



Chapter 1

The Nature of Marketing

Chapter Outline

What is marketing?
Creating and delivering customer value
The marketing mix
Marketing and business performance
The scope of marketing
Planning marketing activity

Learning Outcomes

By the end of this chapter you will understand:

- 1 what marketing is and how it has evolved
- 2 the nature of customer satisfaction and value
- 3 the relationship between adopting a marketing philosophy and business performance
- 4 the scope of marketing
- 5 the role and importance of marketing planning.

Marketing Spotlight

The success of iPod



The activities of companies both reflect and shape the world that we live in. For example, some argue that the invention of the motor car has defined the way we live today because it allowed personal mobility on a scale that had never been seen before. It contributed to the growth of city suburbs, to increased recreation and to an upsurge in consumer credit. It gave us shopping malls, theme parks, motels, a fast-food industry and a generation of road movies.

Not all inventions have such a long-lasting impact, but almost every year some new product or service comes along that captures the imagination of the marketplace and succeeds on an unprecedented scale. One such launch has been Apple's portable digital music player, the iPod. When it was brought on to the market in 2001, Apple was a struggling company as, over the years, its share of the computer market had been eroded by Microsoft. So it launched the iPod as an upmarket accessory to its personal computers in the hope of boosting sales of the latter. Instead it was the iPod that

became the star of the show. Already, 100 million of them have been sold—so many that it has become the dominant manufacturer in the sector by a wide margin, with its market share in the USA reaching a high of 92 per cent. Such is its popularity that 'iPod' has become the generic name for this type of device in the same way as 'Walkman' did for personal cassette/CD players.

The iPod caught the wave of change in how consumers enjoy their music. MP3 players are seen as superior to more traditional formats such as cassette and CD. They are capable of storing a great deal more music and also allow users to bypass traditional record shops and download songs from various online suppliers. And they fit seamlessly into modern lifestyles characterized by long commuting times, outdoor activities, and the dominance of the personal computer as both a work and recreation device. Capitalizing on these market trends, the iPod has become a phenomenon. More than 70 per cent of US cars have iPod connectivity and there are now more than 4000 accessories for the device, ranging from cases to speaker systems.

Apple stole a march on its competitors due to the superior design of the iPod with its sleek appearance, ease of use and functionality, its excellent storage capability and its adaptability. And with the launch of the iTunes online music store, holding over five million songs, 350 television shows and over 400 movies, sales of the device were boosted hugely as it became easy and legal for consumers to download music and film. The premium pricing of the iPod helped Apple generate a net income increase of 300 per cent in 2004 and its stock price has risen over 2000 per cent since 2003.

The success of the iPod to date demonstrates the power of innovation and market awareness. Companies need to be sensitive to the subtle changes that take place every day in the marketplace. Sony dominated the first wave of portable music players with its hugely successful Walkman but has ceded the advantage to Apple this time around. Being able to anticipate the next need, and deliver a response to it, is the challenge facing the marketer, and that is what this book is about.¹

In the exciting world of business, there are new successes and failures every day. For example, towards the end of the 1990s, there were many predictions that the future was online and that a new wave of e-businesses was about to obliterate many of the more established enterprises. Thousands of new companies were started, billions of euros of investors' money was spent and the vast majority of these start-ups have already disappeared. At the same time, there are many young and old businesses that continue to thrive and grow. Unlike their fellow dotcoms, companies like Yahoo! and Google have enjoyed a meteoric rise in the past decade. Venerable brands like Coca-Cola, Virgin, IKEA and Nokia continue to command big shares of their markets, though others—such as Sony and Volkswagen—struggle. And everywhere around the world there are small, local enterprises that thrive on the support of local customers.

At the heart of all of this change is marketing. Companies succeed and fail for many reasons but very often marketing is central to the outcome. The reason for this is that the focus of marketing is on customers and their changing needs. If you don't have customers, you don't have a business. Successful companies are those that succeed not only in getting customers but also in keeping them through being constantly aware of their changing needs. The goal of marketing is long-term customer satisfaction, not short-term deception or gimmicks. This theme is reinforced by the writings of top management consultant Peter Drucker, who stated:²

Because the purpose of business is to create and keep customers, it has only two central functions—marketing and innovation. The basic function of marketing is to attract and retain customers at a profit.

What does this statement tell us? First, it places marketing in a central role for business success since it is concerned with the creation and retention of customers. The failure of many products, particularly those in sectors like information technology, is often attributed to a lack of attention to customer needs. Second, it is a reality of commercial life that it is much more expensive to attract new customers than to retain existing ones. Indeed, the costs of attracting new customers have been found to be up to six times higher than the costs of retaining existing ones.³ Consequently, marketing-orientated companies recognize the importance of building relationships with customers by providing satisfaction and attracting new customers by creating added value. Grönroos stressed the importance of relationship building in his definition of marketing, in which he describes the

objective of marketing as to establish, develop and commercialize long-term customer relationships so that the objectives of the parties involved are met.⁴ Third, since most markets are characterized by strong competition, the statement also suggests the need to monitor and understand competitors, since it is to rivals that customers will turn if their needs are not being met. The rest of this chapter will examine some of these ideas in more detail, and provide an introduction to how marketing can create **customer value** and satisfaction.

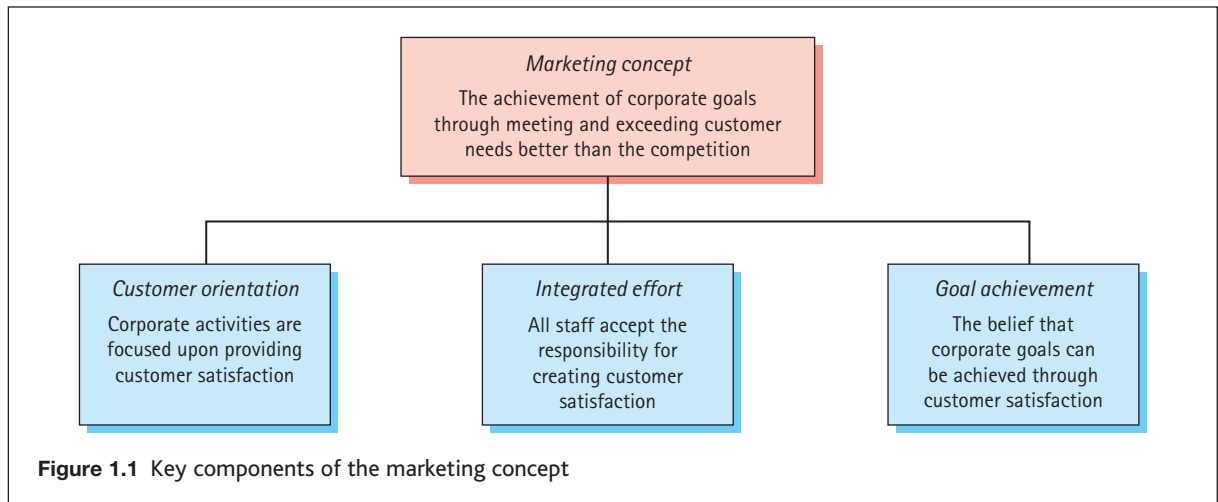
What is marketing?

The marketing concept

The modern **marketing concept** can be expressed as 'the achievement of corporate goals through meeting and exceeding customer needs better than the competition'. For example, the mantra at Procter & Gamble, one of the world's leading consumer products companies, is that it must win at the first and second moments of truth—that is, in the shop where the consumer decides which brand to select and in the home when he/she uses it. Three conditions must be met before the marketing concept can be applied. First, company activities should be focused on providing **customer satisfaction** rather than, for example, simply producing products. This is often not an easy condition to meet. For example, the once booming 'lads' magazine market in the UK is now a study in sectoral decline. Leading titles like *FHM*, *Loaded*, *Maxim* and *Arena* lost almost one-third of their circulation in the second half of 2007⁵ (see Exhibit 1.1).



Exhibit 1.1 Not too long ago, 'lads' magazines were one of the fastest-growing segments of the print media; in recent years, sales have fallen dramatically, illustrating the speed with which market demand can rise and fall



Smash Hits, the once popular magazine aimed at teenage girls, closed down in 2006, no longer effectively meeting the needs of its customers. Second, the achievement of customer satisfaction relies on integrated effort. The responsibility for the implementation of the concept lies not just within the marketing department but should run right through production, finance, research and development, engineering, and other departments. The fact that marketing is the responsibility of everyone in the organization provides significant challenges for the management of companies. Finally, for integrated effort to come about, management must believe that corporate goals can be achieved through satisfied customers (see Figure 1.1). Some companies are quicker and better at recognizing the importance of the marketing concept than others. For example, Nike was a late entrant into the running shoe business dominated by brands such as Reebok and Puma, but it has established itself as the world's leading sportswear company, through the delivery of powerful brand values.

