Chapter 1

Key concepts in marketing

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# PURPOSE AND PERSPECTIVE

The purpose of this chapter is to give students an overview of marketing and provide a general framework for studying the principles of marketing. First, we present a definition of marketing and explore each element of the definition in detail and examine the importance of marketing in our global society. We define key marketing concepts including customers, target market, the marketing mix, the exchange process and relationship marketing. We then look at the components of the traditional and expanded marketing mix. We also take a brief look at concept of value, which customers are demanding more than ever, and then introduce the components of the marketing environment and explore the impact of technology in more depth. Because we believe that an understanding of the marketing concept is fundamental, we devote several pages to this area, including its basic components, evolution and implementation. Finally, we explore the process of marketing management, which includes planning, organising, implementing and controlling marketing activities to encourage marketing exchanges.

# LECTURE OUTLINE

## 1.1 What is marketing?

* Marketing is the process of maximising returns to stakeholders by developing exchanges with valued customers and creating an advantage for them

### Customers and marketing

* As the purchasers of the products that organisations develop, promote, distribute and price, people are the focal point of all marketing activities.
* The essence of marketing is to develop satisfying exchanges from which both people and marketers benefit.
* When organisations focus their marketing efforts on a specific group of customers, it is called a target market.

### The broad role and importance of marketing in the economy

* Marketing costs consume a sizable portion of buyers’ dollars: about one-half of a buyer’s dollar goes to the costs of marketing.
* Marketing is also important in organisations working to achieve goals other than ordinary business objectives such as profit.
* Government agencies engage in marketing activities to fulfil missions and goals.
* In the private sector, non-profit organisations also employ marketing activities to create, distribute, promote and even price programs that benefit particular segments of society.
* Businesses must sell products to survive and grow, and marketing activities help sell their products.
* Profits from marketing products contribute to the development of new products and technologies.
* Advances in technology, along with falling political and economic barriers, and the universal desire for a higher standard of living, have made marketing across national borders commonplace while stimulating global economic growth.
* The study of marketing allows a more effective assessment of a product’s value and flaws.
* An understanding of marketing enables evaluation of corrective measures (such as laws, regulations and industry guidelines) that could stop unfair, damaging or unethical marketing practices.

### Socially responsibility in marketing

* The success of our economic system depends on marketers whose values promote trust and cooperative relationships in which customers are treated with respect.
* By managing concern about the impact of marketing on society, an organisation can protect the interests of the general public and the natural environment.

## 1.2 The strategic variables of marketing – the expanded marketing mix

* Marketing is more than simply advertising or selling a product; it also involves developing and managing a product, making the product available in the right place and at the right price acceptable to buyers, and communicating information to help customers determine if the product will satisfy their needs.
* These activities – product, distribution, promotion and pricing – are known as the marketing mix because marketers decide what type of each element to use and in what amounts.

### Product

* The product variable of the marketing mix deals with researching customers’ needs and wants and designing a product that satisfies them.
* A product can be a good, a service, an idea, an experience or a combination of these.
  + A good is a physical entity
  + A service is the application of human and/or mechanical efforts to people or objects to provide intangible benefits to customers
  + An idea is a concept, philosophy, image or issue.
  + An experience engages customers on an emotional level.
* The product variable includes the creation or modification of brand names and packaging. It may also include decisions regarding warranty and repair services.
* Product variable decisions and related activities are important because they directly impact the creation of products that meet customers’ needs and wants.

### Price

* The price variable relates to decisions and actions associated with establishing pricing objectives and policies and determining product prices.
* Price is a critical component of the marketing mix because customers are concerned about the value obtained in an exchange.

### Place (distribution)

* In dealing with the distribution variable, a marketing manager makes products available in the quantities desired by as many target market customers as possible, keeping total inventory, transportation and storage costs as low as possible.

### Promotion

* The promotion variable relates to activities used to inform individuals or groups about an organisation and its products.
* Promotion can be aimed at increasing public awareness of an organisation and new or existing products.
* Promotional activities can also educate customers about product features or urge people to take a particular stance on a political or social issue.

### The expanded marketing mix

* Marketing mix variables are often viewed as controllable because they can be modified; however, economic conditions, competitive structure or government regulations may limit a marketing manager’s influence.

