

4.1 The role of marketing (1)

NOTE FOR TEACHERS

Marketing is the most popular topic in the Business and Management syllabus. Students as consumers are active stakeholders in this area and readily engage with the subject. However, in terms of understanding, application, analysis and evaluation, especially in final examinations,

students' performance is consistently below expectations, particularly when evaluating a marketing strategy. Students are advised to learn the following marketing definitions, apply them in context to the question asked and provide necessary balance when discussion is needed.

INTRODUCTION: 'THE TYRANNY OF CHOICE'

Students are encouraged to read Jack Trout's work which discusses in some detail how difficult marketing

has become given the explosion of choice in almost all markets both on a national and global level.

Product	Number of items in US market early 1970s	Number of items in US market late 1990s
Sports utility vehicle (SUV) styles	8	38
Software titles	0	250,000
Bottled water brands	16	50
Milk types	4	19
Mouthwashes	15	66
Dental floss	12	64
Over-the-counter pain relievers	17	141
Contact lens types	1	36
KFC menu items	7	14

Source: Trout (2008)

Trout also highlights that:

- An average US supermarket has 40,000 items.
- An average US family gets 80–85% of its needs from only 150 of those items.
- They will routinely ignore the other 39,850 items.

Clearly with this 'tyranny of choice', a good deal of marketing effort is going to waste. Even in niche markets such as the luxury sports car market which used to be dominated by Ferrari, choice and competition have emerged in the shape of Porsche, Lamborghini, Bentley and Aston Martin, and most recently the Mercedes SLR range.

KEY DEFINITIONS

The following definitions are part of the core knowledge of marketing.

- **Market size:** The total sales of all the producers within a market. Another way of stating this is the total amount of revenue generated. The US personal computer market was worth \$15.6bn in the 4th quarter 2008.

- **Market share:** The sales of the individual firm expressed as a percentage of total industry sales.

$$\text{Market share} = \frac{\text{total revenue the firm generates}}{\text{total revenue the whole industry generates}} \times 100$$

US Personal computer sales, market share and market growth

Company	4 th Quarter sales 2008 (\$m)	4 th Quarter market share (%)	4 th Quarter sales 2007 (\$m)	4 th Quarter market share (%)	4Q 2008 – 4Q 2007 growth (%)
Dell	4465.8	28.6	5344.6	30.8	-16.4
HP	4288.3	27.5	4439.5	25.6	-3.4
Acer	2373.9	15.2	1527.3	8.8	55.4
Apple	1255.0	8.0	1159.3	6.7	8.3
Toshiba	1007.7	6.5	900.0	5.2	12.0
Others	2219.2	14.2	3992.6	23.0	-44.4
Total	15609.0	100.0	17363.3	100.0	-10.1

Source: Gartner Inc. from www.macrumors.com

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KEY DEFINITIONS (continued)

- **Market growth** is identified in the last column of the table. It is interesting to note that even in the deteriorating global economic environment some companies have gained market share (Acer, Apple and Toshiba) at the expense of the market leaders.
- **Marketing:** the process of identifying and satisfying consumer wants and needs in line with the objectives of the organization.
- For marketing in the new millennium, a firm should also try to anticipate or even create needs and wants and be able to satisfy them profitably. This will be looked at in later sections when we consider the roles of market research, development and innovation.

LINKS WITH OTHER ELEMENTS OF THE BUSINESS ORGANIZATION

We must not treat marketing in isolation from the other sections of a business.

Consider some of the following issues for a company in the competitive snack food industry:

- The marketing department of a potato chip manufacturer would love to be able to promote a fat-free potato chip and are becoming frustrated by the production department's insistence that it cannot be produced at a low enough cost to make it commercially profitable.
- The finance department have criticized the marketing department for insisting on a new TV campaign to 'buy one get two free', as the company cannot

produce such large quantities of stock nor afford the cost of the proposed TV commercial involving a famous media personality.

- The sales director is not enthusiastic about the marketing department's insistence of developing a cheese-and-vinegar flavoured potato chip. His sales team lack enthusiasm for this tactical move.

We could have highlighted a number of other conflicts. The key is that marketing has to fit within the constraints placed on it by the organization and be aware that its actions may have significant implications for other parts of the organization.

MARKET ORIENTATION AND PRODUCTION ORIENTATION

Theodore Levitt (Russell-Walling, 2007) provides an example of the difference between market orientation and production orientation.

Movie companies do not make movies but they provide entertainment. In the 1950s, the American movie studios dismissed television and ignored its influence. They lost their customer focus and became too product orientated. ... They have barely recovered from the impact of television. It took them too long to see television as an opportunity for growth and not a threat.

