Part 1 | Marketing Fundamentals

When You Finish This Chapter, You Should

1. Know what marketing is and why you should learn about it.

2. Understand how marketing creates satisfied customers.

3. Understand how marketing serves customer differences.

4. Know what the marketing concept is—and how it affects how we manage a firm or nonprofit organization.

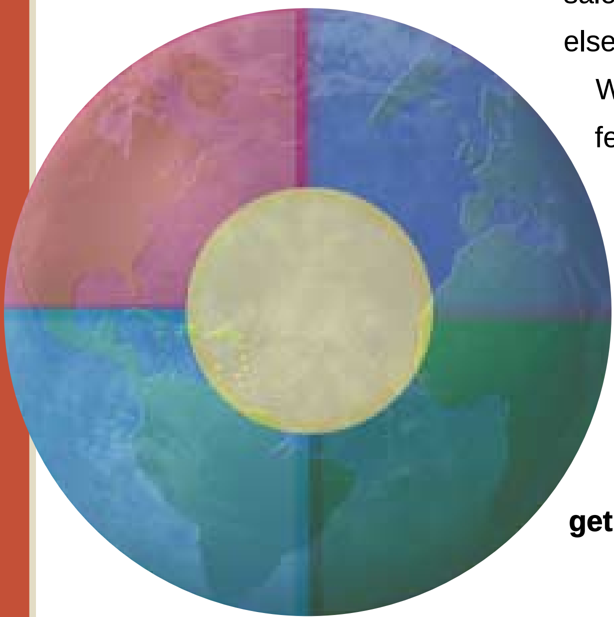
5. Understand what customer value is and why it is important to customer satisfaction.

Chapter One

The Nature of Marketing

Marketing—What's In It for You?

Welcome to the world of marketing and to a book that will serve as your travel guide to that world. Your guidebook will describe marketing, highlight ideas and practices worthy of additional focus, identify some potentially dangerous situations, and present a range of skills and organizational processes that we believe *every* manager must know in order to prosper.



Every manager? This might seem to be a very bold statement. Certainly, it is not hard to accept this claim if you are planning a career in marketing, advertising, or sales. But what about everyone else? What's in it for them?

We believe there are both professional and personal rewards that everyone can gain from knowing more about marketing. Let's take a moment to review these so that you can better focus your energies in this course.

Marketing can help you get the job you want. In this sense,

place price promotion produc

better leader. Your marketing edge can go beyond the linkages with different functions. It can help you lead and influence others in your organization. Think of any idea or project you'd like the organization to undertake: it could be a new product or service, an idea for how the organization is structured or run, or a new way of evaluating performance. What could you say to get everyone to agree (i.e., to get "buy-in" or consensus)? Would you say the same things in the same way to all senior managers, peers, or subordinates? Because marketing deals with issues like these in introducing new products, your marketing lessons can provide frameworks you can use to plan your "internal marketing" campaign.

Marketing can make you a better consumer. Those who come to truly understand marketing will also recognize a large number of personal as well as professional benefits. As consumers you'll learn the various devices used to encourage your purchase of a particular brand of product or service. You'll learn to distinguish between "hard" and "soft" benefits and how they affect the price you pay for whatever you buy. Indeed, you'll position yourself to get better deals.

Marketing can raise your role in your community. Many important community services are provided by non-profit organizations. These include charities and other groups that have formed to pursue special interests. For example, you might have membership at a local "Y" or have a brother or sister involved in a community sports league or performing arts group. Or maybe you belong to a group that is focused on influencing political direction. All of these organizations need funding to survive, and their ability to gain that funding depends greatly on how they communicate their objectives and programs to government, the general public, and intended clients. Your knowledge of marketing can help these organizations and in the process make your community a better place to be.

Marketing can add to your social skills. A knowledge of marketing will make you better informed and more confident in discussing business issues with others. You'll learn why companies structure advertisements and promotions as they do (e.g., why do companies run ads in a certain way); why companies continue to sell products/services you might never buy yourself; and ways to offer comments on the ethical issues discussed in so many media today.

You may even find that marketing techniques can make your interpersonal relationships more rewarding. In fact, one of the hottest topics in marketing today is *customer relationship marketing*, or CRM. CRM focuses on how to identify customers with whom we want to build a relationship and how to sustain the benefits to both suppliers and customers as the nature of the relationship changes. As you'll see, while the specifics are obviously different the general rules for great relationship management are not significantly different in the personal or professional arena.

In sum, marketing is far more than an inventory of decisions or set of procedures to be followed. Marketing is a fundamental skill and a valuable resource for leading an organization. Welcome aboard!

Who would buy each of these bicycles? Why? When? Where?

In This Chapter

This chapter is the first of three that provide a broad overview of the field of marketing. We'll begin by making certain that everyone knows what we mean by the term "marketing" and how it relates to the kinds of decisions you'll learn to make in this book. In later chapters, we'll deal in greater detail with the mechanics of making those decisions. Here, our focus is on helping you to understand how marketing managers think about the role of marketing, how they approach decision-making in both firms and nonprofit organizations, and how they think about their broader social responsibilities. Think of this as the "why" of marketing—by the chapter's end you will be better able to understand why marketers do what they do.

Marketing—What's It All About?

If asked to define marketing, most people—including some business managers—say that it means "selling" or "advertising." It's true that these are parts of marketing. But, as shown in the opening vignette, *marketing is much more than selling and advertising*.

To illustrate, imagine you're starting a business making and selling bicycles. At a basic level, a bike is a means of transportation—a way to get a person from one place to another. But consider the bikes shown above. While they all transport people, there are many important differences between them. Some are designed for children, while others are intended for older riders. Some transport people for work, while others move them for play or competition. Some are intended for use on roads, while others are better suited to off-road use. Some could be bought in mass merchandise outlets like Canadian Tire, while others would be found only in specialty bike shops. Which bike would you make?

Now imagine your company makes the "best" bike of a certain type. What happens if the bike is too expensive for the intended buyer? As a consumer, would you spend $500 on a child's bicycle? What if your company doesn't know how or where to advertise to reach riders of the appropriate age? Do parents look to *Sports Illustrated* for information on children's bikes? What if the bikes are sold through a kind of retail store that those riders don't usually frequent? Would a competitive rider shop for a bike at Canadian Tire or Toys-R-Us?