Ad
Insight

In essence, the marketing concept is a philosophy of business that puts the customer and customer satisfaction at the centre of things. For example, through implementation of the marketing concept, the Body Shop grew rapidly from a small cosmetics retailer in the south of England to a well-known global brand. Senior management were committed to an alternative approach to the marketing of cosmetics, and all activities within the company were focused around meeting customer needs. Companies like the Body Shop also exemplify what has become known as the 'societal marketing concept', which holds that companies should deliver customer satisfaction in a way that improves both the consumer's and society's well-being. We will examine this issue in greater detail in the next chapter.

The development of marketing

The origins of modern marketing can be traced to the Industrial Revolutions that took place in Britain around 1750 and in the USA and Germany around 1830.⁶ Advances in production and distribution, and the migration of rural masses to urban areas created the potential for large-scale markets. As businesspeople sought to exploit these markets, the institutions of marketing such as advertising media and distribution channels began to grow and develop. Marketing as a field of study began in the early part of the twentieth century, growing out of courses that examined issues relating to distribution.⁷ The focus of marketing courses in the 1950s and 1960s was on 'how to do it', with an emphasis on the techniques of marketing.⁸ In more recent times, attention has been paid to the philosophy of marketing as a way of doing business, and to the nature and impact of marketing on stakeholders and society in general.

Despite this long tradition, there is no guarantee that all companies will adopt a **marketing orientation**. Many firms today are characterized by an inward-looking stance, where their focus is on existing products or the internal operations of the company. Figure 1.2 illustrates **production orientation** in its crudest form. The focus is on current production capabilities. The purpose of the organization is to manufacture products and sell them aggressively to customers. Airbus's decision to launch its wide-body, long-haul jet, the A380 superjumbo, has been criticized as being production orientated, with sceptics arguing that 90 per cent of the aircraft required in the marketplace for the next 20 years will be in 200-seat to 400-seat category compared with the 550-plus-seat A380. Market results appear to bear this prediction out. Airbus sold just 21 A380s in the first six months of 2006, compared with 96 orders for its

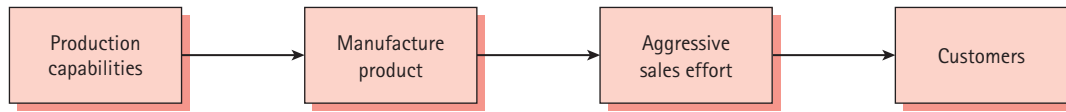


Figure 1.2 Production orientation

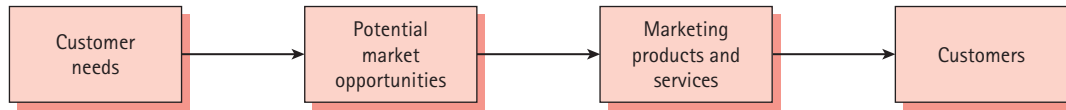


Figure 1.3 Marketing orientation

A320 aircraft.⁹ Similarly, a report on the funds management industry in the UK found that, in general, the sector was characterized by a lack of customer focus and a lack of effective market segmentation, with the result that many products being offered were unsuitable and potential sales were being lost.¹⁰

Companies that are marketing orientated focus on customers' needs. Change is recognized as endemic, and adaptation considered necessary for survival. For example, dry cleaning used to be a big industry but changing consumer behaviour patterns mean that it is now less attractive. Research has found that 46 per cent of people in the UK never use a dry cleaner, with the result that the number of dry-cleaning outlets fell from 5300 in 2000 to about 4500 in 2005.¹¹ Changing needs present potential market opportunities, which drive the company. Market-driven companies seek to adapt their product and service offerings to the demands of current and latent

markets. This orientation is shown in Figure 1.3. Because marketing-orientated companies get close to their customers, they understand their needs and problems. When personal contact is insufficient or not feasible, formal marketing research is commissioned to enable the companies to understand customer motivations and behaviour. Part of the success of German machine tool manufacturers can be attributed to their willingness to develop new products with lead customers—those companies that, themselves, were innovative.¹² This contrasts sharply with the attitude of UK machine tool manufacturers, who saw marketing research only as a tactic to delay new product proposals and who feared that involving customers in new product design would have adverse effects on sales of their current products.

In short, the differences between market-orientated businesses and internally orientated businesses are summarized in Table 1.1. Market-driven businesses

Table 1.1 Marketing-orientated businesses

Market-orientated businesses	Internally orientated businesses
Customer concern throughout business	Convenience comes first
Know customer choice criteria and match with marketing mix	Assume price and product performance key to most sales
Segment by customer differences	Segment by product
Invest in market research (MR) and track market changes	Rely on anecdotes and received wisdom
Welcome change	Cherish status quo
Try to understand competition	Ignore competition
Marketing spend regarded as an investment	Marketing spend regarded as a luxury
Innovation rewarded	Innovation punished
Search for latent markets	Stick with the same
Be fast	Why rush?
Strive for competitive advantage	Happy to be me-too

display customer concern throughout the business; they understand the criteria customers use to choose between competing suppliers; they invest in market research, and track market changes; they regard marketing spend as an investment, and are fast and flexible in terms of their pursuit of new opportunities.

Creating and delivering customer value

Those companies that are marketing orientated aim to create customer value in order to attract and retain customers. No company is immune from this challenge. Even De Beers, the world's biggest diamond company, has found that its product has been challenged, as customers choose designer products instead. The intention of market-oriented companies is to deliver superior value to their target customers and, in doing so, they implement the marketing concept by meeting and exceeding customer needs better than the competition. One of the great benefits of having satisfied customers is that they tell others of their experiences, further enhancing sales. For example, recent research has shown that the experience of other customers with a product or service has a significant impact on purchase decision in sectors like automobiles and financial services.¹³ Online businesses are significant users of word-of-mouth marketing. For example, TripAdvisor.com is a website where satisfied and dissatisfied customers post their reviews of hotels and destinations they have stayed at, and these kinds of reviews influence the purchase decisions of other customers.

No matter how famous your brand is, failure to implement the marketing concept can have severe consequences for the business. For example, Guinness, one of the leading drinks brands in Ireland and the UK, has been suffering from falling sales since 2001, as consumers' tastes and preferences change. In contrast, Ritz Carlton has developed an enviable reputation in the luxury hotel market. One of the company's mottos is that staff 'only have permission to say yes'.¹⁴ This is a clear signal to everyone in the company that no effort should be spared in responding to the needs of its discerning customers. Customer value is dependent on how the customer perceives the benefits of an offering and the sacrifice that is associated with its purchase. Therefore:

$$\text{customer value} = \text{perceived benefits} \\ - \text{perceived sacrifice}$$

Perceived benefits can be derived from the product (for example, the hotel room and restaurant), the associated service (for example, how responsive the hotel is to the specific needs of customers) and the image of the company (for example, is the image of the company/product favourable?) (see Exhibit 1.2). Conveying benefits is a critical marketing task and is central to positioning and branding, as we shall see in Chapters 5 and 6. *Perceived sacrifice* is the total cost associated with buying the product. This consists not just of monetary costs, but also the time and energy involved in the purchase. For example, with hotels, good location can reduce the time and energy required to find a suitable place to stay. But marketers need to be aware of another critical sacrifice in some buying situations; this is the potential psychological cost of not making the right decision. Uncertainty means that people perceive risk when purchasing. Therefore, hotels like the Marriott or restaurants like McDonald's aim for consistency so that customers can be confident of what they will receive when they visit these service providers.

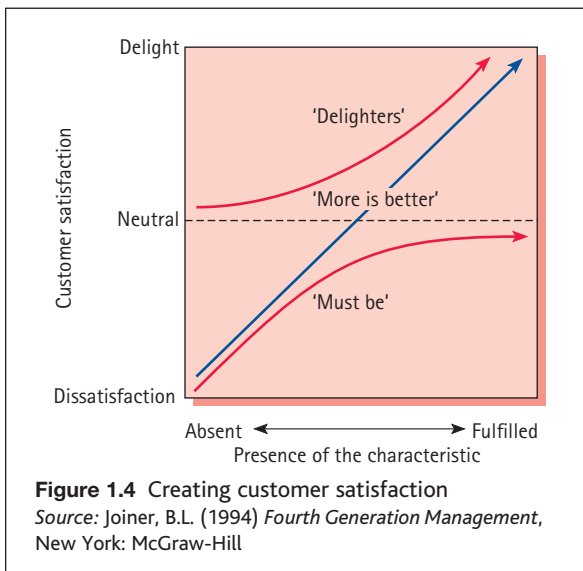
The key to marketing success is to exceed the value offered by competitors. Consumers decide on purchases on the basis of judgements about the value offered by suppliers. Once a product has been purchased, customer satisfaction depends on its perceived performance compared to the buyer's expectations. Customer satisfaction occurs when perceived performance matches or exceeds expectations. Expectations are formed through pre-buying experiences, discussions with other people and suppliers' marketing activities. Companies need to avoid the mistake of setting customer expectations too high through exaggerated promotional claims, since this can lead to dissatisfaction if performance falls short of expectations.