A few companies, including Rolls Royce and Apple, are able to operate profitably by concentrating solely on the strength of their product and effectively ignoring the needs of the market (**production orientation**).

Most have to try and satisfy an increasingly demanding consumer base empowered by knowledge and information from the Internet (**market orientation**).

More examples

Readers may like to remind themselves of the experience of the Disney Corporation in unit 1.6 (page 20).

Similarly, the five major record companies were fearful of the first popular file-sharing site – Napster – which paved the way for the success of iTunes as the biggest source of legal downloads, which many record companies now enthusiastically embrace. The threat has become the opportunity.

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MARKETING IN NON-PROFIT ORGANIZATIONS

Our definition of marketing (page 81) was careful to acknowledge that marketing is a process to satisfy needs and wants, to fit in with the firm's objectives. Not all firms are profit maximizers and, as we highlighted in unit 1.3, a number of other corporate objectives exist (pages 12–13).

Maynard (2009) argues that it is important for non-profit organizations to establish a well-defined niche; while most are not selling goods, they are selling their organization's mission, their ideas, their vision and their services. We cannot assume that the non-profit organization (however ethical or socially responsible) will sell itself based on its inherent worth and the goodwill generated in the community. Maynard identifies a number of key points:

- Identify your target audience: define key stakeholder groups.
- Maintain consistent communication.

- Create a strong visual identity: use logos.
- Use message repetition wherever possible: create a slogan.
- Employ multiple communication tactics.

TOK

One is drawn to the conclusion that, given the impact of some of the factors highlighted in our previous STEEPLE analysis, non-profit organizations need to match the tactics used by their profit-generating counterparts. The paradox of the non-profit-making industry acting in a profit-maximizing manner should not be disregarded by the reader and would make a stimulating TOK discussion.

THE MARKETING PLAN

In unit 1.6 we looked extensively at planning and the generic decision-making model. We can add to our knowledge of planning by identifying some additional specific elements relevant to developing a marketing plan.

The plan should include the following elements:

- A marketing budget for above-the-line activities if necessary

- The strategy to fulfil the objectives of the organization
- Tactical methods such as the elements of the marketing mix
- A time frame to review progress of the plan, with a contingency to take corrective action or review tactics if forecasts are not achieved.

SOCIAL AND ASSET-LED MARKETING

Social marketing

The emergence of a more ethical and socially responsible external environment has given rise to a new breed of 'social marketing'. This has been embraced by both the private and public sectors. The focus here is on communicating the existence of and extolling the virtue of 'merit goods' such as education and health while, for example, raising awareness and aiming to reduce the consumption of demerit products (such as alcohol, cigarettes and 'junk food') given that these products can have significant impacts on the wider community.

Some critics have argued that firms in the private sector may use social marketing in a vague, non-credible manner. However, some organizations such as Nike and McDonald's that have faced increasing stakeholder criticism have responded with positive social marketing messages of their own.

Asset-led marketing

We stated earlier that a very few companies such as Rolls-Royce and Apple are able to be product orientated and

focus their operations on producing products with little regard for consumer needs and wants (e.g. launching the new iPhone in many countries at a very high price relative to the competition).

Some companies have taken product orientation to the limit and have created **asset-led** marketing where the competitive position is determined by the firm's individual strengths (or assets!) such as leadership, the quality of the human resource function, the location of its retail outlets or some other intangible asset which other potential competitors cannot match.

Companies such as Volvo (safety), Duracell (long-lasting battery life) and Heinz (ketchup) have been able to asset-lead their marketing by using a technique which some marketing writers refer to as the **dominant attribute**. We shall return to this point later when we review branding in the next section.

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4.2 Marketing planning (1)

NOTE FOR TEACHERS

We now begin a number of units focusing on specific marketing issues such as the marketing mix, the product itself, pricing, promotion, distribution, international marketing and e-commerce. The amount of marketing terminology is considerable. It is assumed that students will

have access to a textbook for full coverage. The following information here is provided as a guide for study.

A number of questions from previous papers with suggested answers will hopefully add clarity as to the kind of depth and detail required by examiners.

THE MARKETING MIX: 4Ps OR 7Ps?

Students of Business and Management will be familiar with the four elements of the marketing mix (price, product, place and promotion) which are used to develop a marketing plan for a product.

MIX OR STRATEGY?

However, the following may be unfamiliar:

- The marketing mix of a good or service is unique. There will always be a degree of differentiation in each individual mix for each product or service; otherwise one would question why the product was brought to the market in the first place.
- The marketing mix is not the same as the marketing strategy. As we will see in the strategy section (page 93), the marketing mix is a *tool* to effect a strategic plan but it is not the only tool. A firm will have to consider other functions of the business such as finance and human resource management in order to create a strategy.



