers differ in one or more ways. They may differ in their wants, resources, locations, buying attitudes and buying practices. Through market segmentation, companies divide large, heterogeneous markets into smaller segments that can be reached more efficiently with products and services that match their unique needs. In this section, we discuss seven important segmentation topics: levels of market segmentation, segmenting consumer markets, segmenting business markets, segmenting international markets, multivariate segmentation, developing market segments and requirements for effective segmentation.

Levels of Market Segmentation

Because buyers have unique needs and wants, each buyer is potentially a separate market. Ideally, then, a seller might design a separate marketing programme for each buyer. However, although some companies attempt to serve buyers individually, many others face larger numbers of smaller buyers and do not find complete segmentation worthwhile. Instead, they look for broader classes of buyers who differ in their product needs or buying responses. Thus, market segmentation can



Figure 9.1 **Six steps in market segmentation, targeting and positioning**

be carried out at many different levels. Companies can practise no segmentation (mass marketing), complete segmentation (micromarketing) or something in between (segment marketing or niche marketing).

• *Mass Marketing*

muss marketing
Using almost the same product, promotion and distribution for all consumers.

Companies have not always practised target marketing. In fact, for most of the twentieth century, major consumer-products companies held fast to mass marketing - mass producing, mass distributing and mass promoting about the same product in about the same way to all consumers. Henry Ford epitomized this marketing strategy when he offered the Model T Ford to all buyers; they could have the car 'in any colour as long as it is black'. That cost Ford the world market leadership that it has never regained.

The traditional argument for mass marketing is that it creates the largest potential market, which leads to the lowest costs, which in turn can translate into either lower prices or higher margins. However, many factors now make mass marketing more difficult. For example, the world's mass markets have slowly splintered into a profusion of smaller segments - the baby boomer segment here, the generation Xers there; here the Asian market, there the black market; here working women, there single parents; people living close to the Arctic circle, those living on the Mediterranean. It is very hard to create a single product or programme that appeals to all of these diverse groups. The proliferation of advertising media and distribution channels has also made it difficult to practise 'one size fits all' marketing:

> [Consumers] have more ways to shop: at out of town malls, specialty shops, and superstores; through mail-order catalogs, home shopping networks, and virtual stores on the Internet. And they are bombarded with messages pitched through a growing number of channels: broadcast and narrow-cast television, radio, online computer networks, the Internet, telephone services such as fax and telemarketing, and niche magazines and other print media.[1]

No wonder some have claimed that mass marketing is dying. Not surprisingly, many companies are retreating from mass marketing and turning to segmented marketing.

segment **marketing**
Adapting a company's *offerings so they more closely match the needs of one or more segments.*

• *Segmenting Markets*

A company that practises segment marketing recognizes that buyers differ in their needs, perceptions and buying behaviours. The company tries to isolate

broad segments that make up a market and adapts its offers to match more closely the needs of one or more segments. Thus, BMW has designed specifie models for different income and age groups. In fact, it sells models for segments with varied *combinations* of age and income: for instance, the short wheelbase 3 for young urban drivers. Hilton markets to a variety of segments - business travellers, families and others - with packages adapted to their varying needs.

Segment marketing offers several benefits over mass marketing. The company can market more efficiently, targeting its products or services, channels and communications programmes towards only consumers that it can serve best. Thfc company can also market mure effectively by fine-tuning its products, prices and programmes to the needs of carefully defined segments. And the company may face fewer competitors if tower competitors are focusing on this market segment.

• *Niche Marketing*

Market segments are normally large identifiable groups within a market - for example, luxury car buyers, performance car buyers, utility car buyers and economy car buyers. Niche marketing focuses on subgroups within these segments. A *niche* is a more narrowly defined group, usually identified by dividing a segment into subsegments or by defining a group with a distinctive set of traits who may seek a special combination of benefits. For example, the utility vehicles segment might include light trucks and off-the-road vehicles. And the off-the-road vehicles subsegment might be further divided into the utilitarian segment (Land Rover), light sports utility vehicles (Suzuki) and luxury sports utility vehicles (Range Rover and Lexus) niches.

niche marketing
Adapting a company's offerings to more closely match the needs of one or more subsegments <&here there is *often little competition.*

Whereas segments are fairly large and normally attract several competitors, aiches are smaller and normally attract only one or a few competitors. Niche marketers presumably understand their niches' needs so well that their customers willingly pay :i price premium. For example, Ferrari gets a high price for its cars because its loyal buyers feel that no other automobile comes close to offering the produet-serviee-membership benefits that Ferrari docs.

Niching offers smaller companies an opportunity to compete by focusing their limited resources on serving niches that may be unimportant to or overlooked by larger competitors. For example, Mark Warner succeeds by selling to distinct holiday niches: all-inclusive family water sports holidays in southern Europe to northern Europeans, and no-kids holidays for older people who want some peace and quiet. However, large companies also practise niche marketing. For example, American Express offers not only its traditional green cards but also gold cards, corporate cards and even platinum cards aimed at a niche consisting of the top-spending 1 per cent of its 36 million cardholders.[2] And Nike makes athletic gear for basketball, running and soccer, but also for smaller niches such as biking and street hockey.