It isn't hard to see how businesses can fail even when they make truly superior products. The product has to be priced appropriately, communicated appropriately, and distributed appropriately for the business to succeed. It is for this reason that companies consider and accomplish a long list of things before committing to make a product or provide a service. In our bike example, these things might include

1. Analyzing the needs of people who might buy a bike and deciding if they want more or different models.
2. Predicting what types of bikes—handlebar style, wheel type, weight, and materials—different customers will want and deciding which customers to try to satisfy.
3. Estimating how many of these people will be riding bikes over the next several years and how many bikes they'll buy.
4. Predicting exactly when these people will want to buy bicycles.
5. Determining where in the world these bike riders will be and how to get the firm's bikes to them.
6. Estimating what price they are willing to pay for their bikes and whether the firm can make a profit selling at that price.
7. Deciding which kinds of promotion should be used to tell potential customers about the company's bikes.
8. Estimating how many competing companies will be making bikes, how many bikes they'll produce, what kind, and at what prices.
9. Figuring out how to provide warranty service if a customer has a problem after buying a bike.

customer satisfaction
The extent to which a firm fulfills a customer's needs, desires, and expectations

This example shows a broad set of marketing activities beyond just advertising and selling. In the next chapter we'll describe these decisions and what we mean above by "appropriately." For now, the important thing to remember is that marketing is about doing whatever it takes to create **customer satisfaction**—the extent to which a firm fulfills a customer's needs, desires, and expectations. When a business does this, it not only survives but also thrives. This is what marketing is all about.

How Marketing Creates Satisfied Customers

You may have heard the expression, "Make a better mousetrap and the world will beat a path to your door." In other words, if you have a good product, your business will be a success. But is a good product all that it takes to satisfy a customer?

Business history has countless examples of cases where great products failed or came very close to doing so. Sony introduced the world's first VCR using its Betamax format. While many people believed it was a technically superior product to VHS, most households today use a VHS product. Many people thought Apple computers were superior to IBM-type machines and yet Apple nearly went bankrupt. Federal Express introduced one of the first fax services in the 1980s and lost more than US$200 million when the public failed to adopt it.

History also has several examples of heavily marketed products that failed because of production problems. Cantel introduced Amigo, marketed as Canada's first pay-as-you-go cellular phone service, but discontinued it after operational problems appeared and consumers stopped buying and even returned their phones. Once these problems were resolved, the service was relaunched with great success. Coca-Cola, arguably one of the world's greatest marketers, averted a near–consumer revolt when they recalled New Coke after the public complained that it didn't taste as good as the original Coca-Cola. Indeed, many pop stars often have short-lived careers despite sophisticated and extensive marketing when people tire of their sound. And who hasn't heard of a heavily hyped blockbuster movie that failed to win over audiences or reviewers?

production
Actually making goods or performing services

The point is that **production**—actually making goods or performing services—and marketing must work closely together to create satisfied customers. Both are important parts of a total business system aimed at creating **utility**—the power to provide consumers with goods that satisfy their needs and wants.

utility
power to provide consumers with goods that satisfy their needs and wants

Utility is an important concept. The pursuit of utility is the reason why people enter into buyer–seller exchanges: each party gives something up in order to acquire something else that leaves them more satisfied. As such, any successful organization must create utility or no customer will ever enter into an exchange with it (i.e., buy something). Let's take a moment to consider the five different types of economic utility that are targeted by marketing activities (see Exhibit 1-1).

Form utility
Provided when someone produces something tangible

Task utility
Provided when someone performs a task for someone else

Form utility and task utility focus on what the customer is buying. **Form utility** is provided when someone produces something tangible—for instance, a bicycle. **Task utility** is provided when someone performs a task for someone else—for instance, when a bank handles a financial transaction.

But just producing bicycles (creating a form) or handling bank accounts (performing a task) doesn't result in consumer satisfaction. It has to be the form or task that consumers want. Let's take our mousetrap example a step further. Some customers may want a disposable trap, while others may want to reuse it. Some may want a trap that allows for the mouse's release. And some customers don't want *any kind* of mousetrap. They may want someone else to provide a service and exterminate the mice for them. For these buyers, a mousetrap creates little utility regardless of how good a trap it may be. After all, customers aren't buying a mousetrap: they are buying freedom from mice!

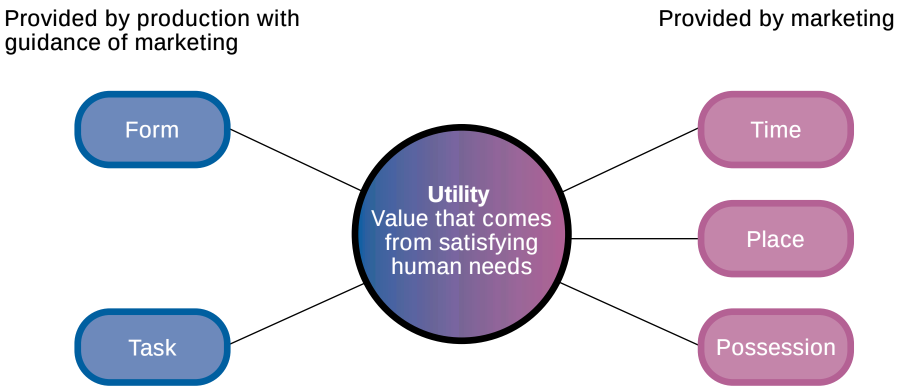
time utility
Having the product available *when* the customer wants it

place utility
Having the product available *where* the customer wants it

But as our bicycle example showed, even when marketing and production combine to provide form or task utility consumers won't be satisfied unless time and place utility are also provided. **Time utility** means having the product available *when* the customer wants it. **Place utility** means having the product available *where* the customer wants it.

Companies spend an enormous amount of time deciding where and how to sell their products and in telling people where they can be purchased. Retailers fail or succeed based on whether they have the right assortment of products at the right locations. In fact, time and place utility are a major reason why some people prefer to shop using the Internet.

Exhibit 1-1 Types of utility and how they are provided.



Time and place utility are even more important for services. Unlike products, a service can be neither shipped nor stored. As a result, much of the usefulness of any service depends on where and when the service is offered. For example, neighbourhood emergency-care health clinics have become very popular. People just walk in as soon as they feel sick, not a day later when their doctor can schedule an appointment.

possession utility
Obtaining a good or service and having the right to use or consume it

Once we have the right product in the right place at the right time, we still need to transfer ownership. **Possession utility** means obtaining a good or service and having the right to use or consume it. Customers usually exchange money or something else of value for possession utility. Companies affect possession utility when they make decisions about, for example, prices, credit terms, and delivery schedules.

As you can see, utility is more than just a theoretical concept. Customer satisfaction—and business success—is ultimately sourced in the creation of utility. *It is for this reason that the value of any marketing activity can be determined on the basis of whether it creates or enhances some form of utility.* The challenge is that it takes different types of activities to create utility for different customers and for different products or services. Internet Insite 1-1 shows how the Internet can be used to service this diversity.