7Ps

The additional three Ps to the marketing mix were added in the mid 1980s to account for the differences in the marketing of goods and services.

- **People:** As a service is an intangible (you cannot take home the process of getting a haircut), the people delivering the service to the end user (the consumer or the industrial end user) must have sufficient training in order to ensure customer satisfaction.

• The people element in the mix may also include after-sales service. (This element is sometimes applied to the product element in the mix.) As we have seen this element of the mix can be outsourced and off-shored given the substantial improvements in ICT and the spread of globalization (page 33).

• **Process:** A good can be purchased in store and paid for in a number of ways – cash, electronic transfer or credit card. For some services this is not possible. A computer technician installing a new computer system for a company may take many days and is unlikely to be paid until after the work is completed. The process element in the mix looks at how services are consumed and paid for and is crucial in industrial markets when large sums of money are exchanged or large service providers undertake work stretching over many months.

• **Physical evidence:** Some hairdressing salons are able to charge high prices for haircuts. The salon may include special lighting and music to provide relaxing surroundings for the customer. Second, the customer can only tell the outcome of a haircut when it is finished (it may be impossible to start again). Physical evidence in the 7Ps mix tries to cover both these issues. The key is to ensure that the customer feels reassured that the service provider is competent. This could be achieved with demonstrations, reviews or endorsements by previous customers or images of successful styles that the salon has previously undertaken.

TOK

THE ETHICS OF MARKETING

This is a difficult section in which to be objective, given the significant cultural, religious and global differences which exist. It could be argued that all marketing except social marketing is unethical. This topic should, in your class or TOK seminars, result in some challenging and thought-provoking discussions. For example:

- Should all forms of promotion for alcohol and cigarettes be banned?
- Should retailers who market and sell violent video games such as *Grand theft Auto IV* to minors face prosecution, as happens in Thailand?

• Should fast-food companies be more open about the amount of saturated fat in their products, which are linked to obesity and heart disease?

• Was the French government right in January 2009 to ban all mobile phone advertising during children's programming?

Interested students may view the DVD *McLibel* about the legal challenge by two human rights campaigners against misleading and unethical marketing by the McDonald's Corporation.

4.2 Marketing planning (2)

MARKETING AUDIT

This term is often used interchangeably with market analysis.

A marketing audit effectively allows a firm to review its current marketing situation and is a valuable tool to help with planning and effecting change. A marketing audit enables a firm to see if the current marketing strategy is working and to identify any adjustments that may be needed. For example:

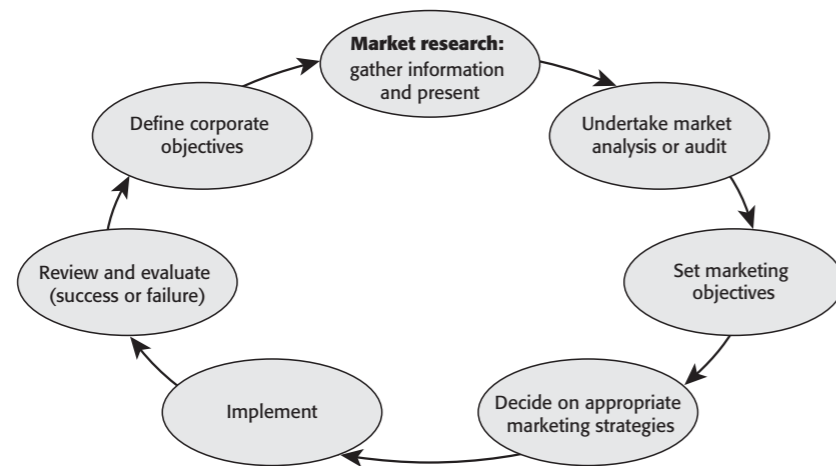
- Research into a firm's present 'positioning' in the marketplace will find out whether consumer

perceptions of a brand or product align with the intentions of that brand for the company.

- The audit may involve preparing a product life cycle to see at which stage in the life cycle the product currently sits, and this may suggest new extension strategies.
- A review of target marketing and segmentation may check that promotional efforts are being targeted to the right audience.