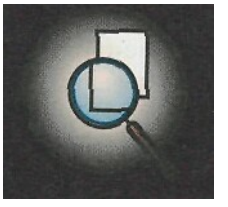
In many markets today, niches are the norm. As an advertising agency executive observed: 'There will be no market for products that everybody likes a little, only for products that somebody likes a lot.'[3] Other experts assert that companies will have to 'niche or be niched'.[4]

• *Micromarketing*

Segment and niche marketers tailor their offers and marketing programmes So meet the needs of various market segments. At the same time, however, they do not customize their offers to each individual customer. Thus, segment marketing and niche marketing fall between the extremes of mass marketing and

Marketing Highlight 9.1

Markets of One: Customizing the Marketing Offer



Several technologies have converged in recent years to allow companies in a wide range of industries to treat large numbers of customers as unique 'markets of one'. Advances in computer-design, database, interactive-communication and manufacturing technologies have given birth to 'mass customization', the process through which firms interact one-to-one with masses of customers to design products and services tailor-made to individual needs. Here are some examples:

Check into any Ritz-Carleton hotel around the world, and you'll be amazed at how well the hotel's employees manage to anticipate your slightest need. Without ever asking, they seem to know that you want a non-smoking room with a king-size bed, a non-allergenic pillow, and breakfast with decaffeinated coffee in your room. How does the Ritz-Garleton work this magic? Starting with a fervent dedication to satisfying the unique needs of each of its thousands of guests, die hotel employs a system that combines information technology and flexible operations to customize the hotel experience. At the heart of the system is a huge customer database, which contains information about guests gathered through the observations of hotel employees. Each day, hotel staffers - from those at the front desk to those in maintenance and housekeeping - discretely record the unique habits, likes and dislikes of each guest on small 'guest preference pads'. These observations are then transferred to 3 corporate-wide 'guest history database'. Every morning, a 'guest historian' at each hotel reviews the files of all new arrivals who have previously stayed at ;i Ritz-Carleton and prepares a list of suggested extra touches that might delight each guest. Guests have responded strongly to such markets-of-one service. Since inaugurating the guest-history system in 1992, the Ritz-Carleton has boosted guest retention by 23 per cent. An amazing 95 per cent of departing guests report that their stay has been a truly memorable experience.

At Andersen Windows, customers now help design their own windows, whether they're complex, lofty Gothic windows or centimetres-high miniatures. Previously, as the number of different products offered by Andersen grew from 28,000 in 1985 to 86,000 in 1991, the company's customers - mainly homeowners and building contractors - faced a mind-numbing array of standard window choices, displayed in rows of hefty catalogues. Designing a complicated custom treatment - such as an arched window - required advanced design skills and a working knowledge of trigonometry. Preparing a price quote for windows could take several hours, and the quote itself could run as long as 15 pages. One alarming result of this complexity was a rising error rate. By 1991, 20 per cent of deliveries of Andersen windows contained at least one discrepancy. Andersen responded by supplying its distributors and retailers with what is essentially an interactive, computerized catalogue system called Windows of Knowledge. An industry analyst describes the system: 'Using this tool, a salesperson can help customers [select from 50,000 possible window components] and add, change and strip away features until they've designed a window they're pleased with. It's akin to playing with building Modes. The computer automatically checks the window specs for structural soundness and then generates a price quote. ...The retailer's computer transmits each order to [the factory] where it's assigned a unique "licence plate number", which can be tracked ... using bar-code technology from the assembly line through to the warehouse.'

Such 'bateh-of-one' manufacturing lias greatly increased the customer's product selection while at the same time reducing errors. By 1996 Andersen offered 188,000 different products, yet fewer than one in 200 truckloads contained an order problem. Moreover, by making almost everything to order, Andersen has greatly reduced its inventory requirements. Distributors are delighted with the Windows of Knowledge system. Says one retailer, 'It's a terrific tool. It does things that would drive me crazy when I used to have to do them by hand.' But the real winners are Andersen's, the homeowners and contractors, who get just the windows they want with a minimum of hassle. All this has made Andersen a real markets-of-one advocate. Sums up one executive, 'We're on a journey toward purer and purer mass customization.'

SOURCES: B. Joseph Pine II, Don Peppers and Martha Rogers. 'Do you want to keep your customers forever?', *Harvard* Business *Revieia* (March-April 1995), pp. 103-14; Christopher W. Hart, 'Made to order,' *Marketing Management* (Summer 1996), pp 11-22; Justin Martin, 'Are you as good as you think you are?', *Fortune* (30 September 1996); James H. GilmoTe and B. Joseph Pine II, 'The four faces of mass customisation,' *Harvard Business Review* (January—February 1997), pp. 91-101; Kim CJeland, '1'eapod, Shoppers Express vie for online grocery business,' *Advertising Age* (9 June 1997). p. 40.

micromarketing. Micromarketing is the practice of tailoring products and marketing programmes to suit the tastes of specific individuals and locations. Micromarketing includes *local marketing* and *individual marketing.*

micrimtarketing *Aform of target marketing in which OfnnpimicK tailor their marketing programmes to the needs and wants of narrowly defined geographic, demographic, psychographio or behaviouralsegments.*

LOCAL MARKETING. Local marketing involves tailoring brands and promotions to the needs and wants of local customer groups - cities, neighbourhoods and even specific stores. Thus, retailers such as Akia and G & A customize eaeh store's merchandise and promotions to match its specific elientele. Kraft helps supermarket chains identify the specific cheese assortments and shelf positioning that will optimize cheese sales in low-income, middle-income and high-income stores, and in different ethnic communities.

Local marketing has some drawbacks. It can drive up manufacturing and marketing costs by reducing economies of scale. It can also create logistical problems as companies try to meet the varied requirements of different regional and local markets. And a brand's overall image may be diluted if the product and message vary in different localities. Still, as companies face increasingly fragmented markets, and as new supporting technologies develop, the advantages of local marketing often outweigh the drawbacks. Local marketing helps a company to market more effectively in the face of pronounced regional and local differences in community demographies and lifestyles. It also meets the needs of the company's 'first-line customers' - retailers — who prefer more fine-tuned product assortments for their neighbourhoods.