Internet Insite 1–1

INTERMEDIARIES AND ONLINE MARKETING SYSTEMS

The Internet facilitates the exchange of goods and services among businesses or between businesses and individuals on a global scale. It creates time utility by enabling 24/7 operation of businesses. The Internet also creates place utility by connecting buyers and sellers from all over the world. A small firm in PEI called GreatHobbies.com is able to attract customers from many countries for its model aircraft products without incurring the traditional costs of establishing international operations. Customers find Great Hobbies through search engine listings and hobby sites. The location of the seller or the buyer is no longer a barrier to commerce. eBay, the popular online auction site, has millions of participants from all over the world selling and buying every conceivable product.

Larger firms as well as firms that have established a brand name have an easier time attracting traffic and customers to their website. For some consumers, the Internet can be a confusing place with too many choices; listing with popular portal sites and online malls may help in overcoming the clutter and gaining some exposure.

While the Internet allows buyers and sellers to connect directly with each other, it has led to the creation of new types of intermediaries who connect buyers and sellers. For businesses in a variety of fields, from electronics to hotels, VertMarkets (formerly VerticalNet) brings buyers and sellers together. VertMarkets operates more than 50 industry-specific portals (or "vortals"). Sellers can post catalogues, participate in bidding, and provide product information. VertMarkets lowers the search costs for buyers and lowers marketing and selling costs for sellers by bring the two parties together online.

Traditional retailers including Sears and Canadian Tire have their own online stores. Some retailers, such as the Body Shop, prefer to be located in an online shopping mall—for example, the one operated by Yahoo!, a leading portal site (see http://ca.store.yahoo.com/ca.html). If you go to Yahoo! Shopping, which caters to the U.S. market, several brand-name stores such as Macy's, JC Penney, and the Gap are listed (see http://shopping.yahoo.com). Yahoo! acts as a gateway (or portal) that sends traffic to various sites. eBay and Amazon (see zShops in Amazon.com) offer a venue for many small businesses to sell their wares. Canada Post offers an online mall featuring a good selection of smaller and regional retailers (http://goshopping.canadapost.ca).

The relatively low cost of setting up a storefront online or becoming part of an established online mall makes it easier for smaller firms to compete. A visit to http://ca.store.yahoo.com/ca.html or http://goshopping.canadapost.ca will reveal the presence of several lesser-known online retailers. For consumers, the Internet offers greater choice. Even those who live in remote regions of Canada now have access to the best products from all over the world.

For consumers, the Internet allows for fast and efficient information search, 24/7 access to shopping and services, and the ability to find great bargains. For businesses, the In-

Internet Insite 1–1 continued

ternet offers the ability to monitor the competition, track consumer behaviour, and respond with real-time offers (e.g., a consumer who just bought a shirt can be given an online offer for a tie). Many economists believe that the access to information makes the Internet a more efficient marketplace, where firms that offer better products and services at acceptable prices will succeed in the long run. Consumers are no longer constrained to shopping in the neighbourhood mall—therefore all firms, offline and online, have to strive harder to please the consumer.

Satisfying Customer Differences Lies at the Heart of Marketing

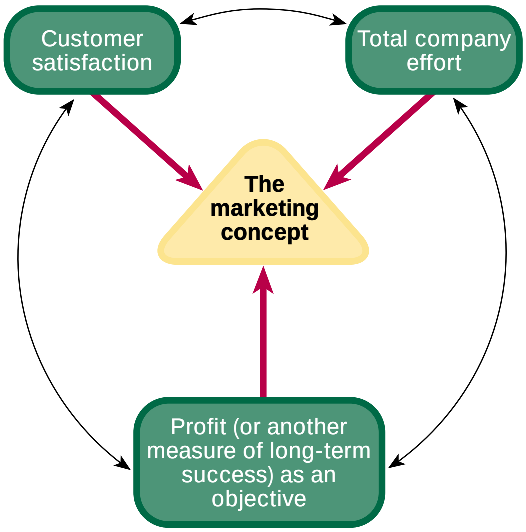
It would be relatively easy to provide form and task utility if everyone wanted the same product. Similarly, the creation of time and place utility would be simplified if everyone wanted that product at the same time and place. And decisions about how to create possession utility would be easier to make if all buyers had the same level of information about the product availability and usage and if they all had the same economic means. We would need only one form of product, only one way to acquire it, and so on.

In addition, since there would be nothing of difference between the products offered by competing firms, customers would have a much easier task in deciding which firm's product to buy. With no differences between competing goods, they would buy from the least expensive firm. In order to have the lowest price, a firm would need to have the lowest cost and thus marketing's role would simply be to perform the standard activities at the lowest possible cost.

But while selling standardized products in standardized ways would greatly reduce the cost and complexity of running a business, it is unlikely that all customers would be equally happy with their purchases. Different customers have different needs and preferences (recall the bike example at the start of the chapter), and there is little merit in being the lowest-cost producer of a product no one wants to buy.

At the same time, there usually are limits to how much customer difference we can accommodate. Just as standardization lowers costs and prices, customizing a product or service tends to increase costs and prices. For example, two items of clothing

Exhibit 1-2 Organizations with a marketing orientation carry out the marketing concept.



made of the same material and design will have very different costs and prices if one is mass-produced while the other is tailor-made to an individual's particular measurements. A major issue for marketers is determining how much customization a customer is willing and able to purchase: there is little merit in selling the best-fitting suit if the user finds the price too high.

Putting It All Together—The Marketing Concept

marketing concept

A way of thinking about management that has an organization aiming *all* its efforts at satisfying its customers at a profit

Up to this point, we have talked about three key characteristics of marketing: its goal of creating satisfied customers; the need for marketing to be closely aligned with other functions (like production) in order to create that value; and the challenge of finding the right balance between customization and standardization. These three characteristics are brought together in the **marketing concept**—a way of thinking about management that has an organization aiming *all* its efforts at satisfying its customers at a profit (see Exhibit 1-2).

production orientation

When firms make whatever products they want to produce and *then* try to sell them

The value of the marketing concept is as an approach to managing and decision-making. While every organization must make marketing decisions, not every firm approaches those decisions in the same way. Some firms operate under a **production orientation**—making whatever products they want to produce and *then* trying to sell them. Most decisions in these firms are based on doing whatever is most convenient for the company. The role of marketing in these firms is largely to convince or persuade the customer that the firm's product is superior, regardless of what the cus-

Exhibit 1-3 Some differences in outlook between adopters of the marketing concept and the typical production-oriented managers.