In the current competitive climate, it is usually not enough simply to match performance and expectations. Expectations need to be exceeded for commercial success so that customers are delighted with the outcome. In order to understand the concept of customer satisfaction, the Kano model (see Figure 1.4) helps to separate characteristics that cause dissatisfaction, satisfaction and delight. Three characteristics underlie the model: 'must be', 'more is better' and 'delighters'.

Those characteristics recognized as 'must bes' are expected and thus taken for granted. For example, in a hotel, customers expect service at reception and a clean room. Lack of these characteristics causes annoyance but their presence only brings dissatisfaction up



Exhibit 1.2 This advert for Alka Crystals demonstrates product benefits in a clever way by showing how it can be taken without water



to a neutral level. 'More is better' characteristics can take satisfaction past neutral and into the positive satisfaction range. For example, no response to a telephone call can cause dissatisfaction, but a fast

response may cause positive satisfaction or even delight. The usability of search results is an example of 'more is better' and has become a key differentiating factor in the search engine industry, which has allowed Google to become the dominant player. 'Delighters' are the unexpected characteristics that surprise the customer. Their absence does not cause dissatisfaction, but their presence delights the customer. For example, a UK hotel chain provides free measures of brandy in the rooms of their adult guests. This delights many of its customers, who were not expecting this treat.

Over time, however, such 'delighters' become expected, and this is a problem that marketers must tackle. For example, some car manufacturers provided small, unexpected delighters such as pen holders and delay mechanisms on interior lights so that there is time to find the ignition socket at night. These are standard on most cars now and have become 'must be' characteristics because customers have come to expect them. This means that marketers must constantly strive to find new ways of delighting; innovative thinking and listening to

customers are key ingredients in this (see Marketing in Action 1.1).

The effects of these kinds of changes can be seen in the case of Dell, one of the world's largest computer companies. Founded by Michael Dell, while he was still a student at the University of Texas in Austin, it rapidly became the biggest computer maker in

the world, offering customized, low-cost computers that were sold direct to consumers. In terms of the market, it was delivering 'more is better'. But its enormous successes in the 1990s prompted a response from the competition. IBM sold its personal computer division to Lenovo, which has been matching Dell's low-price PCs. And companies like HP and Apple have come to the market with

Marketing in Action 1.1: Finding the music you want to hear



Study guide: Below is a review of some new innovations in radio. Read and consider the differences in value offered by these new 'stations' versus traditional radio stations.

Businesses need to combine innovation and marketing to meet the evolving needs of the consumer. Nowhere is this more evident than in commercial radio. Radio is a huge business. For example, Communicorp, a radio group with businesses in Ireland, Bulgaria, Estonia, the Czech Republic, Hungary and Ukraine, generated revenues of over €47 million in 2006. The standard business model for radio has been a combined focus on particular segments of the market and on advertisers. So stations have targeted mature audiences, young audiences or ethnic audiences, or have been based on particular music genres such as rock, country or classical, as they sought to attract and hold listeners. Advertisers can then target these niche audiences by sponsoring shows or paying to have their ads carried on the station. And listeners get to enjoy particular presenters and the kinds of music they play.

But some new internet-based radio stations are threatening to offer significantly more value to listeners than traditional stations. One of the leading such stations is Last.fm, founded in London in 2002. Its core service is a customized internet radio station that streams music tailored to each individual's taste. The company's software then monitors a user's preferences and cross-matches them with those of like-minded users. Last.fm has grown rapidly to have users in 244 countries and in the region of 15 million unique users per month. Pandora.com, based in San Francisco, acts as a music discovery service. Recommendations are automated using a technology called the Music Genome Project, which weighs more than 400 different musical attributes and genres when selecting songs to add to a playlist. Users can respond immediately, indicating whether they like a selection or not, and can create a variety of personalized stations suited to their particular diverse tastes.

Internet radio offers greater value to listeners by allowing them to listen only to the music they want to hear, and to discover new music that they might also like. Consumers no longer rely on the 'hit and miss' service provided by radio programme producers. They can also create their own profile pages with the music that they like, and chat and listen to other listeners' music—in effect, becoming a partial social networking site. Users can search for a musical 'neighbour' who shares their taste, view that person's music journals, and send them a message or add them as a 'friend'. Many other online businesses, such as iLike and Finetune, offer a similar combination of social radio and music discovery, suggesting that this is a field of business that is likely to grow rapidly, presenting challenges to existing radio and interesting new opportunities for advertisers. Internet-based audio services have doubled their share of internet users from 7 per cent in 2002 to 14 per cent in 2006, but one of the major challenges facing the sector is the potential introduction of licence fees, which would significantly increase its costs of doing business.

Based on: Garrity (2007);¹⁵ Guha (2007)¹⁶

innovative, low-price products. Dell is no longer leading the market, and problems with its customer service levels mean that it is also struggling to deliver on the ‘must bes’ in the computer business. In 2006 and 2007, it failed to meet analysts’ profit targets and its share price slipped. Evidence of how serious the problems are can be seen in the return of Michael Dell as chief executive in 2007.

Delivering customer value

As well as being a philosophy that puts the customer at the centre of the business, marketing is also a business function that encompasses the variety of activities that must be conducted in order to deliver customer value. These include conducting marketing research to understand customer needs and their behaviour, segmenting markets into submarkets to be targeted by the company, developing products and brands, and positioning these in the marketplace, making pricing decisions, deciding on a **promotional mix**, selling and distributing products, and marketing planning and management. These are the kinds of issues that will be introduced briefly in the next section on the marketing mix and will be the focus of later chapters in this book. Markets and marketing are constantly changing, and new methods of delivering value—such as **customer relationship management** (CRM)—are being developed. These new techniques, along with issues of importance to the marketing profession such as marketing ethics, will also be discussed throughout this book.

Marketing, therefore, is an exciting and multifaceted profession. Marketing managers are responsible for ensuring that the organization delivers value to customers; but in doing so they may avail themselves of the services of researchers, salespeople, communication specialists, advertising agencies and retail specialists. The wide range of careers that fall within the realm of marketing is outlined in Appendix 1.1 at the end of this chapter.

The marketing mix

A key marketing activity is the management of the company’s **marketing mix**. The marketing mix consists primarily of four major elements: **product**, **price**, **promotion** and **place**, though in different kinds of businesses, marketers have different areas of responsibility. These ‘4-Ps’ are four key decision areas and form a major aspect of marketing concept implementation. Later, we will look at each of the 4-Ps in considerable detail. At this point, however, it will be useful to examine each element briefly so that

we can understand the essence of marketing mix decision-making.

Product

The choice of what products/services and benefits should be offered to a group of customers is known as the ‘product decision’. An important element is new product/service development. As technology and tastes change, products become out of date and inferior to those of the competition, so companies must replace them with features that customers value. For example, when Microsoft launched Windows XP in 2001, it offered home users new features such as Windows Movie Maker for editing and organizing home movies, and a Network Set-up Wizard so that all the computers in a home can share printers, files and an internet connection. Product decisions also involve choices regarding brand names, guarantees, packaging and the services that should accompany the product offering. Guarantees can be an important component of the product offering. For example, the operators of the AVE, Spain’s high-speed train, capable of travelling at 300 kmph, are so confident of its performance that they guarantee to give customers a full refund of their fare if they are more than five minutes late.

Price

Because price represents, on a unit basis, what the company receives for the product or service that is being marketed, it is a key element of the marketing mix. All the other elements represent costs—for example, expenditure on product design (product), advertising and salespeople (promotion), and transportation and distribution (place). Marketers, therefore, need to be very clear about pricing objectives, methods and the factors that influence price setting; they must also take into account the necessity for discounting and offering allowances in some transactions.

Promotion

Decisions have to be taken with due attention to the promotional mix: advertising, personal selling, sales promotions, public relations, direct marketing and internet marketing. By these means, the target audience is made aware of the existence of a product or service, and the benefits (both economic and psychological) it confers to customers (see Exhibit 1.3). Each element of the promotional mix has its own set of strengths and weaknesses, and these will be explored later. A growing form of promotion is the use of the internet as a promotional tool. A key advantage of this medium is that small local



Exhibit 1.3 Clever advertising like this for Polaroid has failed to prevent the company going into decline; its products have been replaced by superior technologies like digital photography, demonstrating that all elements of the marketing mix play a crucial role in organizational success

companies can expand the scope of their market at a relatively low cost.