INDIVIDUAL MARKETING. In the extreme, micromarketing becomes individual marketing tailoring products and marketing programmes to the needs and preferences of individual customers. Individual marketing has also been labelled 'markets-of-one marketing', 'customized marketing' and 'one-to-one marketing' (see Marketing Highlight 9.1).[s] The prevalence of mass marketing has obscured the fact that for centuries consumers were served as individuals: the tailor custom-made the suit, the cobbler designed shoes for the individual, the cabinet maker made furniture to order. Today, however, new technologies are permitting many companies to return to customized marketing. More powerful

individual **marketing** *Tailoring products and marketing programmes to the needs and, preferences of individual customers.*

mass **customization** *Preparing individually* designed products *and* communications *on a large scale.*

computers, detailed databases, robotic production, and immediate and interactive communication media such as e-mail, fax and the Internet — all have combined to foster 'mass customization'."Mass customization is the ability to prepare on a mass basis individually designed products and communications to meet each customer's requirements.

Consumer marketers are now providing custom-made products in areas ranging from hotel stays and furniture to clothing and bicycles. For example, Suited for Sun, a swimwear manufacturer, uses a computer/camera system in retail stores to design custom-tailored swimsuits for women. The customer puts on an 'off the rack' garment, and the system's digital camera captures her image on the computer screen. The shop assistant applies a stylus to the screen to create a garment with perfect fit. The customer can select from more than 150 patterns and styles, which are re-imaged over her body on the computer screen until she finds the one that she likes best. The system then transmits the measurements to the factory, and the one-of-a-kind bathing suit is mailed to the delighted customer in a matter of days.

Another example is the National Industrial Bicycle Company in Japan, which uses flexible manufacturing to turn out large numbers of bikes specially fitted to the needs of individual buyers. Customers visit their local bike shop where the shopkeeper measures them on a special frame and faxes the specifications to the factory. At the factory, the measurements are punched into a computer, which creates blueprints in three minutes that would take a draftsman 60 times that long. The computer then guides robots and workers through the production process. The factory is ready to produce any of 18 million variations on] 8 bicycle models in 199 colour patterns and about as many sizes as there are people. The price is steep - between Y65,000 and Y400,000 - but within two weeks the buyer is riding a custom-made, one-of-a-kind machine.

Business-to-business marketers are also finding new ways to customize their offerings. For example, Motorola salespeople now use a hand-held computer to custom-design pagers following a business customer's wishes. The design data are transmitted to the Motorola factory, and production starts within 17 minutes. The customized pagers are ready for shipment within two hours.

The move towards individual marketing mirrors the trend in consumer *self-marketing.* Increasingly, individual customers are taking more responsibility for determining which products and brands to buy. Consider two business buyers with two different purchasing styles. The first sees several salespeople, each trying to persuade him to buy their product. The second sees no salespeople but rather logs on to the Internet; searches for information on and evaluations of available products; interacts electronically with various suppliers, users and product analysts; and then makes up her own mind about the best offer. The second purchasing agent has taken more responsibility for the buying process, and the marketer has had less influence over her buying decision.

As the trend towards more interactive dialogue and less advertising monologue continues, self-marketing will grow in importance. As more buyers look up consumer reports, join Internet product-discussion forums, and place orders via phone or online, marketers will have to influence the buying process in new ways. They will need to involve customers more in all phases of the product-development and buying process, increasing opportunities for buyers to practise self-marketing.

According to the chief designer for Mazda, 'Customers will want to express their individuality with the products they buy.' The opportunities offered by these technologies promise to turn marketing from 'a broadcast medium to a dialog medium', where the customer participates actively in the design of the product and offer.[7]

Segmenting Consumer Markets

There *is* no single way to segment a market. A marketer has to try different segmentation variables, alone and in combination, Co find Che best way Co view the market structure. Table 9,1 outlines the major variables used in segmenting consumer markets. Here we look at the major *geographic, dernographiu, psychographic* and *behavioural variables.*

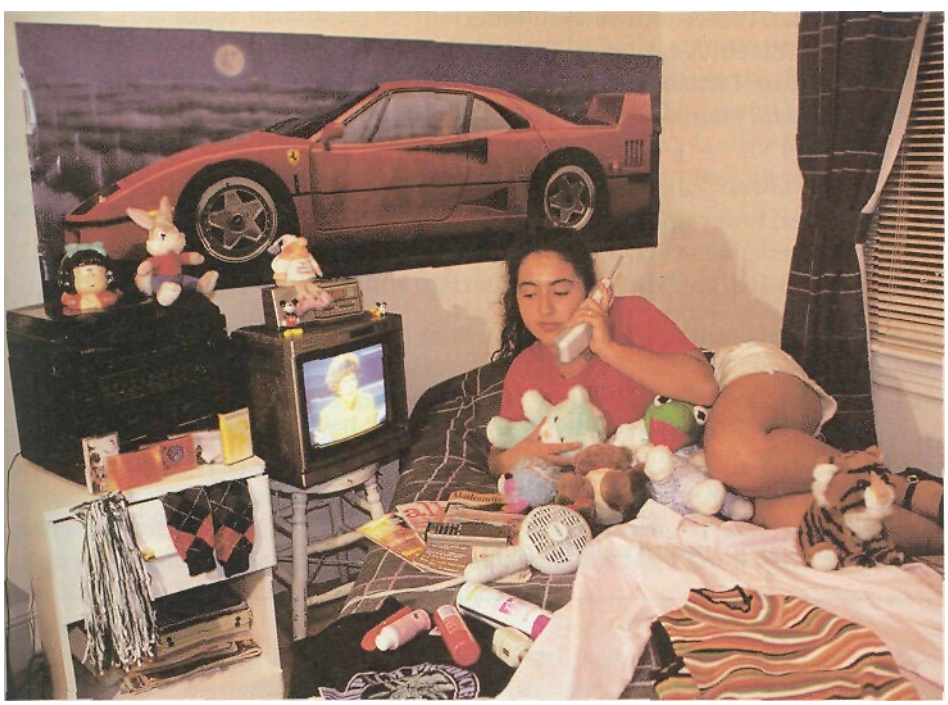
• *Geographic Segmentation*

geographic segmentation *Dividing a market irito different geographical units such as* Tuitions, *states, regions, counties,* cities or *neighbourhoods.*

Geographic segmentation calls for dividing the market into different geographical units, such as nations, states, regions, counties, eities or neighbourhoods. A company may decide to operate in one or a few geographical areas, or to operate in all areas but pay attention to geographical differences in needs and wants.