Topic	Marketing Orientation	Production Orientation
Attitudes toward customers	Customer needs determine company plans.	They should be glad we exist, trying to cut costs and bringing out better products.
An Internet website	A new way to serve customers.	If we have a website customers will flock to us.
Product offering	Company makes what it can sell.	Company sells what it can make.
Role of marketing research	To determine customer needs and how well company is satisfying them.	To determine customer reaction, if used at all.
Interest in innovation	Focus on locating new opportunities.	Focus is on technology and cost cutting.
Importance of profit	A critical objective.	A residual, what's left after all costs are covered.
Role of packaging	Designed for customer convenience and as a selling tool.	Seen merely as protection for the product.
Inventory levels	Set with customer requirements and costs in mind.	Set to make production more convenient.
Focus of advertising	Need-satisfying benefits of products and services.	Product features and how products are made.
Role of salesforce	Help the customer to buy if the product fits customer's needs, while coordinating with rest of firm.	Sell the customer, don't worry about coordination with other promotion efforts or rest of firm.
Relationship with customer	Customer satisfaction before and after sale leads to a profitable long-run relationship.	Relationship is seen as short term– ends when a sale is made.
Costs	Eliminate costs that do not give value to customer.	Keep costs as low as possible.

marketing orientation

Identifying and channelling all of an organization's efforts into profitably satisfying the customer's needs

market-oriented firm

A firm that uses customers' needs to determine what is required to create customer satisfaction and then commits all of its efforts to those opportunities where it can profitably service those needs

tomer really needs. This is *not* the approach to marketing presented in this book.

Rather, this book promotes a **marketing orientation**—identifying and channelling all of the organization's efforts into profitably satisfying the customer's needs. This does not mean giving the customer everything they want regardless of cost, nor does it mean charging more than people can afford. Rather, a **market-oriented firm** uses customers' needs to determine what is required to create customer satisfaction and then commits all of the firm's efforts to those opportunities where it can profitably service those needs. Exhibit 1-3 provides some examples of how decisions are viewed in production-oriented versus marketing oriented-firms.

The marketing concept and marketing orientation was first accepted by consumer products companies such as General Electric and Procter & Gamble. Competition was intense in their markets—and trying to satisfy customers' needs more fully was a way to win in this competition. Widespread publicity about the success of the marketing concept at these companies helped spread the message to other firms.[1]

Today, most firms strive to be market-oriented and many would claim to follow the marketing concept. But do they really? We can answer this by considering three basic ideas that are included in the definition of the marketing concept: (1) customer satisfaction, (2) a total company effort, and (3) profit—not just sales—as an objective.

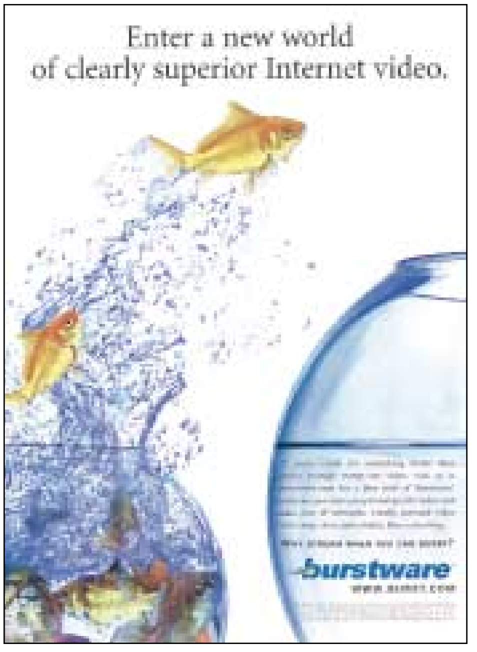
Customer Satisfaction You may wonder why we give special attention to the notion to "give the customers what they need." In fact, you may see this as little more than stating the obvious. However, preserving customer satisfaction is far more easily said than done. People might not agree on what the customer needs or even on the customer's ability to know what he or she needs. Consider these examples:

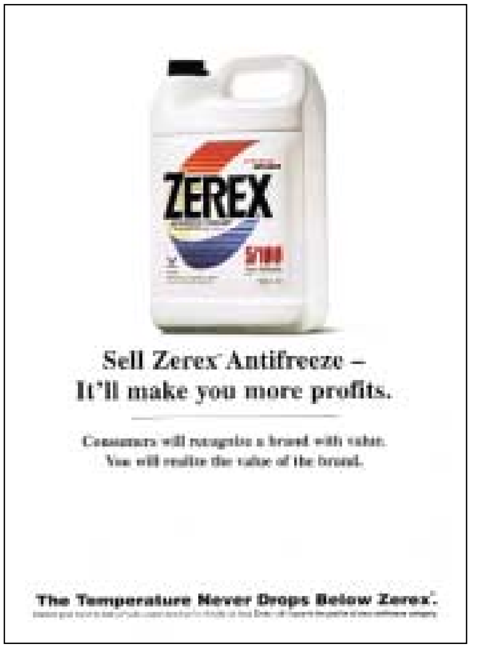
- You go to a concert to hear your favourite rock band perform. How would you—the customer—feel if the band members decided they were tired of playing their hits and instead decided to play new, experimental music that night? Most would say, "That's not why I came!" but the band might argue they were maintaining their artistic integrity and that you were paying to see them, not to hear their hit songs. Who is right?
- You go to see your doctor because you want to try some new wonder drug you just heard about. Should the doctor give you what you want, even if she doesn't think the drug is effective? Would all doctors give you the same answer?
- You decide to start a business based on your favourite hobby, cooking. It would seem natural to want to cook in the style that you liked the most—say, spicy Cajun style. But suppose your customers preferred something less spicy and less exotic. Would you stop offering Cajun and start featuring steak and potatoes or roast chicken? Would you try to educate the market as to the wonders of Cajun food? Would you try to get a celebrity to endorse Cajun food in an effort to create a trend? Would your answer change if you had already invested your life savings in opening a Cajun restaurant?

As you can see, while it may be easy to accept the idea of customer satisfaction, it can be very hard to put that idea into practice. But someone in the organization must assume responsibility for clearly stating what the firm believes are the customers' needs, and those beliefs must be constantly challenged in order to ensure that the firm is properly grounded.

Total Company Effort One outcome of a clear statement of customer needs is that all parts of the organization work together and toward the same goals. Without a common reference point, departments could frequently find themselves in conflict due to their different responsibilities, objectives, and performance measurements. For example:

Firms that adopt the marketing concept want consumers and others in the channel of distribution to know that they provide superior customer value.





- A scientist responsible for research and development (R&D) may want to satisfy their intellectual curiosity by producing highly technical and advanced products. In fact, their status within their profession may be set on the basis of their sophisticated uses of technology. But customers may want only basic features.
- Production managers are often evaluated on the basis of the cost of producing a product. They will naturally prefer to make a small assortment of products with few features because that approach lowers production costs. But customers may want to have a highly customized product.
- At the same time, a sales representative might want lots of features in order to appeal to a broad set of customers; however, the cost of those features might make the product so expensive to produce that no one can afford it.