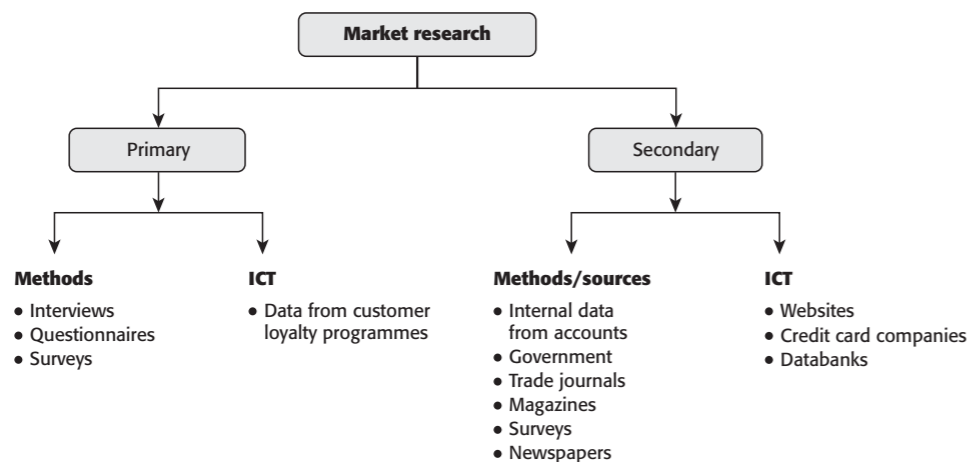
MARKET RESEARCH

Market research is the gathering, recording, analysing and presenting of information relevant to the marketing process. Our generic decision-making model can be adapted to incorporate market planning.



Decision-making model as applied to the marketing process

Sources of market research



Market research sources

(continued)

4.2 Marketing planning (3)

MARKET RESEARCH (continued)

NOTE FOR TEACHERS

Market research is a very popular area for examination questions at both Higher and Standard level. Students are generally successful in defining concepts such as primary and secondary data. However, issues surrounding the analysis and evaluation of market research methods are not well understood and can translate into low marks in the final examination.

In addition, in the Internal Assessment assignments for both levels, students tend to assume that a single questionnaire or a single article from a journal or the Internet is sufficient depth when being asked to research an issue. Both of these do not constitute thorough research and will not allow the student to access the top mark bands for data collection and analysis.

AN ALTERNATIVE VIEW

Jack Trout advises caution over attaching too much importance to the role of market research.

Marketing people are pre-occupied with doing research – getting the facts. They analyze the situation to make sure the truth is on their side. They sail confidently into the marketing arena, secure in the knowledge that they have the best product and that ultimately the best product will win.

It's an illusion. There is no objective reality. There are no facts. There are no best products. All that exists in the world of marketing are perceptions in the minds of customers. The perception is the reality. (source: Trout 2008)

Example: Insufficient market research

Let's look at Virgin Group's failed attempt to enter into the potentially lucrative mobile telecommunications market in 2001.

Buoyed by a run of successful entries into new markets, Virgin arrived in Singapore with a provocative advertising campaign and favourable brand awareness (Richard Branson had successfully negotiated the sale of 49% of Virgin Airlines to Singapore Airlines only two years previously).

Unfortunately, due to a number of factors, the mobile service was forced to close just over one year later.

The reasons included:

- Insufficient market research to identify customer attitudes
- Incorrect pricing of call charges
- Underestimating the brand loyalty enjoyed by the incumbent market leader, Singapore Telecom
- Ignorance that its promotional campaign may have caused offence to some cultures
- Unrealistic sales targets which put pressure on the marketing effort from the beginning.

This may be a partial view as Trout also advises businesses to perform market research in order to identify a point of difference from the competition. However, Trout is correct that conducting market research is no guarantee of creating and marketing successful products, if the customer's perception of your product is unfavourable.

You should now be able to tackle question 1, page 109.

EVALUATION OF DIFFERENT METHODS OF MARKET RESEARCH

It was noted earlier that students find evaluating key concepts difficult. Without resorting to a long list of market research methods, a brief framework is given to allow the student to develop evaluation skills. This is a checklist which could be used in a similar way as the 7C framework (page 25). We could call this ORCA.

Objectivity

Given the inherent bias in collecting data, a number of large companies do not collect primary or secondary market data themselves, preferring instead to employ a specialist market research agency to increase the degree of objectivity.

Relevance

If a company is launching a new product in the marketplace, secondary data collection will be difficult to find. Primary data may also be scarce if a questionnaire or interview is expected to reveal how a consumer feels about a product which currently does not exist.

Cost

For small business start-ups, the cost of employing a specialist agency may be high although the time saved could be considerable.

The Internet is a cheap, immediate source of secondary data. But see below for concerns over accuracy.

Accuracy

The above point can also be used to evaluate market research in terms of accuracy. Given that secondary data can date quickly as soon as it is published, especially in rapidly changing technological markets; primary data collection may be more accurate.

However, the number of potential interviewees may be small in niche markets, leading to greater bias.

Judgment

The need for market research cannot be underestimated. To summarize, in carrying out market research a firm needs to balance the degree of accuracy and objectivity required with the cost, purpose and time allowed to collect the data.