International lifestyles are emerging, but there are eounterforees chat continue to shape markets. Cross-cultural research has defined five 'mentality fields' for cars in Europe.[M] These show how much language demarcates common cultures and ways of life:

1. The north (Scandinavia).
2. The north-west (the United Kingdom, Iceland and parts of Norway, Belgium and Holland),
3. The centre (German mentality field extending to Switzerland and parts of eastern Europe).
4. The west (the French-speaking area, including parts of Switzerland and Belgium).
5. The souCh (the Mediterranean, covering Spanish, Portuguese, Icalian and Clreek languages).



Intermarket separation: teens show swprising similarity no matter where in the world they live. For *instance,* ffii.s *young woman could live almost anywhere. Thus, many companies turget teenagers with world/wide marketing campaigns.*

Table 9.1 **Market segmentation variables for consumer markets**

VARIABLE	TYPICAL HKBAKUOWNS
Geographic	
Region	In the USA these are Pacific, Mountain, West North Central. West South Central, East North Central, East South Central, South Atlantic, Middle Atlantic, New England. Each country has its own variation on this.
County size	A, B, C, D.
City size	Under 5,000; 5,000-20,000; 20,000-50,000; 50,000-100,000; 100,000-250,000; 250,000-500,000; 500,000-1,000,000; 1,000,000-4,000,000; 4,000,000 and over.
Density	Urban, suburban, rural.
Climate	Northern, Southern.
Demographic	
Age	Under 6, 6-11, 12-19, 20-34, 35-49, 50-64, 65+.
Gender	Male, female.
Family size	1-2,3-4,5+.
Family life cycle	Young, single; young, married, no children; young, married, youngest child under 6; young, married, youngest child 6 or over; older, married with children; older, married, no children under IS; older, single; other.
Income	Under $10,000; $10,000-15,000; $ 5,000-20,000; *$*20,000-30,000; $30,000-50,000; $50,000-75,000; $75,000 and over.
Occupation	Professional and technical; managers, officials and proprietors; clerical, sales; craftsmen, foremen; operatives; farmers; retired; students; homemakers; unemployed.
Education	Grade school or less; some high school; high school graduate; some college; college graduate.
Religion	Catholic, Protestant, Jewish, other.
Race	White, Black, Asian, Hispanic, other.
Nationality	American, British, French, German, Scandinavian, Italian, Latin American, Middle Eastern, Japanese, other.
Psychographic	
Social class	Lower lowers, upper lowers, working class, middle class, upper middles, lower uppers, upper uppers.
Lifestyle	Achievers, believers, strivers.
Personality	Comprilsive, gregarious, authoritarian, ambitious.
Behavioural	
Purchase occasion	Regular occasion, special occasion.
Benefits sought	Quality, service, economy.
User status	Non-user, ex-user, potential user, first-time user, regular user.
Usage rate	Light user, medium user, heavy user.
Loyalty status	None, medium, strong, absolute.
Readiness state	Unaware, aware, informed, interested, desirous, intending to buy.
Attitude towards product	Enthusiastic, positive, indifferent, negative, hostile.

Self-expression is important to car buyers in all the geographical regions, but the similarity ends there. The western group seek quality and practicality, the .south want value for money, while the north-western group see their car in very personal terms, The differences influence the cars they buy and how they are equipped. Although all developed nations worry about the environment, they do so in different ways. In Italy, France and the UK, motorists do not see their car as a source of pollution, while in Germany, demand for environmentally friendly cars is growing fast.

> Pargasa, the large Swiss investment group, concentrates on francophone Europe. It has ten eore holdings including French Paribas, Swiss Orior and Belgium's Petrofina, but these and other holdings are all concentrated in France and the French-speaking parts of Belgium and Switzerland. According to Aimery Langois-Meurinne, the group's chief executive, it would like to extend its core holdings to much more than ten. Geographically it is pulling in its wings from the United Kingdom and the United States, but it wants to expand closer to home. 'We are trying to understand Germany and German-speaking Switzerland,' he says, 'but we are starting from a low base.'[9]

Climatic differences lead to different lifestyles and eating habits. In countries with warm climates, social life takes place outdoors and furniture is less important than in Nordic countries. Not noticing the different sizes of kitchens has caused many marketing mistakes. Philips started making profits in the Japanese market only after it made small coffee-makers to fit the cramped conditions there. In Spain, ("oca-Cola withdrew its two-litre bottle after finding it did not fit local refrigerators,[10]

Many companies today have regional marketing programmes within national boundaries - localizing their products, advertising, promotion and sales efforts to fit the needs of individual regions, cities and even neighbourhoods. Others are seeking to cultivate yet untapped territory. For example, IKEA expanded globally using its large blue-and-yellow stores and dedicated out-of-town sites. IKEA was part of a marked 1980s trend towards out-of-town shopping. Its stores attracted customers from great distances, so that countries were served by a handful of stores. IKEA changed its strategy when acquiring the Habitat furniture chain from Storehouse in the early 1990s. The small stores gave it access to passing trade and new customer segments who are less willing to travel. The Habitat chain also serves small towns. In making this significant shift, IKEA is also following the European trend towards town-centre malls. Having seen American urban decay, European politicians are resisting out-of-town developments.[11]