As you can see, each department would do what was in its own best interests in the absence of some overall point of focus. In many instances, this would bring departments in direct conflict with one another. It is for this reason that every part of a market-oriented firm must adhere to the marketing concept and, as stated above, must understand what customer satisfaction means in their company.

Profit Objective Firms must satisfy customers, or the customers won't continue to "vote" for the firm's survival and success with their money. But a firm does not have to sell to *all* customers or meet *all* customer needs. Depending upon the nature of a firm and its capabilities, it may cost more to satisfy some needs than any customers are willing to pay. For example, assume it takes 50 hours to hand-knit a child's sweater. If you have to pay $7 per hour to a knitter and another $50 for wool, the price of the sweater would have to be $400 just to cover your costs! Clearly, many people would be unwilling or unable to pay such a price and the firm would not survive.

Sometimes firms forget the profit objective and instead focus on sales. They believe that all sales are equally profitable. This is rarely the case. For example, who would you rather sell to if you were a computer store: someone who needed extensive technical support or someone who is self-sufficient? Note that the store has "hidden costs" beyond the cost of the computer and these costs must be recaptured through pricing. This is why many software firms now charge for technical assistance.

Profit—the difference between a firm's total revenues and total costs—is the bottom-line measure of a firm's ability to survive and grow. From a manager's perspective, it is also the balancing point that helps a firm determine which needs it will try to satisfy with its total effort. The next time you hear someone muse aloud "I wonder why no one makes a…," recall that making something that will sell is not the same as making something at a profit.

Decision-Making under the Marketing Concept

The real proof that a firm is following the marketing concept lies in how it approaches the various decisions it has to make. Let's look at three closely related concepts—value, relationships, and competition—to see how market-oriented firms approach their business decisions.

The Marketing Concept and Customer Value

customer value

The difference between the benefits a customer sees from a market offering and the costs of obtaining those benefits

There are both benefits (what the customer receives) and costs (what the customer gives up) associated with every product or service. Combining these two perspectives leads us to the concept of **customer value**—the difference between the benefits a customer sees from a market offering and the costs of obtaining those benefits.

A manager who adopts the marketing concept sees customer satisfaction as the path to profits. In that regard, a consumer is likely to be more satisfied when the customer value is higher—when benefits exceed costs by a larger margin. On the other hand, a consumer who sees the costs as greater than the benefits (i.e., lower customer value) isn't likely to become a customer. From a manager's viewpoint, this would seem to suggest that we should simply give the customer the best possible product at the best possible price. But how do we know what "best" really means? Consumers may associate different benefits and costs with the same product or service. For example, consider two students getting a mocha latte from Starbucks. One wants a quick pick-me-up to drink between classes. The other is using a trip to Starbucks as a way to break the ice and get to know a classmate. Would these two students be equally satisfied with the same product?

When we say the two students want different benefits from their coffee purchase, we are also saying that they have different needs. The first student wants rapid service so they won't be late; the second wants more leisurely service so they can talk. The first isn't concerned about seating areas, while the second sees seating comfort as essential.

In addition, these two students might even look at the costs differently. While they both pay the same price for their coffee, there might be other costs that the students consider as well. For example, how far it is to the Starbucks, and how much time and money will it take to get there? While both may want convenience, the first student would be unwilling (or unable) to pay the "costs" required if Starbucks is off-campus. By contrast, the socializing student may not see an off-campus location as a cost at all: for them, an off-campus location might make the occasion seem less ordinary.

As this example suggests, both benefits and costs can take many different forms—perhaps ranging from the economic to the emotional—and can vary from one situation to another. In short, what is best for one customer may not be best for all customers, or even for the same customer all of the time. This means that market-oriented managers must decide which customers to serve, and must look at things from that customer's point of view to determine which of the various benefits and costs are most important.

Our example also reminds us that customers look at both costs and benefits in making purchase decisions. Some people think that low price and high customer value are the same thing. But a product that doesn't meet a consumer's needs results in low customer value, even if the price is very low. At the same time, a high price may be more than acceptable when it obtains the desired benefits. Think again about our Starbucks example. You can get a cup of coffee for a much lower price, but Starbucks offers more than *just* a cup of coffee.

The Marketing Concept and Competition

You can't afford to ignore competition. Consumers usually have choices about how they will meet their needs. As such, you could satisfy a customer and still lose their business to a competitor that satisfies them better. For example, suppose you were buying a cell phone and had to decide between two brands that met all your basic requirements. Both phones could be said to satisfy you. But suppose one of these sold for less money or had an additional feature for the same price. It isn't hard to guess which one would have the greatest value.

Given situations like these, some critics say that the marketing concept does not go far enough in today's highly competitive markets. They think of marketing as "warfare" for customers—and argue that a marketing manager should focus on competitors, not customers. That view, however, misses the point. Since customers, and not competitors, decide what is bought, an overemphasis on competitive moves as a basis for decision-making is the same as saying "the competition knows the customer better than we do." If that is true, the company's prospects for long-term survival are not very good.

In fact, often the best way to improve customer value and beat the competition is to be first to find and satisfy a need that others have not even considered. The competition between Pepsi and Coke illustrates this. Coke and Pepsi were spending millions of dollars on promotion—fighting head-to-head for the same cola customers. They put so much emphasis on the cola competition that they missed other opportunities. That gave firms like Snapple the chance to enter the market and steal away customers. Today, Snapple is a recognized global brand with sales around the world. For these customers, the desired benefits—and the greatest customer value—came from the variety of a fruit-flavoured drink, not from one more cola.

When the customer defines value—the specific benefits and costs they consider—they are telling marketers what they need to provide in order to be considered; whether one firm or another wins the customer's business will depend upon which one best satisfies those criteria. In this regard, customers tell us what to provide; competition dictates how much of it we have to give in order to win the business. In order to provide customer satisfaction, market-oriented managers must continually monitor their competitive standing on the factors used by customers, not competitors, to define value. See Internet Insite 1-2 for more on the lifetime value of customers.

The Marketing Concept and Customer Relationships

It is one thing to make a sale; it is quite another to win a customer. Sales occur at a single point in time; satisfied customers buy again and again. You may require an elaborate and expensive program to convince the first-time customer that both the company and its products are sound; repeat customers already know the company is sound and may be willing to assume—without the time and expense of an introductory campaign—that any new products are also of high quality. In fact, one researcher found that it can cost six to eight times more to win a new customer than it does to resell to and service an existing customer!