Place

The aspect of place is to do with those decisions concerning the distribution channels that are to be used and their management, the location of outlets, methods of transportation, and the inventory levels to be held. The objective is to ensure that products and services are available in the proper quantities, at the right time and in the right place. Distribution channels consist of organizations such as retailers or wholesalers through which goods pass on their way to customers. Producers need to manage their relationships with these organizations well because they may provide the only cost-effective access to the marketplace.

An effective marketing mix (see Figure 1.5) is composed of four main features. Initially, the mix must be designed to match the needs of a target customer group. Second, it must contribute to the creation of a **competitive advantage**, which is a clear performance differential over the competition on factors

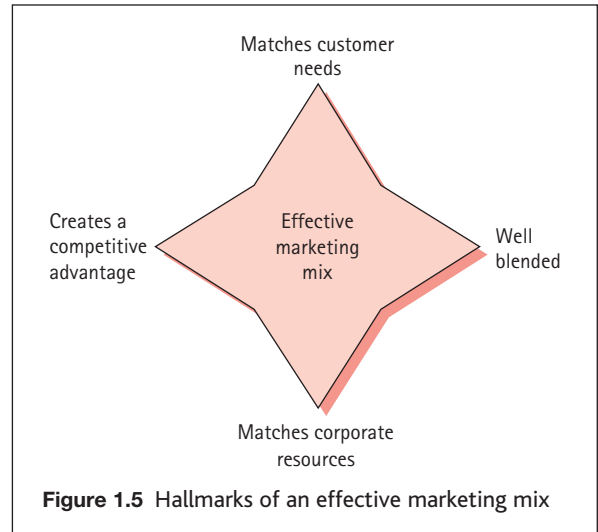


Figure 1.5 Hallmarks of an effective marketing mix

that are important to customers. Third, the marketing mix must match the resources that are available to the firm. Certain media—for example, television advertising—require a minimum threshold investment before they are regarded as feasible. In the UK a rule of thumb is that at least £5 million (€7 million) per year is required to achieve impact in a national advertising campaign. Clearly, those brands that cannot afford such a promotional budget must use other less expensive media (for example, posters or sales promotion) to attract and hold customers. Finally, an effective marketing mix should be well blended to form a consistent theme. For example, the use of exclusive outlets for upmarket fashion and cosmetic brands—Armani, Christian Dior and Calvin Klein, for example—is consistent with their strategic positioning (see Marketing in Action 1.2).

Thinking of the marketing mix simply in terms of the 4-Ps has been the subject of some criticism in recent years. For example, in service businesses like hair salons, the hairdresser is a key part of the service itself, while the décor of a restaurant or café is an important aspect of the enjoyment of that experience. Consequently, service marketers have argued for a ‘7-Ps’ approach to incorporate (in addition to the original 4-Ps) the *people*, *process* and *physical evidence* aspects of services.¹⁷ Even some of the earliest marketing writings identified up to 12 areas of responsibility for the marketer, including activities like fact-finding and servicing customers.¹⁸ Whatever framework is used, the important issue is not to neglect decision-making areas that are critical to effective marketing. The strength of the 4-Ps approach is that it represents a memorable and practical framework for marketing decision-making, and has proved useful in the classroom and in practice for many years.

Marketing in Action 1.2: Marketing water



Study guide: Below is a description of the marketing mix used by one brand. Read it and consider how well it meets the hallmarks of an effective marketing mix.

An example of an effective marketing mix is that used by the Icelandic mineral water company, Glacial. The Icelandic countryside is pure and unspoiled, and several companies have tried to market Icelandic mineral water abroad without a great deal of success. So when Icelandic Water Holdings launched its new brand in 2004, it carefully developed an appropriate marketing mix. The name Glacial was chosen because it drew on Iceland's unspoiled and wild image. Square rather than round bottles were used to package the product, and the design on the label resembled an ice formation that differed on each face of the bottle to resemble the ever changing nature of a glacier. On the shelf, the different photographs on the bottle create a kind of landscape, which helps to capture the consumer's attention.

In terms of promotion, the company sought to generate maximum publicity and buzz around the brand. It launched the product at major events such as the Cannes Film Festival and the launch of the Microsoft Xbox 360 in Los Angeles. By targeting such high-profile events, it created an awareness for the brand among opinion leaders. Distribution has been secured by signing deals with large global companies like Anheuser-Busch, which distributes Budweiser and other leading global brands. And by pricing the product at the upper end of the range of mineral waters, Icelandic Glacial is positioned as a premium water.

Its superior position in the market is also supported by the assertion that its production and distribution is carbon neutral. Mineral waters come in for criticism, in that their transportation around the globe leaves a significant carbon footprint. For example, the US bottled water market alone is estimated to be worth US\$11 billion. But Icelandic Water Holdings argues that it pumps and bottles its water using non-polluting geo-thermal power, which is a natural energy source derived from Iceland's volcanic countryside.

Based on: Anonymous (2007);¹⁹ Birchall (2007)²⁰

Marketing and business performance

Does marketing work? Surprisingly this is a controversial question, with many people arguing that, yes, of course it does, while others are less sure. The difficulty surrounds the intangibility of marketing. It is very difficult to predict in advance whether a marketing or promotional campaign is going to work. Sometimes campaigns like those for Levi's 501 jeans are stunningly successful. On the back of the famous ad featuring Nick Kamen in a launderette, sales of Levi's 501s rose 800 per cent. Not only that but sales of all jeans (even those of competitors) went up (see Exhibit 1.4).

Similarly, recent developments in retail banking in the UK demonstrate the importance and power of effective marketing. Loyalty to particular providers



Exhibit 1.4 The success of Levi's demonstrates the power of an effective marketing campaign

has been decreasing and in the five-year period 2000–04, the number of people switching current accounts doubled from 500,000 to 1 million. In response, HBOS began adopting marketing practices more usually associated with the retail trade than with banks, such as offering value-for-money products and introducing comparative advertising showing the different rates of interest charged by the big banks. The strategy worked. The bank attracted 1 million new bank account customers and 1.2 million new credit card customers in 2004, and profits rose by 22 per cent.²¹

In other companies, marketing is seen as the central engine of business growth. For example, Nestlé is a huge global company with 8000 products (a figure that grows to 20,000 when local variations are included) and an annual marketing budget of US\$2.5 billion. The company's chief executive has a marketing background and the head of marketing is responsible for each of the company's seven strategic business units. This structure is designed to ensure that marketing thinking is central to the company's strategic decisions.²² Another consumer products firm, Reckitt Benckiser, which markets leading brands like Harpic and Dettol, invests 12 per cent of sales annually in marketing, which is well above average.²³

But, for some, the issue is not whether marketing works but rather that it works too well. In recent years, marketing has been the subject of a great deal of criticism.²⁴ It has been equated with trickery and deception, and with persuading people (often those on low incomes) to buy products they do not really need. Some of the main controversies surrounding marketing are summarized in Ethical Debate 1.1.

In short, marketing works. Succeeding in making it work in any particular situation is the challenge. In that regard some issues relating to the nature and impact of marketing need to be borne in mind.

Efficiency versus effectiveness

We can gain another perspective on customer orientation if we understand the distinction between **efficiency** and **effectiveness**. *Efficiency* is concerned with inputs and outputs. An efficient firm produces goods economically—it does things right. The benefit is that cost per unit of output is low and, therefore, the potential for offering low prices to gain market share, or charging medium to high prices and achieving high profit margins, is present. However, to be successful, a company needs to be more than just efficient, it needs to be effective as well. *Effectiveness* means doing the right things. This implies operating in attractive markets and making products that

	Ineffective	Effective
Inefficient	Goes out of business quickly	Survives
Efficient	Dies slowly	Does well Thrives

Figure 1.6 Efficiency and effectiveness

consumers want to buy. Conversely, companies that operate in unattractive markets or are not producing what consumers want to buy will go out of business—the only question is one of timing. The link between performance and combinations of efficiency and effectiveness is illustrated in Figure 1.6.

A company that is both inefficient and ineffective will go out of business quickly because it is a high-cost producer of products that consumers do not want to buy. This was the case with many web-based businesses that were formed during the dotcom boom of the late 1990s. A company that is efficient and ineffective may last a little longer because its low cost base may generate more profits from the dwindling sales volume it is achieving. Firms that are effective but inefficient are likely to survive because they are operating in attractive markets and are marketing products that people want to buy. The problem is that their inefficiency is preventing them from reaping the maximum profits from their endeavours. It is the combination of both efficiency and effectiveness that leads to optimum business success. Such firms do well and thrive because they are operating in attractive markets, are supplying products that consumers want to buy and are benefiting from a low cost base.