* *Demographic Segmentation*

demographic segmentation
Dividing the marksc into groups based on demographic variables such as age, sex, family size, family life cycle, income, occupation, education, religion, race and nationality.

life-cycle segmentation
Offering products or marketing approaches that recognize the consumer's *changing needs at different stages of their life.*

Demographic segmentation consists of dividing the market into groups based on variables such as age, gender, family size, family life eycle, income, occupation, education, religion, race and nationality. Demographic factors are the most popular bases for segmenting customer groups. One reason is that consumer needs, wants and usage rates often vary closely with demographic variables. Another is that demographic variables are easier to measure than most other types of variable. Even when market segments are first defined using other bases - such as personality or behaviour - their demographics need knowing to assess the size of the target market and to reach it efficiently.

AGE. Consumer needs and wants change with age. Some companies use age and life-cycle segmentation, offering different products or using different marketing

approaches for different age and life-cycle groups. For example, Life Stage vitamins come in four versions, each designed for the special needs of specific age segments: chewable Children's Formula for children from 4 to 12 years old; Teen's Formula for teenagers; and two adult versions {Men's Formula and Women's Formula). Johnson & Johnson developed Affinity Shampoo to help women over 40 overcome age-related hair changes. McDonald's targets children, teens, adults and senior citizens with different ads and media. Its ads to teens feature dance-beat music, adventure ;md fast-paced cutting from scene to scene: ads to senior citizens are softer and more sentimental.

LEGO's range shows the limits of age-based segmentation. For babies there are Duplo rattles (0 to 3 months), then there are round-edged activity toys made of two or three pieces (3 to 18 months). All these have the familiar LEGO lugs so that they will fit on to LEGO products. Next come Duplo construction kits or toys (2 to 5 years). Duplo bricks look like LFGO bricks, but are twice the size so that young children can manipulate but not swallow them. Duplo kits start simple, but there are more complex ones - like train sets or 700 sets - that are suitable for children with increasing sophistication. By the age of 3, children have developed the manipulative skills that allow them to progress to LEGO Basic. This is targeted at 3 to 12-year-olds. The progression is made easy by the small LEGO bricks fitting to Duplo ones.

Age-based segmentation works until children are 5 years old when fewer and fewer girls buy LEGO and boys' interests diversify. In comes LEGO Pirates (<M2 years), Space Police (6-12), Railways (6-12), Technic (7-12), Model Team (9-12) and so on. To counter girls' decline in interest, LEGO launched Fabuland, a heavily merchandised product backed by Ladybird books and videos. It failed, leaving Legoland with an incongruous Fabuland monorail and play area. Pastel-coloured Fantia is another attempt to attract girls.

LEGO's product for the new millennium is Mindstorm, intelligent LEGO bricks. The result of a ten-year, DKrlOO million project with Massachusetts Institute of Technology, the bricks are programmed via an infrared transmitter connected to a Pentium-powered PC. According to LEGO's Tormod Askildsen: 'It can be used to make all kinds of devices', such as an intruder alarm set up to empty ping pong balls on an unsuspecting parent visiting a child's room. LEGO has great faith in Mindstorm's ability to enliven stagnant toy sales and woo children away from the virtual world of computer games. It also claims that the intelligent bricks appeals to girls as much as boys.[12]

LlFE-CYCLE STAGE. Life-cycle stage is important in recreation markets. In the holiday market, for instance, Club 18-30 aims at young singles seeking the four Ss: sun, sand, sea and sex. This boisterous segment does not mix well with the families that the Club Mediterranean caters for. Children's activities and all-day child care are an important part of the latter's provision. Saga Holidays eaters for older people. Its prices are kept low by travelling off-peak. Saga also provides insurance for older people and aims to set up and run radio stations for them. Given the ageing population in Europe and other developed economies, Saga looks set to grow.[13]

In the United Kingdom housing market, Barratts was the first to identify two life-cycle stage segments. It provided Solo apartments as starter homes for young people. These had full furnishing and household equipment included in the basic



By segmenting by age LEGO products grow with the children.

price. These extras would not have appealed to Bamitts' other target market, older people with'empty nests' trading down to a small, single-floor home.

GENDER. Gender segmentation is usual in clothing, hairdressing, cosmetics and magazines. Recently, marketers have noticed other opportunities for gender segmentation. For example, both men and women use most deodorant brands. Procter & Gamble, however, developed Secret as the brand specially formulated for a woman's chemistry, and then packaged and advertised the product to reinforce the female image, Tn contrast, Gillette's association with shaving makes its deodorant male oriented.

gender segmentation *Dividing a market into different groups based on sex.*

The car industry has also begun to use gender segmentation extensively. Women are a growing part of the car market. 'Selling to women should be no different than selling to men,' notes one analyst. 'But there are subtleties that make a difference.'[14] Women have different frames, less upper-body strength and greater safety concerns. To address these issues, car makers are redesigning their cars with bonnets and boots that are easier to open, seats that are easier to adjust and seat belts that fit women better. They have also increased their emphasis on safety, highlighting features such as air bags and remote door locks. In their advertising, some manufacturers target women directly. Indeed, much TV advertising of small cars is now aimed at women, pioneered by Volkswagen: an angry. Smartly dressed woman leaves a town house — she throws away a ring, discards a fur coat but, after hesitating, keeps the keys to the Volkswagen Golf. Volkswagen now devotes 30 per cent of its television advertising budget to advertisements for women.