Given the importance of profitability in the marketing concept, it isn't hard to see why market-oriented firms are constantly looking for ways to build a long-term

Internet Insite 1–2

LIFETIME VALUE OF CUSTOMERS CAN BE VERY HIGH—OR VERY LOW

Investors lost millions when stock market values of dot-com companies collapsed after an initial, frenzied run-up. But why did values get so high in the first place, especially when most dot-coms were not yet profitable? The stock went up because many investors expected that the firms would earn profits in the future as more consumers went online and the early dot-coms accumulated customers. These hopes were fuelled by dot-coms that made optimistic predictions about the lifetime value of the customers they were acquiring. The lifetime value of the customer concept is not new. For decades General Motors has known that a consumer who buys a GM car and is satisfied is likely to buy another one the next time. If that happens again and again, over a lifetime the happy customer would spend US$250,000 on GM cars (based on the number of cars purchased and their typical selling price). Of course, this only works if the firm's marketing mix attracts the target customers and the relationship keeps them satisfied before, during, and after every purchase. If you don't satisfy and retain customers they don't have high lifetime value and don't generate sales. Of course, sales revenue alone does not guarantee profits. For example, a firm can't give away products—or spend so much on promotion to acquire new customers (or keep the ones it has)—that the revenue will never be able to offset the costs. Unfortunately, that is what happened with many of the dot-coms. They saw how the financial arithmetic *might* work—assuming that new customers kept buying and costs came under control. But without a sensible marketing strategy, that assumption was not realistic.[2]

relationship with each customer, and why firms today focus on customer loyalty.

But long-term relationships do not happen by themselves. Building mutually beneficial relationships with customers requires that everyone in an organization work together to provide customer value before *and after* each purchase. For example:

- If there is a problem with a customer's bill, the accounting people can't just leave it to the salesperson to straighten it out or, even worse, act like it's the customer's problem. Rather, it's the firm's problem. The long-term relationship with the customer—and the lifetime value of the customer's future purchases—is threatened if the accountant, the salesperson, and anyone else who might be involved don't work together quickly to make things right for the customer.
- A firm's advertising people can't just develop ads that try to convince a customer to buy once. If the firm doesn't deliver on the benefits promised in its ads, the customer is likely to go elsewhere the next time the need arises. The same ideas apply whether the issue is meeting promised delivery dates, resolving warranty problems, giving a customer help on how to use a product, or even making it easy for the customer to return a purchase made in error.

In other words, any time the customer value is reduced—because the benefits to the customer decrease or the costs increase—the relationship is weakened.[3]

The importance and methods of managing customer relationships will be a major theme throughout this book. For now, Exhibit 1-4 summarizes the important ideas we've been discussing. In a firm that has adopted the marketing concept everyone focuses on customer satisfaction: they offer superior customer value. That helps attract customers in the first place—and keeps them satisfied after they buy. Because customers are satisfied, they want to purchase from the firm again. The ongoing relationship with customers is profitable, so the firm is encouraged to continue to find new and better ways to offer superior customer value. In other words, when a firm adopts the marketing concept, it wins and so do its customers (see Marketing Demo 1-1 for an example of how one firm accomplishes this).

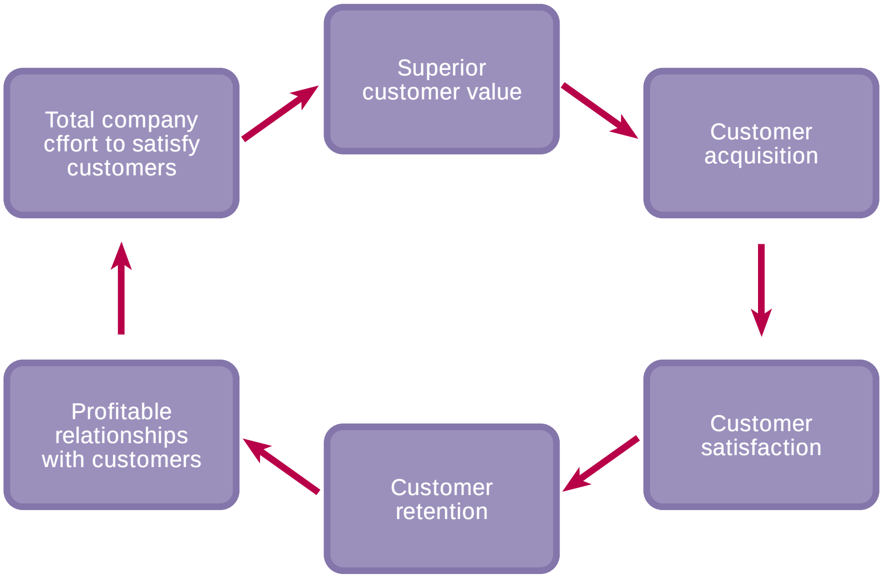


Exhibit 1-4 Satisfying customers with superior customer value to build profitable relationships.

Marketing Demo 1–1

L.L.BEAN DELIVERS SUPERIOR VALUE

L.L.Bean is a firm that builds enduring relationships with its customers. It offers good customer value to consumers who are interested in enjoying the outdoors. L.L.Bean's quality products are well suited to a wide variety of outdoor needs—whether it's clothing for hikers or equipment for campers. The firm field-tests all its products to be certain they live up to the firm's "100% satisfaction" guarantee. Although L.L.Bean operates a retail store in Freeport, Maine, its website (www.llbean.com) and catalogues reach customers all over the world. Bean's computers track what each customer is buying, so new catalogues that feature specific types of goods are mailed only to the people who are most interested in those goods. To make ordering convenient, customers can call toll-free 24 hours a day—and they get whatever advice they need, because the salespeople are real experts on what they sell. L.L.Bean also makes it easy for consumers to return a product, and encourages them to complain about any problem. That way, L.L.Bean can solve the problem before it disrupts the relationship. L.L.Bean's prices are competitive with other outdoor sporting specialty stores, but the company retains its loyal customers because they like the benefits of the relationship.[4]

L. L. Bean delivers superior value

The Marketing Concept in Nonprofit Organizations

The marketing concept is as important for nonprofit organizations as it is for business firms. However, prior to 1970 few people in nonprofits paid attention to the role of marketing. Now marketing is widely recognized as applicable to all sorts of public and private nonprofit organizations—ranging from government agencies, health care organizations, educational institutions, and religious groups to charities, political parties, and fine arts organizations. Some nonprofit organizations operate just like a business. For example, there may be no practical difference between the gift shop at a museum and a for-profit shop located across the street. And some unprofitable dot-com firms have now resurfaced as nonprofits. On the other hand, some nonprofits differ from business firms in a variety of ways. The major differences are discussed below.

Support May Not Come From "Satisfied Customers"

As with any business, a nonprofit organization needs resources and support to survive and achieve its objectives. Yet support often does not come directly from those who receive the benefits the organization produces. For example, the World Wildlife Fund protects animals, but support comes from donors. Similarly, the United Way and other charities provide needed services to individuals who are unable to pay for them.