The global automotive industry is a classic study of the dynamics of efficiency and effectiveness. For many years now, the big three US auto manufacturers—Ford, General Motors and Chrysler—have been in trouble. In 2006, Ford and GM laid off some 55,000 workers between them in the USA, with Chrysler's German operations laying off a further 8500. This was on top of previous rounds of heavy job losses in 1980, 1991 and 2001. Several rounds of efficiency drives would appear to have had only the effect of lengthening the time period of the decline of these once leading firms. They would appear to be dying slowly, having not addressed the problem of effectiveness. In contrast, Toyota has risen to become the leading global car company through a combination of highly reliable, competitively priced vehicles (effectiveness) that are very efficiently produced using innovative and industry-leading production practices (efficiency).

Ethical Debate 1.1: Marketing—good or evil?



It is possible to look at marketing from different standpoints. A positive view holds that marketing provides significant benefits to society. For example, the innovative efforts of companies provide us, as consumers, with a world of choice and diversity. A search on Google allows us to find information on anything that we want; with Skype, we can make free phone calls to our friends and relatives on the other side of the world, and websites like Amazon and eBay allow us to shop from the comfort of our desks. The innovations of tomorrow will bring us new and appealing products, services and solutions. Second, as the practice of marketing improves, our particular needs are increasingly being met. If we eat only gluten-free products, love sky-diving and have a passion for Japanese origami, there are organizations that will fulfil these needs. As firms collect more information about their customers, they will tailor solutions to meet specific user requirements. Finally, the competition between firms continually forces them to improve their services and products, and deliver extra value to customers. For example, low-fares airlines have revolutionized air travel and enable people who traditionally flew infrequently to travel to new destinations much more often.

At the same time, marketing is also the subject of some trenchant criticism. For example, it is seen as not only fulfilling needs but creating unnecessary wants. Critics argue that companies use sophisticated marketing techniques to create aspirations and to get consumers to buy products that they don't really need, with the result that many consumers find themselves building up significant debts. Consumer credit levels are at an all-time high in developed economies like the US and the UK. Related to this is the rise of materialism in society. Proponents of this view suggest that the modern consumer has become obsessed with consumption, as illustrated, for example, by the growth in Sunday shopping, which has to a large extent displaced religious participation and different forms of leisure and community activities on Sundays. Psychologists argue that this rise in consumption has done little to make people feel happier and better about themselves. And, at the same time as materialism is rising, there are growing concerns that the world's resources are being rapidly depleted and that current levels of consumption are not sustainable into the future. Third, there are concerns with the way that marketers target vulnerable groups like children, where the skills of child psychologists are used to find more and novel ways to instil brand preferences in the very young. Critics also point to the way that, for example, young girls are portrayed as sexual objects in the marketing and advertising of toys like Bratz dolls. Finally, there are concerns with the ways that marketing activity appears to have invaded all aspects of society. Public leisure events such as sports, shows and concerts now usually have a corporate partner, with the result that events aimed at teenagers may be sponsored by an alcoholic drinks organization, for example. Pressures on the public funding of schools, hospitals, and so on, also creates opportunities for corporations to tie in with these entities, which is often ethically questionable.

Resolving such a debate is very difficult, but the core of the issue lies in the key components of the definition of marketing—namely value and profit. When organizations provide genuine value to customers, marketing is doing what it should, and both firms and society benefit. When firms create an illusion of value or seek to exploit customers for profit, then consumers and society do not benefit. Like all professions, marketing has its unscrupulous practitioners and there will always be individuals and organizations who will seek to exploit vulnerable customers. But, in an information-rich world, such practitioners can and should be named and shamed.

Suggested reading: James (2007);²⁵ Klein (2000);²⁶ Linn (2004)²⁷

Marketing and performance

The adoption of the marketing concept will improve business performance—that is the basic premise (see Marketing in Action 1.3). Marketing is not an abstract concept, its acid test is the effect that its use has on key corporate indices such as profitability and market share. In recent years, studies in both Europe and North America have sought to examine the relationship between marketing and performance. The results suggest that the relationship is positive.

Narver and Slater, for instance, looked closely at the relationship between business performance and marketing orientation.²⁸ They collected data from 113 strategic business units (SBUs) of a major US corporation. In the main, their study found that the relationship between market orientation and profitability was strongly linear, with the businesses displaying the highest level of market orientation achieving the highest levels of profitability, and those with the lowest scores on market orientation having the lowest profitability figures. As the authors state: ‘The findings give marketing scholars and practitioners a basis beyond mere intuition for recommending the superiority of a market orientation.’

A study by the consultants Bain & Company in the USA looked at the performance of 500 consumer brands in 100 categories between the years 1997 and 2001. It found that brands that belonged to companies that innovated and advertised were likely to see higher revenues. Companies that drew at least 10 per cent of their 2001 sales from new products introduced during the period were 60 per cent more likely to post higher sales growth. Also, those companies reporting double-digit revenue increases were 60 per cent more likely to out-spend other brands in their category on advertising. An example is Old Spice, a brand that is over 50 years old. It introduced sub-brands such as High Endurance deodorant in 1994 and Red Zone in 1999. Both products accounted for more than 75 per cent of Old Spice sales in 2001 and helped the brand to grow by 13 per cent that year, in a category that grew at an average of 1 per cent.²⁹

A study published in the UK by Hooley, Lynch and Shepherd³⁰ sought to develop a typology of approaches to marketing, and to relate those approaches to business performance. They identified four groups of companies, namely ‘marketing philosophers’, ‘sales supporters’, ‘departmental marketers’ and ‘unsures’. The marketing philosophers saw marketing as a function with prime responsibility for identifying and meeting customers’ needs and as a guiding philosophy for the whole organization; they did not see marketing as confined to the marketing department,

nor did they regard it merely as sales support. The sales supporters saw marketing’s primary functions as being sales and promotion support. Marketing was confined to what the marketing department did, and had little to do with identifying and meeting customer needs. The departmental marketers not only shared the view of the marketing philosophers that marketing was about identifying and meeting customer needs, but also believed that marketing was restricted to what the marketing department did. The final group of companies—the unsures—tended to be indecisive regarding their marketing approach.

The attitudes, organization and practices of the four groups were compared, with the marketing philosophers exhibiting many distinct characteristics, as summarized below.

- 1 Marketing philosophers adopted a more proactive, aggressive approach towards the future.
- 2 They had a more proactive approach to new product development.
- 3 They placed a higher importance on marketing training.
- 4 They adopted longer time horizons for marketing planning.
- 5 Marketing had a higher status within the company.
- 6 Marketing had a higher chance of being represented at board level.
- 7 Marketing had more chance of working closely with other functional areas.
- 8 Marketing made a greater input into strategic plans.

Significantly, the marketing philosophers achieve a significantly higher ROI (return on investment) than the remainder of the sample. The departmental marketers performed at the sample average, while the unsures and sales supporters performed significantly worse. Hooley *et al.*’s conclusion was that marketing should be viewed not just as a departmental function but as a guiding philosophy for the whole organization.

It is surprising, then, that marketing has not had the influence in corporate boardrooms its importance would seem to justify. A recent study in the UK found that only 21 per cent of CEOs in the FTSE 100 had worked in marketing before going into general management, and only five of the FTSE 100 companies had dedicated marketing directors on their boards.³¹ Research in the USA shows that the majority of chief executives in recent decades have had a finance background.³² Doyle argues that the reason for marketing’s relatively low status is that

Marketing in Action 1.3: The success of Walkers Sensations



Study guide: Below is a review of the successful launch of a new snack product. Read it and consider the extent to which effective marketing was central to its success.

Ad
Insight

Adult luxury snacking is a growing sector of the snack market. Valued at £237 million in 2002, this sector has undergone substantial growth of over 26 per cent since 1988. Walkers' foray into the evening snack market followed research that identified lunchtime and dinner as the most popular snacking times. Qualitative research found that price and indulgence were key attributes that consumers used when choosing between potato crisp brands. Everyday crisps fall into the low-price, low-indulgence category, while speciality crisps were seen as high-price, high-indulgence. Herein lay an opportunity to develop a reasonably priced, high-indulgence brand for the evening snack market. Walkers grasped this opening in the market and began developing the mainstream premium brand, Walkers Sensations.

Walkers decided to target this new luxury brand at an adult audience, principally 25–45-year-old parents of young children. In terms of usage occasion, it envisaged the brand to be consumed as part of evening relaxation. Extensive research further refined its positioning strategy, product and price. It was decided to offer the crisps in an array of flavours, from the familiar to the exotic. Packaging was key to creating an augmented product that would appeal to target customers. Photographs were used to convey the premium nature, and a reduced-in-size Walkers banner also succeeded in differentiating the product from the Walkers master brand. It was priced in line with its premium positioning, at 20 per cent above a large packet of Walkers crisps.