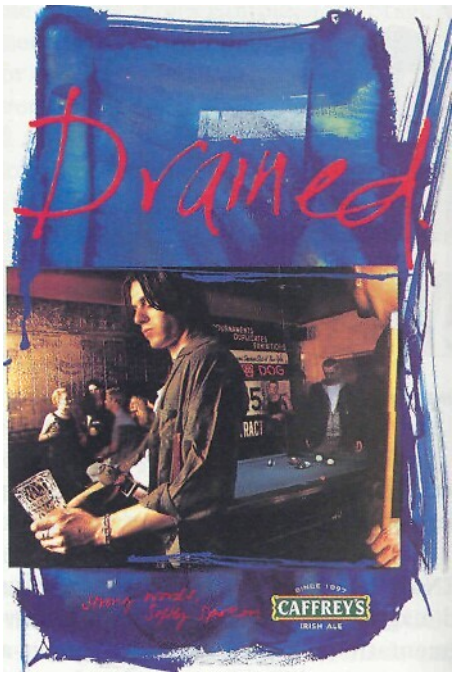
Large advertising spreads are designed especially for women consumers in such magazines as *Cosmopolitan* and *Vogue.* Other companies avoid direct appeals, fearing that it will offend women. It sometimes comes across as condescending. Some companies, such as Toyota and GM, try to include a realistic balance of men and women in their ads without specific reference to gender. Sometimes the medium changes, but the message does not. Alongside the traditionally feminine ads for fragrances and fashion in one issue of *Vogue* are product ads for the RM\V BSOCsi, Audi S2, Toyota MR2, etc., showing no people. Rover's ad for its Metro Manhattan differentiates: 'For the woman who has everything'. Ford's ad for its Maverick 4 x 4 is interesting: it shows two pictures with a man driving and a woman by his side.

INCOME, Income segmentation is often used for products and services such as •tars, boats, clothing, cosmetics and travel. Many companies target affluent consumers with luxury goods and convenience services. The brands behind the

income segmentation *Dividing a market into different income groups.*

Caffrey's Irish Ale attracts discerning young males.

Phoiography: Jonathan Glynn-Srnith.



French LVMII group's initials betray its focus on affluent consumers: Louis Vuitton luggage, Moot & Chandon champagne and Hennessy eognae. The groups links with the LIK's Guinness, which owns Johnnie Walker Red and Black Labels as well as Guinness, mean it has an. interest in five out of Europe's top ten brands. Not surprisingly, LVMH is growing fast and appears recession-proof. The company's brands are growing and it is seeking other luxury brands. Besides its *haute couture* activities, LVMH owns Parfums Christian Dior, has taken control of Guerain, the French fragrance house, and is stalking Van Clef & Aprels, the Paris-based jeweller."

However, not all companies grow by retaining their focus on the top-income segment. Foreign and long-haul travel was once for the wealthy, but the travel market is now a mass industry. P & O aims to do the same with cruises. Once the preserve of the rich and retired, P & O Cruises are entering the mass market. With the help of its German-built *Orianu,* it intends to bring prices down. For example, in 1995 a 12-day Mediterranean cruise on P & O's *Canberra* for two adults and two children cost £2,877, cheaper by £640 than the 1994 price. The mass-market tour operator Airtours is also entering the cruise market and aiming even further down market. It will sail tbe Mediterranean and the Canary Islands with a ship bought from Closter Cruise of Norway. P & O's marketing director welcomes Airtours' market entry: 'What Airtours are good at is talking to a slightly younger, more down-market group of customers. They will put cruising in people's minds.' Airtours' managing director pledged to 'revolutionize the market ... You've seen nothing yet. This is a different end of the market to where cruising has been before.""

Established retailers, following the wheel of retailing and developing more sophisticated stores with added values, have allowed new entrants to succeed by targeting less affluent market segments. In the United Kingdom grocer;' market, Kwili Save did this with a lean organization, economically located stores and a no-frills operation that kept prices to the minimum. The more up-market positioning of other United Kingdom grocers has also allowed Germany's cost-cutting Aldi into the market.

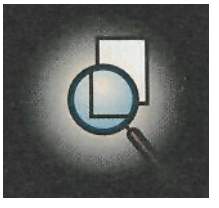
Geodemographies

f*e< idcinograpliics
The study of the relationship between geographical location and demographics.

Geode mo graphics is an increasingly used segmentation method. Originally developed by the CACI Market Analysis Group as ACORN (A Classification Of Residential Neighbourhoods), it uses 40 variables from population census data to group residential areas. Marketing Highlight 9,2 shows ACORN in use.

Marketing Highlight 9.2

ACORN and Related Classificalorv Systems



As a direct challenge to the socio-economic classification system, the ACORN (A Classification Of Residential Neighbourhoods) system was developed by the CACI Market Analysis Group.[1] The system is based on population census data and classifies residential neighbourhoods into 54 types within 17 groups and 6 main categories. The groupings were derived through a clustering of responses to census data required by law on a regular basis. The groupings reflect neighbourhoods with similar characteristics. (Table 1 shows how the main categories break down into increasingly small subgroups and types.)

Early uses of ACORN were by local authorities to isolate areas of inner-city deprivation (the idea came from a sociologist working for local authorities), but it was soon seen to have direct marketing relevance, particularly because the database enabled postcodes to be ascribed to each ACORN type. Hence its use particularly in direct mail marketing.

The introduction ofCACI's ACORN geodemoi;rapMc database represented one of the biggest steps forward in segmentation and targeting techniques. Although the measure is crude, the great strength of the sendee depends on CACI's own research linking the neighbourhood groups to demographies and buyer behaviour, together with the ability to target households. The system, therefore, provides a direct link between off-the-peg segmentation and individuals, unlike earlier methods which only provided indirect means of contacting the demographic or personality segments identified.