This raises the question of what nonprofits "sell" to supporters. Perhaps it is the good feelings that one derives from making a contribution. Perhaps it is an activity the supporter would like to do him- or herself but lacks the time or knowledge. As you can see, customer satisfaction is still central to the survival of a nonprofit, but the need being served may be very different from the activity performed.

It is important for nonprofits to focus on the exact need being satisfied. Just as most firms face competition for customers, most nonprofits face competition for the resources and support they need. The Armed Forces faces a big problem if it can't attract recruits because people feel their career prospects or patriotic spirit is best served elsewhere. A shelter for the homeless may fail if supporters decide to focus on some other cause, such as AIDS education. A community theatre group may find that the theatre is empty if potential patrons' support is intended to purchase entertainment as opposed to subsidizing the arts.

It May Be Harder to Manage the Team

Some nonprofits face other challenges in organizing to adopt the marketing concept. Often no one individual has overall responsibility for marketing activities. A treasurer or accountant may keep the books, and someone may be in charge of "operations," but marketing may somehow seem less crucial, especially if no one understands what marketing is all about. Even when some leaders do the marketing thinking, they may have trouble getting unpaid volunteers with many different interests to all agree with the marketing strategy. Volunteers tend to do what they feel like doing!

Profit Is Not Always the Objective

As with a business, a nonprofit must take in as much money as it spends or it won't survive. However, a nonprofit organization does not measure "profit" in the same way as a firm. And its key measures of long-term success are also different. The YMCA, colleges, symphony orchestras, and the post office, for example, all seek to achieve different objectives and need different measures of success.

Profit guides business decisions because it reflects both the costs and benefits of different activities. In a nonprofit organization, it is sometimes more difficult to be objective in evaluating the benefits of different activities relative to what they cost. However, if everyone in an organization agrees to *some* measure of long-run success, it helps serve as a guide to where the organization should focus its efforts.

The Customer Remains Focal

We have been discussing some of the differences between nonprofit and business organizations. However, the marketing concept is helpful in any type of organization. Success is most likely when everyone pulls together to strive for common objectives that can be achieved with the available resources. Adopting the marketing concept helps to bring this kind of focus. After all, each organization is trying to satisfy some group of consumers in some way.[5]

A simple example shows how marketing thinking helped a small town reduce robberies. Initially, the chief of police asked the town manager for a larger budget, for more officers and patrol cars. Instead of a bigger budget, the town manager suggested a different approach. She put two officers in charge of a community watch program. They helped neighbours to organize and notify the police of any suspicious situations. They also set up a program to engrave ID numbers on belongings. And new signs warned thieves that a community watch was in effect. Break-ins all but stopped, without increasing the police budget. What the town *really* needed was more effective crime prevention—not just more police officers.

Throughout this book, we'll be discussing the marketing concept and related ideas as they apply in many different settings. Often we'll simply say "in a firm" or "in a business"—but remember that most of the ideas can be applied in *any* type of organization.

Marketing is now widely accepted by many nonprofit organizations, including the National Kidney Foundation, which wants to increase the number of organ donors.

The Marketing Concept, Social Responsibility, and Marketing Ethics

Sometimes when a firm focuses its efforts on satisfying some consumers—to achieve its objectives—there are negative effects on society. For example:

- Many people want the convenience of disposable products and products in easy-to-use, small-serving packages. But these convenience products and packaging can be damaging to the environment and an inefficient use of natural resources. Whose needs take priority?
- Hundreds of products, including fire extinguishers, cooling systems, and electronic circuit boards, use a chemical called CFCs. We now know that CFCs deplete the Earth's ozone layer. Yet when this was learned it was not possible to immediately stop producing and using all CFCs. For many products critical to society there was no feasible short-term substitute for CFCs. How is society best served in a case like this?

social responsibility

A firm's obligation to improve its positive effects on society and reduce its negative effects

These types of questions are not easy to answer. Many different people have a stake in the outcomes—and social consequences—of the choices made by marketing managers and consumers. This is why marketing managers are showing an increasing concern for **social responsibility**—a firm's obligation to improve its positive effects on society and reduce its negative effects.

The issue of social responsibility in marketing goes beyond environmental concerns. It also raises other important questions for which there are no easy answers. Watch for special sections throughout the book called "Ethical Dimensions," where we'll focus on some of these issues.

marketing ethics

Moral standards that guide marketing decisions and actions

Organizations that have adopted the marketing concept are concerned about **marketing ethics**—moral standards that guide marketing decisions and actions—as well as broader issues of social responsibility. It is simply not possible for a firm to be truly consumer-oriented and at the same time intentionally unethical.

Individual managers in an organization may have different values. As a result, problems may arise when someone does not share the same marketing ethics as others in the organization. One person operating alone can damage a firm's reputation and even its survival. Because the marketing concept involves a companywide focus, it is a foundation for marketing ethics common to everyone in a firm—and helps to avoid such problems.

To be certain that standards for marketing ethics are as clear as possible, many organizations have developed their own written codes of ethics. Consistent with the marketing concept, these codes usually state—at least at a general level—the ethical standards that everyone in the firm should follow in dealing with customers and other people. Many professional societies have also adopted such codes. For example, the American Marketing Association's code of ethics sets specific ethical standards for many aspects of the management job in marketing (see Exhibit 1-5).[6]

Exhibit 1-5 Code of Ethics, American Marketing Association

CODE OF ETHICS

Members of the American Marketing Association (AMA) are committed to ethical professional conduct. They have joined together in subscribing to this Code of Ethics embracing the following topics:

Responsibilities of the Marketer

Marketers must accept responsibility for the consequences of their activities and make every effort to ensure that their decisions, recommendations, and actions function to identify, serve, and satisfy all relevant publics: customers, organizations and society.

Marketers' professional conduct must be guided by:

1. The basic rule of professional ethics: not knowingly to do harm;
2. The adherence to all applicable laws and regulations;
3. The accurate representation of their education, training and experience; and
4. The active support, practice and promotion of this Code of Ethics.

Honesty and Fairness

Marketers shall uphold and advance the integrity, honor, and dignity of the marketing profession by:

1. Being honest in serving consumers, clients, employees, suppliers, distributors and the public;
2. Not knowingly participating in conflict of interest without prior notice to all parties involved; and
3. Establishing equitable fee schedules including the payment or receipt of usual, customary and/or legal compensation for marketing exchanges.

Rights and Duties of Parties in the Marketing Exchange Process

Participants in the marketing exchange process should be able to expect that:

1. Products and services offered are safe and fit for their intended uses;
2. Communications about offered products and services are not deceptive;
3. All parties intend to discharge their obligations, financial and otherwise, in good faith; and
4. Appropriate internal methods exist for equitable adjustment and/or redress of grievances concerning purchases.