The launch of Walkers Sensations was also critical to reinforcing its distinctive brand values. TV and print advertising initially used celebrity endorsers such as Gary Lineker and Victoria Beckham. Later, 'It girl' Tara Palmer-Tomkinson replaced Victoria Beckham as one of the brand's celebrity faces. The ads have given the brand a sense of fun while effectively communicating the indulgent nature of the product. Walkers succeeded in achieving complete saturation of the market through intensive distribution. First appearing in stores in 2002, this new brand achieved phenomenal sales of £78 million in its first year.

Based on: Goldstone (2002);³³ Murphy and Goldstone (2003)³⁴

the links between marketing investments and the long-term profitability of the organization have not been made clear.³⁵ Too often, marketers justify their investments in terms of increasing customer awareness, sales volume or market share. Doyle proposes the concept of **value-based marketing**, where the objective of marketing is seen as contributing to the maximization of **shareholder value**, which has become the overarching goal of chief executives in more and more companies. This approach helps clarify the importance of investment in marketing assets such as brands and marketing knowledge, and helps to dissuade management from making arbitrary cuts in marketing expenditure, such as advertising, in times of economic difficulty. The title CMO, or Chief Marketing Officer, has begun to emerge in some companies to reflect the importance of marketing to the overall performance of the organization. CMOs usually have a seat in the corporate boardroom.

The scope of marketing

Up to now our focus has been on the application of marketing in commercial contexts—that is, its use by companies with products or services to sell. But it is clear from simple observation that the marketing concept, and marketing tools and techniques, are in evidence in many other contexts too. For example, political parties are often criticized for their over-use of marketing. They are heavy users of marketing research to find out what the views of the voting public are; the candidates they put forward for election are often carefully selected and 'packaged' to appeal to voters. They are also extensive users of advertising and public relations to get their message across (see Exhibit 1.5).

Evidence of the application of marketing can be found in many other contexts. Educational institutions



Exhibit 1.5 Billboards like this one are a particularly popular advertising medium for political parties

have become more market-led as demographic changes have given rise to greater competition for students, whose choices are increasingly being influenced by the publication of performance-based league tables. Universities are responding by developing new logos and rebranding themselves, conducting promotional campaigns, and targeting new markets such as mature students and those from other countries around the world. The average marketing budget of private schools in the UK has risen from £33,966 in 2001 to £59,300 in 2006, and this investment has enabled private schools to grow their enrolments in spite of a national decline in the number of school-age children. They are also using the kinds of

segmentation techniques employed by companies to identify potential ‘customers’, as well as customer service training to convert enquiries into ‘sales’.³⁶ The use of marketing takes many forms in the arts and media. It has been argued that many media vehicles, such as newspapers and television channels, are being ‘dumbed down’ in order to appeal to certain market segments and to maximize revenues, in the same way many artistic organizations would be criticized for putting revenues ahead of quality and originality by producing art that appeals to a mass audience. The use of marketing can be found in almost all walks of life, such as when a city markets itself, as shown in Marketing in Action 1.4.

Marketing in Action 1.4: Marketing London



Study guide: Below is an illustration of marketing in a non-traditional context. Read it and consider any other examples of marketing in a novel context that you can think of.

Not only products and services but also places market themselves. This is often referred to as destination marketing. Tourism generates an estimated £15 billion a year for London’s economy. However, the 11 September 2001 attacks in New York, the Iraq War and the London underground bombings of 2005 have created significant challenges for London in its efforts to attract visitors. The marketing body charged with this responsibility is VisitLondon and in 2002 it appointed Tamara Ingram, chief executive of Grey advertising agency, as its chairman to spearhead its marketing efforts.

Ingram has overseen an integrated marketing effort to rebrand London and increase its appeal to visitors. Traditionally, the London Tourist Board had sought primarily to bring tourists to the

city, while VisitLondon aims to make London appealing to residents, people in the UK and people from overseas, whether they are business people or tourists. One of the first initiatives was the ‘Totally London’ campaign, which used London street signs, transport and typography in an integrated way to boost interest in the city’s museums, retail outlets, parks and other attractions. Since then it has focused on particular segments of the market, such as, for example, the gay and lesbian communities, as well as producing study guides for international students. Events such as the Chinese New Year are used as a focal point for the Chinese market and a ‘China in London’ season, including films and cultural events, was promoted on the London Underground, in the print media and on a microsite on the VisitLondon web page. These kinds of initiatives help to strengthen economic links between London and China.

VisitLondon has used some novel marketing techniques to promote the city in international markets. For example, in Japan, it commissioned Japanese pop star Kyoko to record a single called ‘Wonder London—Future Calling’. In the USA, six London taxi drivers toured twelve US cities in their iconic black cabs, offering free rides to commuters. These are examples of **buzz marketing**—that is, marketing initiatives designed to get consumers talking about a particular brand.

While visitor numbers have recovered from the London bombings, the city still faces challenges, particularly in the domestic market where low-cost airlines make travel to other European cities particularly attractive. But its marketing efforts appear to be working. In 2007, the city attracted 11 million domestic visitors, the only city in the UK to reverse falling domestic numbers. And with the profile being given to the city by the impending Olympic Games in 2012, it is likely that the appeal of London will continue to grow.

Based on: Garrahan (2006)³⁹

The range of potential applications for marketing has given rise to much debate among marketing scholars regarding the scope of marketing.³⁷ In particular, the challenge has been to find a core concept that effectively integrates both business and non-business or social marketing. For example, initially the idea of a transaction was put forward, but not all marketing requires a transaction or sale. Kotler then put forward the notion of exchange, implying that any exchange between two parties can be considered marketing.³⁸ However, this is also clearly problematic as many exchanges, such as favours given by family members, are not marketing activities. For our purposes, the core of marketing is the notion of a customer and the need to understand and respond to the customer’s needs.

Planning marketing activity

Finally, in many organizations, marketing can be a haphazard activity often done in response to particular opportunities or in times of difficulty or crisis. But attention to marketing must be consistent as markets change and nothing lasts for ever. For ex-

ample, who would have thought it would be necessary to market gold? It is. Demand for gold has been falling as consumers switch their spending to luxury brands like Cartier and Louis Vuitton, and its image has been tarnished by its use on everything from biscuits to credit cards. In response the World Gold Council has developed an advertising campaign for gold jewellery.⁴⁰

For marketing efforts to be effective, it is essential that a planned approach is taken. Planning is about deciding where we want to go and how we are going to get there. The process of **marketing planning** involves analysing the environment and the organization’s capabilities, and deciding on courses of action and ways to implement those decisions. Having a plan gives managers a focal point for decisions and actions. It also stimulates achievement by giving the organization clear targets to aim at, which can be helpful in generating change in an organization.

The marketing planning process is shown in Figure 1.7 and we will revisit the issue of marketing planning in more detail in Chapter 12.

Stages in the planning process	Relevant chapters in the book	
Business mission		
Marketing audit		} Chapters 2, 3 and 4
SWOT analysis		
Marketing objectives		
Strategic thrust	Strategic objectives	} Chapter 5
Core strategy		
Target markets	Competitive advantage	Competitor targets
Marketing mix decisions		} Chapters 6, 7, 8, 9, 10 and 11
Organization and implementation		
Control		} Chapter 12

Figure 1.7 The marketing planning process

Summary



This chapter has introduced the concept of marketing and discussed how and why organizations become market-oriented. In particular, the following issues were addressed.

1. What is meant by the marketing concept and a market orientation. The key idea here is that it is a business philosophy that puts the customer at the centre of things. Implementing the marketing concept requires a focus on customer satisfaction, an integrated effort throughout the company and a belief that corporate goals can be achieved through customer satisfaction.
2. The idea of customer value, which is the difference between the perceived benefits from consuming a product or service and the perceived sacrifice involved in doing so. Value can be derived by customers from the features of a product, the services supplied with it or indeed the image associated with it.
3. That customer value is delivered through the basic marketing mix of product, price, promotion and place. These 4-Ps and others are key decision points for marketers on an ongoing basis.
4. That marketing works and there is a strong relationship between a marketing philosophy and business performance. Academic research in the field of market orientation and ample evidence from practice attest to the power of marketing in assisting organizations to achieve their goals.
5. That the scope of marketing is broad, involving non-business as well as business contexts. Political parties, educational institutions, sporting organizations, religious organizations and others are regular users of marketing.
6. That marketing planning is an important activity to ensure marketing effectiveness. Organizations should avoid a haphazard approach to marketing and seek to conduct it in a carefully planned and structured manner.