Like die other a priori techniques, the limitations of CACI's approach are the variability within neighbourhoods and the similarity between their buying behaviour for many product classes. English[2] provides an example of this where five enumeration districts (individual neighbourhood groups of 150 households) are ranked according to geodcmographic techniques. Of the five, two were identified as being prime mailing prospects. However, when individual characteristics were investigated, the five groups were found to contain 31, 14, 10, 10 and 7 prospects respectively: the enumeration districts had been ranked according to the correct number of prospects, but neighbourhood classifications alone appeared to be a poor method of targeting. With only 31 prime target customers being in the most favoured enumeration district, 119 out of 150 households would have been wrongly targeted.

IKEA's Catalogue Targeting[1]

Many companies now use geodemographic segmentation to help their decision making. IKEA, the Swedish furniture retailer, used it to analyze its customer base. The store provides a vast range of stylish and original furniture, fittings and fabrics at affordable prices. The IKEA concept is a simple and effective one that has worked throughout the world. The company retails from large out-of-town stores and sells furniture in easy-to-assernble kit format, passing on the cost savings it gains from this to the customer.

A key element in IKEA's success is its catalogue: produced once a year, it features a broad selection of products, showing the depth and breadth of the range available in the stores. The company's local catalogue distribution around each of its stores represents a large promotional investment. Geodemographic analysis of its store catchment areas helps IKEA define its local

TABLE! A CLASSIFICATION Of RESIDENTIAL NEIGHBOURHOODS (ACORN)

UK ACORN CATEGORIES

CATEGORY	NAME	%
A	Thriving	19.S
B	Expanding	11.6
G	Rising	7.5
D	Settling	24.1
E	Aspiring	13.7
F	Striving	*22.8*

UK ACORN CATEGORY A GROUPS

GROUP	NAME	%
1	Wealthy achievers, suburban areas	15.1
2	Affluent greys, rural communities	2.3
3	Prosperous pensioners, retirement areas	2.3

UK ACORN GROUP 1 TYPES

TYPE	NAME	%
1.1	Wealthy suburbs, large detached houses	2.6
1.2	Villages with wealthy commuters	3-2
1.3	Mature affluent home-owning areas	2.7
1.4	Affluent suburbs, older families	3-7
1.5	Mature, well-off suburbs	3.0

Source:' CACI Market Analysis Group.

distribution plans for the catalogue and to evaluate how effective the previous distribution had been. To do this, IKEA analyzed its customer data to sec where customers were coming from, and also their level of expenditure before and after the distribution. This helped IKEA predict likely return on its investment in the next catalogue distribution. The analysis also looked at the size of purchase, the frequency of purchase and the distance its customers live from each store. Using this information combined with its ACORN classification types has allowed IKEA to improve understanding of the relationship between eaeh of these elements. In addition to determining the postcode sectors that offer best potential for catalogue distribution, this information will help IKEA across its marketing mix to assess other promotional opportunities.

Targeting Sottini's Customers[4]

ideal Standard is a leading manufacturer of bathrooms. Its range covers a wide selection of prices and styles, from cost-effective suites for first-time buyers through to the top of the range for those who want die very best that money can buy. The company used geodemographics to understand more about customers' perception of the luxury Sottini range. The company knew that a very distinctive type of customer bought the Sottini range: it wanted more detailed information about these customer types so that it could target dealerships more accurately and provide !ocal dealer support lor the Sottini product.

Sottini is sold through a network of independent retail outlets. As such, the company had only limited Information on its end customers, collected from responses to advertisements. CACI was able to take this information and substantiate it with data from the Target Group Index survey of people with high levels of spend on bathroom suites and home enhancement. CACI profiled these data using the ACORN consumer classification. This analysis generated a strong profile that showed that the Sottini range was bought primarily by wealthy achievers in suburbs and better-off retirement areas. A typical Sottini

customer would have a large disposable income - with their mortgage paid oft' and cash to spend - and would live in an affluent area.

The information helped find large concentrations of Sottini's target market and define the optimum **catchment** area for the Sottini dealers. Comparing the customer profiles with the catchment areas of dealers showed where to concentrate marketing support.

As a second phase to this project, Ideal Standard is looking at individual dealers. Within each dealer's catchment, specific postal areas of highest customer potential can he identified. The dealers can then use this information for direct marketing campaigns or door-to-door leaflet distrihutions to raise awareness of the Sottini product and inform people about their local Sottini dealership.

Kelvin Baldwin, Commercial Executive at Ideal Standard, states: the 'analysis helped us to evaluate potential for the Sottini brand across the country. We are now assessing how we can use this information at individual dealership level to aid us in dealer-support activities for our Sottini products, such as identifying new customers and locating new areas for the introduction of the Sottini product.'

To he fair, like other means ot' off-the-peg segmentation discussed, geodemographics are powerful when related to products linked directly to characteristics of the neighbourhood districts: for instance, the demand for double glazing or gardening equipment. *Even* in the case described above, targeting the best enumeration districts increases the probability of hitting a target customer from less than 10 per cent to over 20 per cent, but misses are stil! more common than hits.

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Geodemographics is developing fast. Databases are now available in all the large economies. ACORN has been joined by FIN (Pinpoint Identified Neighbourhoods), Mosaic and Super Profile. In the Netherlands, the Post Office and Dutch Reader's *Digest* have produced Omnidata based on telephone subscribers, and, in Sweden, Postaid is run by a subsidiary of the Post Office. Both these systems arc voluntary, and are sold to consumers as away of avoiding junk mail. The power of basic geodemographic databases is being increased by linking them to consumer panel databases. This allows trends to be tracked: for example, over a four-year period, 28 per cent more people living in 'less well-off public housing' took package holidays.[17] CCN Marketing has since extended this process to cover the EU using its EuroMOSAIC (Table 9.2).