It is understood that the above would include, but is not limited to, the following responsibilities of the marketer:

In the area of product development and management,

- disclosure of all substantial risks associated with product or service usage;
- identification of any product component substitution that might materially change the product or impact on the buyer's purchase decision;
- identification of extra-cost added features.

In the area of promotions,

- avoidance of false and misleading advertising;
- rejection of high pressure manipulations, or misleading sales tactics;
- avoidance of sales promotions that use deception or manipulation.

In the area of distribution,

- not manipulating the availability of a product for purpose of exploitation;
- not using coercion in the marketing channel;
- not exerting undue influence over the reseller's choice to handle a product.

In the area of pricing,

- not engaging in price fixing;
- not practicing predatory pricing;
- disclosing the full price associated with any purchase.

In the area of marketing research,

- prohibiting selling or fund raising under the guise of conducting research;
- maintaining research integrity by avoiding misrepresentation and omission of pertinent research data;
- treating outside clients and suppliers fairly.

Organizational Relationships

Marketers should be aware of how their behavior may influence or impact on the behavior of others in organizational relationships. They should not demand, encourage or apply coercion to obtain unethical behavior in their relationships with others, such as employees, suppliers or customers.

1. Apply confidentiality and anonymity in professional relationships with regard to privileged information;
2. Meet their obligations and responsibilities in contracts and mutual agreements in a timely manner;
3. Avoid taking the work of others, in whole, or in part, and represent this work as their own or directly benefit from it without compensation or consent of the originator or owner;
4. Avoid manipulation to take advantage of situations to maximize personal welfare in a way that unfairly deprives or damages the organization or others.

Any AMA member found to be in violation of any provision of this Code of Ethics may have his or her Association membership suspended or revoked.

Chapter Summary

This chapter has examined the nature of marketing and how it contributes to an organization's overall performance. We started with an overview of the large number of decisions that must be made by every organization in marketing a product or service. And we promoted a focus on customer satisfaction as the key to making those decisions wisely.

However, customers may differ in what they need and want. Thus we looked at what marketing can do to create satisfied customers, and some of the challenges presented by the fact that not all customers are satisfied by the same things.

The marketing concept is an approach to decision-making that embraces these ideas. We considered how market-oriented companies think about customer value, competition, and customer relationships. We also looked at the nature of marketing in nonprofit organizations to explore similarities and differences with for-profit firms. Finally, we looked at social responsibility and marketing ethics in market-oriented firms.

Later chapters will examine, in much more detail, specific marketing decisions and the factors that influence how those decisions are made. The key to remember in all of those discussions is that customer satisfaction is the ultimate measure of whether we make those decisions well.

Key Concepts

customer satisfaction
customer value
form utility
market-oriented firm
marketing concept
marketing ethics
marketing orientation
place utility
possession utility
production
production orientation
social responsibility
task utility
time utility
utility

Questions and Problems

1. List your activities for the first two hours after you woke up this morning. Briefly indicate how marketing affected your activities.
2. It is fairly easy to see why people do not beat a path to a mousetrap manufacturer's door, but would they be similarly indifferent if a food processor developed a revolutionary new food product that would provide all the necessary nutrients in small pills for about $100 per year per person?
3. Briefly describe how the adoption of the marketing concept might affect the organization and operation of your college or university. How does it change for different customers such as students, academics, alumni, governments, and so on?
4. Online shopping makes it possible for individual consumers to get direct information from hundreds of companies they would not otherwise know about. Consumers can place an order for a purchase that is then shipped to them directly. Will growth of these services ultimately eliminate the need for retailers and wholesalers? Explain your thinking, with specific attention to what marketing functions are involved in these electronic purchases and who performs them.
5. Explain why a small producer might want a marketing research firm to take over some of its information-gathering activities.

Computer-Aided Problem

Revenue, Cost, and Profit Relationships

This problem introduces you to the computer-aided problem (CAP) software—which is on the CD that accompanies this text—and gets you started with the use of spreadsheet analysis for marketing decision making. This problem is simple; in fact, you could work it without the software. But by starting with a simple problem, you will learn how to use the program more quickly and see how it will help you with more complicated problems. Instructions for the software are available at the end of this text.

Sue Cline, the business manager at Magna University Student Bookstore, is developing plans for the next academic year. The bookstore is one of the university's nonprofit activities, but any "surplus" (profit) it earns is used to support the student activity centre.

Two popular products at the bookstore are the student academic calendar and notebooks with the school name. Sue Cline thinks that she can sell calendars to 90 percent of Magna's 3,000 students, so she has had 2,700 printed. The total cost, including artwork and printing, is $11,500. Last year the calendar sold for $5.00, but Sue is considering changing the price this year.

Sue thinks that the bookstore will be able to sell 6,000 notebooks if they are priced right. But she knows that many students will buy similar notebooks (without the school name) from stores in town if the bookstore price is too high.

Sue has entered the information about selling price, quantity, and costs for calendars and notebooks in the spreadsheet program so that it is easy to evaluate the effect of different decisions. The spreadsheet is also set up to calculate revenue and profit, based on

Revenue = (Selling price) – (Quantity sold)
Profit = (Revenue) – (Total cost)

Use the program to answer the questions below. Record your answers on a separate sheet of paper.

a. *From the spreadsheet screen, how much revenue does Sue expect from calendars? How much revenue from notebooks? How much profit will the store earn from calendars? From notebooks?*

b. *If Sue increases the price of her calendars to $6.00 and still sells the same number, what is the expected revenue? The expected profit? (Hint: Change the price from $5.00 to $6.00 on the spreadsheet and the program will recompute revenue and profit.) On your sheet of paper, show the calculations that confirm the program has given you the correct values.*

c. *Sue is interested in getting an overview of how a change in the price of notebooks would affect revenue and profit, assuming that she sells all 6,000 notebooks she is thinking of ordering. Prepare a table—on your sheet of paper—with column headings for three variables: selling price, revenue, and profit. Show the value for revenue and profit for different possible selling prices for a notebook—starting at a minimum price of $1.60 and adding 8 cents to the price until you reach a maximum of $2.40. At what price will selling 6,000 notebooks contribute $5,400 to profit? At what price would notebook sales contribute only $1,080? (Hint: Use the What If analysis feature to compute the new values. Start by selecting "selling price" for notebooks as the value to change, with a minimum value of $1.60 and a maximum value of $2.40. Select the revenue and profit for notebooks as the values to display.)*

Suggested Cases

Online Learning Centre To view the cases, go to www.mcgrawhill.ca/college/shapiro.

Interested in finding out what marketing looks like in the real world? *Marketing Magazine* is just a click away on your OLC! Visit www.mcgrawhill.ca/college/shapiro today.