Key terms

buzz marketing marketing initiatives designed to get consumers talking about a product or service

competitive advantage a clear performance differential over the competition on factors that are important to target customers

customer relationship management (CRM) the methodologies, technologies and e-commerce capabilities used by firms to manage customer relationships

customer satisfaction the fulfilment of customers' requirements or needs

customer value perceived benefits minus perceived sacrifice

effectiveness doing the right thing, making the correct strategic choice

efficiency a way of managing business processes to a high standard, usually concerned with cost reduction; also called 'doing things right'

marketing concept the achievement of corporate goals through meeting and exceeding customer needs better than the competition

marketing mix a framework for the tactical management of the customer relationship, including product, place, price, promotion (the 4-Ps); in the case of services, three other elements to be taken into account are process, people and physical evidence

marketing orientation companies with a marketing orientation focus on customer needs as the primary drivers of organizational performance

marketing planning the process by which businesses analyse the environment and their capabilities, decide upon courses of marketing action and implement those decisions

place the distribution channels to be used, outlet locations, methods of transportation

price (1) the amount of money paid for a product; (2) the agreed value placed on the exchange by a buyer and seller

product a good or service offered or performed by an organization or individual, which is capable of satisfying customer needs

production orientation a business approach that is inwardly focused either on costs or on a definition of a company in terms of its production facilities

promotional mix advertising, personal selling, sales promotion, public relations and direct marketing

shareholder value the returns to a company's shareholders, which grow when the company increases its dividends or its share price rises

value-based marketing a perspective on marketing that emphasizes how a marketing philosophy and marketing activities contribute to the maximization of shareholder value

Study questions

1. Discuss the differences between marketing as a philosophy and marketing as a set of business activities. How are the two ideas related?
2. Identify two examples of organizations that you consider provide customer satisfaction, and describe how they do it.
3. Marketing is sometimes considered to be an expensive luxury. Respond to this claim by demonstrating how a marketing orientation can have a positive impact on business performance.
4. Marketing is everywhere. Discuss.
5. Rather than assisting in the creation of value, marketing is responsible for many of society's ills. Discuss.
6. Visit www.marketingpower.com and www.cim.co.uk and discuss the different definitions of marketing presented by two of the world's leading marketing organizations.

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When you have read this chapter, log on to the Online Learning Centre for *Foundations of Marketing* at www.mcgraw-hill.co.uk/textbooks/jobber, where you'll find multiple-choice test questions, links and extra online study tools for marketing.

Appendix 1.1

Careers in marketing

Choosing a career in marketing can offer a wide range of opportunities. Table A1.1 outlines some of the potential positions available in marketing.

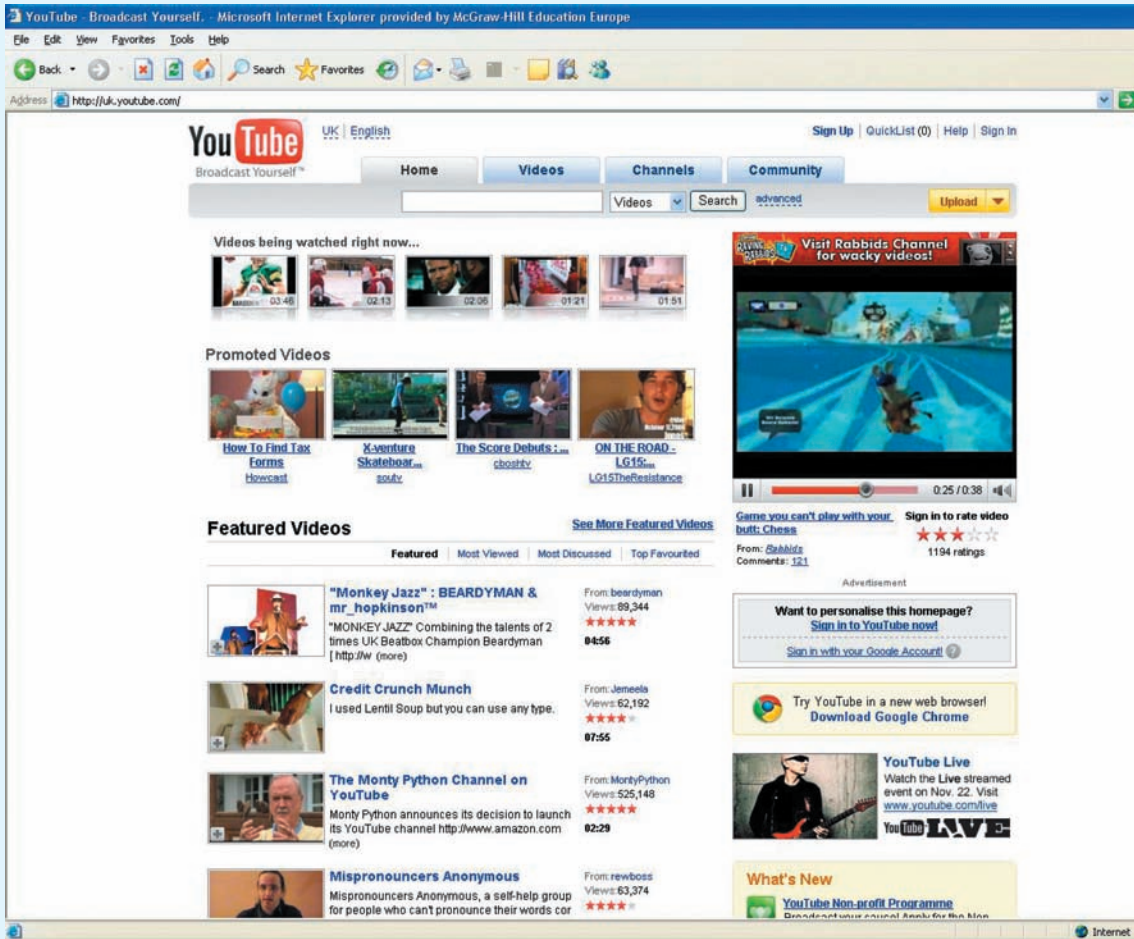
Table A1.1 Careers in marketing

Marketing positions	
Marketing executive/ co-ordinator	Management of all marketing-related activities for an organization.
Brand/ product manager	A product manager is responsible for the management of a single product or a family of products. In this capacity, he or she may participate in product design and development according to the results of research into the evolving needs of their customer base. In addition, marketing managers develop business plans and marketing strategies for their product line, manage product distribution, disseminate information about the product, and co-ordinate customer service and sales.
Brand/marketing assistant	At the entry level of brand assistant, responsibilities consist of market analysis, competitive tracking, sales and market share analysis, monitoring of promotion programmes, etc.
Marketing researcher/ analyst	Market researchers collect and analyse information to assist in marketing, and determine whether a demand exists for a particular product or service. Some of the tasks involved include designing questionnaires, collecting all available and pertinent information, arranging and analysing collected information, presenting research results to clients, making recommendations.
Marketing communications manager	Manages the marketing communications activity of an organization manager such as advertising, public relations, sponsorships and direct marketing.
Customer service manager/executive	Manages the service delivery and any interactions a customer may have with an organization. Role can be quite varied, depending on industry.
Sales positions	
Sales executive/ business development	Aims to develop successful business relationships with existing and potential customers. Manages the company's sales prospects.
Sales manager	Plans and co-ordinates the activities of a sales team, controls product distribution, monitors budget achievement, trains and motivates personnel, prepares forecasts.
Key account executive	Manages the selling and marketing function to key customers (accounts). Conducts negotiations on products, quantities, prices, promotions, special offers etc. Networks with other key account personnel influential in the buying decision process. Liaises internally with all departments and colleagues in supplying and servicing the key account. Monitors performance of the key account.
Sales support manager	Provides sales support by fielding enquiries, taking orders and providing phone advice to customers. Also assists with exhibitions, prepares documentation for brochures and sales kits, and commissions market research suppliers for primary data.
Merchandiser	Aims to maximize the display of a company's point-of-sale displays, and ensures that they are stocked and maintained correctly.
Sales promotion executive	Aims to communicate product features and benefits directly to customers at customer locations through sampling, demonstrations and the management of any sales promotion activities.
Telesales representative	Takes in-bound or makes out-bound calls, which are sales related.
Advertising sales executive	Sells a media organization's airplay, TV spot or space to companies for the purpose of advertising.

Table A1.1 continued

Retailing positions	
Retail management	Plans and co-ordinates the operations of retail outlets. Supervises the recruitment, training, conduct and work of staff. Maintains high levels of customer service. Manages stock levels.
Retail buyer	Purchases goods to be sold in retail stores. Manages and analyses stock levels. Obtains information about the range of products available. Manages vendor relations.
Advertising positions	
Account executive	Helps devise and co-ordinate advertising campaigns. Liaises with clients, obtaining relevant information from them such as product and company details, budget and marketing goals, and marketing research information. Briefs other specialists in the agency (such as creative team, media planners and researchers) on client requirements, to develop the details of a campaign. May present draft campaign suggestions to clients along with a summary of the expenditure involved, and negotiate and arrange for modifications if required. May supervise and co-ordinate the work of the relevant production departments so that the campaign is developed as planned to meet deadlines and budget requirements.
Media planner/buyer	Organizes and purchases advertising space on television, radio, in magazines, newspapers or on outdoor advertising. Liaises between clients and sellers of advertising space to ensure that the advertising campaign reaches the target market.
Public relations positions	
Public relations executive	Helps to develop and maintain a hospitable, friendly public environment for the organization. This involves liaising with clients, co-ordination of special events, lobbying, crisis management, media relations, writing and editing of printed material.
Press relations/ corporate affairs	Develops and maintains a good working relationship with the media. Creates press releases or responds to media queries.