• *Psychographic Segmentation*

psychographic segmentation
Dividing a market into different groups bused on social class, lifestyle or personality characteristics.

Psyeliographic segmentation divides buyers into groups based on social class, lifestyle or personality eharacteristics. People in the same demographic group can have very different psychographic make-ups.

SOCIAL CLASS. !n Chapter 6, we described social classes and showed how they affect preferences in cars, clothes, home furnishings, leisure activities, reading habits and retailers. Many companies design products or services for specific social classes, building in features that appeal to them. In the UK, Butlin's

Table 9.2 **CCN EuroMOSAIC Households Across Europe**

CATEGORY	NAME	BELGIUM	GERMANY	IRELAND	ITALY	NETHERLANDS	NORWAY	SPAIN	SWEDEN	UK
£01	Elite suburbs	8	16	6	4	5	18	1	8	12
E02	Service (sector) communities	22	20	29	12	14	7	17	18	16
E03	Luxury flats	9	7	2	5	8	8	7	3	5
E04	Low-income inner city	5	9	10	8	11	10	1	8	9
E05	High-rise social housing		3		8	11	4	1	7	5
E06	Industrial communities	12	13	5	19	14	10	18	12	19
E07	Dynamic families	17	8	10	13	14	15	5	9	14
EOS	Lower-income families	9	4	12	8	6	7	7	7	8
E09	Rural/ agricultural	14	14	21	17	13	17	23	19	6
E10	Vacation/ retirement	4	6	4	5	4	3	19	9	6

holiday camps eater for working-class families. They eater for the whole family, but prominent attractions are variety shows, bingo, slot machines, discos, dancing and organized entertainment. The camps are very busy and the emphasis is upon fun. Much of the accommodation is basic, regimented, crowded and self-catering. The almost industrial atmosphere contrasts with Center Fare's woodlands, where in these middle-class establishments, the layout and attractions are unregimented, and the emphasis is on sporting activities and relaxation.

LIFESTYLE. As discussed in Chapter 7, people's interest in goods is affected by their lifestyles. Reciprocally, the goods they buy express their lifestyles. Marketers are increasingly segmenting their markets by consumer lifestyles. For example, General Foods used lifestyle analysis in its successful repositioning of Sanka decaffeinated coffee. For years Sanka's -staid, older image limited the product's market. To turn this situation around, General Foods launched an advertising campaign that positioned Sanka as an ideal drink for today's healthy, active lifestyles. The campaign targeted achievers of all ages, using a classic achiever appeal that Sanka 'Lets you be your best'. Advertising" showed people in adventurous lifestyles, such as kayaking through rapids.[1]*

Lifestyle segments are either off-the-shelf methods from agencies or customized methods for individual companies. Many companies opt for off-the-shelf methods

because of their familiarity and the high cost and complexity of developing their own. The ad ageney Young and Rubican's Cross-Cultural Consumer Characterization (4Cs) is a typical off-the-shelf method. It has three main segments:

1. *The Constrained.* People whose expenditure is limited by income. It includes the *resigned poor* who have accepted their poverty and the more ambitious *struggling poor.*
2. *The Middle Majority.* This segment contains *mainstreams* - the largest group of all - *aspirers* and *succeeders.*
3. *The Innovators.* A segment consisting of *transitionals* and *reformers.*

The *succeeders* are a successful group of people who like to feel in control. By showing travellers - having lost their traveller's cheques and had them quickly returned - in complete eontrol of the situation, American Express advertising would appeal to this segment. They would be equally attracted to the ability to customize their Mercedes-Benz ear. In contrast, *mainstreams* need security. They will buy well-known, safe major brands and avoid risk. In the UK, the Conservative Party under Margaret Thatcher is believed to have won elections by appealing to this segment's fear of change. Highly educated *reformers* would have none of that. They would trust their own judgement and try new ideas. These people are at the forefront of many new trends, such as ecologically friendly products and new tourist destinations.

Lifestyle segments can be superimposed on other segmentation methods. For instance, Third Age Research recognizes the different lifestyles of older people. It identifies *explorer** who like to take up new activities, the *organisers,* the *apathetic,* the *comfortable, the fearful,* the *poor me,* the *social lion* and the *status quo.*

> Based on a study of over 2,000 respondents and 30,000 'snacking occasions' Nestle developed its own lifestyle segments of the snacking market. Two major segments it identified were the very different *depressive chocolate lovers* and *energetic males.* The *depressive chocolate lovers* are predominantly young women who buy fast food and eat chocolate. They eat chocolate at anytime, but particularly when depressed, to unwind or when bored in the evening at home. For these people taste is important, so they buy expensive products, like boxed chocolates, for themselves. Terry's Chocolate Orange, All Gold, Cadbury's Milk Flake and Blaek Magic appeal to them. In contrast, *energetic males* are young and disproportionately C2 in social class. They live at a fast pace, work hard, eat fast food and are reckless shoppers. Work tires them, but they exercise regularly and like lively places. They also eat chocolate in a hurry in the evening, at lunch or at mid-morning or afternoon breaks. Boxed chocolates are not for them, but they get their energy fix from countlines like KitKat, Lion and Snickers.
>
> Being multidimensional, lifestyle segments provide a rich picture of consumers. The *depressive chocolate loverx* and *energetic males* may be the same age and social class, but the lifestyle segments start to tell us about the people and what appeals to them. An ad for the *energetic males* needs to be lively, social and fast - the product grabbed firmly and eaten, Uofmeister used sueh a campaign showing George the Bear on a night out with the lads to revitalize the sales and image of its lager. In contrast, Cadbury's adverts show a quiet, solitary' woman anticipating and indulging herself with a Milk Flake.[iq]

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