Case 1 YouTube



YouTube has become an internet phenomenon

In its short existence, YouTube has become a classic example of a modern internet phenomenon. It is a video-sharing website that is used on a daily basis by people all over the world. It has been used to embarrass celebrities, to cause political storms, for entertainment, for self-promotion and for thousands of other reasons. The company was only 16 months old when Google was willing to pay US\$1.65 billion to acquire it. What have been the reasons for its amazingly rapid growth and what are the future challenges it faces?

Background

Like some famous computer companies before it, YouTube was founded in a garage, by Chad Hurley, Steve Chen and Karid Jarem, in February 2005, and was officially launched to the world in December of that year from offices in San Francisco. YouTube is

an online portal through which users can watch and share video content. Video had been available on the internet for some time, but Hurley and Chen wanted to make it easier to pass on the videos that they thought others would want to see. So instead of users having to download special software to view videos, they created a way in which video could be viewed directly on the web. Another important feature of the technology was that it put all its videos into a format that could be played by the Flash player that was found on virtually all PCs. Multiple formats had been a particular problem for video websites prior to this.

The initial vision for YouTube was that it would be a vehicle whereby young people in particular would have the facility to show off their talents as home movie makers, building on the increasing popularity of 'reality television' at the time. Consequently, some

of the most popular early videos were parodies of social networks like MySpace.com or spoofs of leading movies like *Brokeback Mountain*. But as the site began to get popular, trailers of much-anticipated new movies began to appear on it. Advertisers were quick to recognize its potential, and viral advertisers like Carlsberg and Nike began putting ads on the site.

A key to YouTube's early success was that viewers had the facility to send a link via email to their friends, which enabled the creation of a community of users. YouTube's technology also made it easier for bloggers and others to 'grab' a video segment from YouTube and place it on their own web pages, extending the reach of its content to a much bigger audience. And it also let its users decide which videos were worth watching by providing the facility to rate and recommend videos in the same way as Amazon had been doing with books and CDs.

YouTube then benefited from the network effects that allow many companies to grow rapidly on the internet. In other words, the bigger a site's audience gets, the more success will feed off itself. The people who are attracted to putting a home video on YouTube because of the size of its audience, often produce content that attracts new viewers and on it goes in a virtuous cycle. Consequently, the volume of content appearing on the site and its level of usage grew exponentially. Fans upload 65,000 videos and over 100 million clips are viewed each day. By June 2007, Nielsen's NetRatings were showing that it had logged 55 million unique users each month, a rise of 300 per cent from June 2006. Part of the reason for YouTube's phenomenal popularity is that it is both easy to use and edgy at the same time. Users can watch videos without even registering, so, as with shopping, all you have to do is 'walk in the door'. But also almost anything imaginable, from the funny to the weird to the sad, is available on the site. Because the site does not pre-screen uploads, which is efficient because it saves on the cost of hiring a team of editors, the site becomes host to all sorts of weird and wonderful material, from obscure bands to tearful video diaries, and so on. This endless supply of material allows users to be entertained for hours on the site.

Revenue streams

Having spent the early part of its life building up a global profile and user base, one of the key challenges facing YouTube is how to generate revenue from all these users. This represents a difficult challenge for the company as it will want to do so without alienating its existing client base. Part of the site's appeal at

present is that it is seen as not overtly commercial, and it is viewed by many as a user-driven, grassroots entity. Several potential revenue streams have been initiated by the company, such as those listed below.

- *Sponsored brand channels*: sponsored channels are specially designed YouTube pages that allow users to view branded content. One of the earliest customers was Warner Brothers Records, which set up a page to promote a new album by Paris Hilton.
- *Display advertising*: there are a variety of display ad formats throughout the site, which can be segmented by age, gender, geography and time of day. One format is an in-video overlay that lasts for about 15 seconds and viewers have the choice of closing it, waiting for it to expire automatically or clicking on it to watch the full advert.
- *Contests*: companies can run competitions on the site, where viewers rate videos.
- *YouTube video ads*: companies can advertise their products on the site.
- *YouTube in-video ads*: ads that are placed in YouTube partners' video content.

YouTube controls the 'Featured Videos' that appear on its homepage, which can dramatically increase the popularity of a video.

The takeover by Google

As the site grew, speculation about whether it would be acquired by a bigger player like Google was widespread. For some time this did not look likely as Hurley and Chen had indicated that they wanted to remain independent and had been critical of Google's video-sharing site, Google Video. They were also concerned that Google had already dabbled in too many products beyond web search and was risking confusing its customers. But eventually the sale became an easy choice for YouTube. It was losing money incurring the costs of storing and delivering millions of videos, and it also risked further costs because of potential copyright lawsuits. Google offered it immense storage capacity, the largest online network of potential advertisers as well as teams of lawyers to help deal with any legal issues that may arise. For Google, it also represented a strategic change towards buying a large competitor rather than looking to build up Google Video.

The copyright dilemma

The issue of copyrighted material appearing on YouTube quickly became a controversial one for the company. For example, Viacom distributes the kind

of short content that is so popular on YouTube and after months of negotiations regarding a revenue share failed, it ordered YouTube to remove over 100,000 video clips from its site. Even its sale to Google was nearly jeopardized by the problem because at the same time as it was negotiating with the search engine giant, Universal Music was preparing a lawsuit against the company alleging massive copyright infringement. But its case was helped when another music company, Warner Music, did a deal with YouTube to distribute its music videos in exchange for a licensing fee and a share of advertising.

The problem for many companies is that while the uploading of videos onto YouTube may be violating copyright, it is also turning out to be a useful way to generate some publicity about an upcoming movie or TV show. In response, YouTube is working on technology that would identify copyrighted video content and implement 'audio-fingerprinting' to ensure music companies are paid for use of their songs in YouTube clips. But some of the content providers argue that YouTube has been too slow in deploying this technology. At the same time, it has struck numerous partnership deals with content providers such as CBS, the BBC, Universal Music Group, Sony Music Group, Warner Music Group, NBA and the Sundance Channel.

The future

YouTube has been a stunning success story, which has given it a strong lead in the video distribution business. In early 2008, it became the most popular social media website in the UK, ahead of Wikipedia, Facebook and others, with 10.4 million unique visits in January of that year. However, competition is likely to come from a variety of sources. First, there are the many other video-sharing websites that have launched following the success of YouTube. Large organizations like News Corporation, which owns MySpace.com, Yahoo!Video, MSN Video and AOL, have developed online video offerings. Some of the big content creators like Disney, which owns the ABC television network, have streamed their most popular videos on their own websites, which are free to watch.

Other companies, such as Metacafe, are trying to pursue a different content model. There are millions of videos on YouTube, but critics argue that many are of dubious quality and barely watchable. Metacafe, makes an effort to be selective and promote only 'good' videos on its homepage. First, it rejects duplicates, which make up about half its submissions. Then it uses 100,000 volunteers as film critics in the same way that Wikipedia uses volunteers to write and vet articles. Third, it analyses clips using its VideoRank algorithm, which examines metrics like whether the video was watched all the way to the end, to determine its quality. Metacafe claims that it attracts 25 million unique users each month. Also, there are sites like Eefoof.com, Panjea.com, Revver and Blip.TV, which share up to 50 per cent of ad page revenue with the creators of videos. Eefoof uses the tagline 'Make it. Post it. Profit'. In response, YouTube has also begun offering a share of advertising revenues to video uploaders.

So, despite its phenomenal early success, the future is uncertain for YouTube. The most gloomy scenario is that it becomes the next Napster—the company that pioneered the digital downloading of music only to eventually be shut down by legal action undertaken by the major music labels. In the same way, YouTube has built the business of online video distribution but faces similar major legal issues over copyright and a wave of aggressive new rivals. Its early success will be no guarantee that it can rest on its laurels.

Questions

1. What kind of customer value does YouTube provide in the marketplace?
2. How do businesses like YouTube alter the ways that organizations and customers interact?
3. What are the challenges facing YouTube in the future?

This case was prepared from various published sources by Professor John Fahy, University of Limerick, as a basis for class discussion rather than to illustrate either effective or ineffective management.