#### People

* The people variable refers to the human element of the product; that is, the employees involved in creating and producing the product itself.

#### Physical evidence

* This refers to the physical elements related to the product.

#### Processes

* A process variable is used to enhance customer satisfaction. Automation or self-service technologies are examples.

#### Partnerships

* Partnership variables can be in the form of establishing, maintaining and nurturing partnerships throughout the supply chain, or partners relevant to the marketing task such as the media, government and lobby groups.

## 1.3 Marketing creates value

* To manage customer relationships, organisations must develop marketing mixes that create value for customers. Value is a customer’s subjective assessment of benefits relative to costs in determining the worth of a product (customer value = customer benefits – customer costs).
* Customer benefits include anything a buyer receives in an exchange.
* Customer costs include anything a buyer must give up to obtain the benefits provided by the product. Costs include the monetary price of the product as well as less obvious non-monetary costs such as time and effort.
* The process people use to determine the value of a product is not highly scientific.
* In developing marketing activities, it is important to recognise that customers receive benefits based on their experiences.
* The marketing mix can be used to enhance perceptions of value.

## 1.4 Marketing in a dynamic environment

* The marketing environment – which includes competitive, economic, legal and regulatory, technological and sociocultural forces – surrounds the customer and affects the marketing mix, as shown in Figure 1.1 on page 7.
* The forces of the marketing environment affect a marketer’s ability to facilitate exchanges in three ways:
  + They affect customers’ lifestyles, standards of living, and preferences and needs for products.
  + They help determine whether and how a marketing manager can perform certain marketing activities.
  + They affect a marketing manager’s decisions and actions by influencing buyers’ reactions to the organisation’s marketing mix.
* Marketing environment forces can fluctuate quickly and dramatically.
* Changes in the marketing environment produce uncertainty for marketers and at times hurt marketing efforts, but they also create opportunities.
* Marketing mix elements – product, distribution, promotion and price – are factors over which an organisation has control; the forces of the environment, however, are subject to far less control.

## 1.5 Marketing orientations

* According to the marketing concept, an organisation should try to provide products that satisfy customers’ needs through a coordinated set of activities that also allows the organisation to achieve its goals.
* Customer satisfaction is the major focus of the marketing concept.
  + To implement the marketing concept, an organisation focuses on customer analysis, competitor analysis and integration of the organisation’s resources to provide customer value and satisfaction, as well as long-term profits.
  + The organisation must also continue to alter, adapt and develop products to keep pace with customers’ changing desires and preferences.
* The marketing concept is not a second definition of marketing. It is a management philosophy guiding an organisation’s overall activities.
* It is important for marketers to consider not only current buyers’ needs, but also the long-term needs of society.

### The production orientation

* During the second half of the nineteenth century, the Industrial Revolution was in full swing in most Western economies.
* As a result of new technology and new ways of using labour, products poured into the marketplace, where consumer demand for the new manufactured goods was strong.

### The sales orientation

* Between the mid 1920s and the early 1950s, businesspeople viewed sales as the major means of increasing profits.
* During this era, businesspeople believed that the major marketing activities were personal selling, advertising and distribution.

### Market orientation

* By the early 1950s, some businesspeople recognised they must first determine what customers want and then produce it, rather than make products and try to persuade customers that they need what is produced.
* A marketing orientation requires the ‘organisation-wide generation of market intelligence pertaining to current and future customer needs, dissemination of the intelligence across departments, and organisation-wide responsiveness to it’.
* Unless marketing managers implement a market orientation as an organisational culture, an organisation cannot operationalise the marketing concept. To implement a market orientation culturally, an organisation must establish some general conditions.
* Management must first establish an information system to discover customers’ real needs and then use the information to create satisfying products.
* A company must also establish a way to coordinate all its activities.

## 1.6 The marketing management process

* Marketing management is the process of planning, organising, implementing and controlling marketing activities to facilitate effective and efficient exchanges.
  + Effectiveness is the degree to which an exchange helps achieve an organisation’s objectives.
  + Efficiency refers to minimising the resources an organisation must spend to achieve a specific level of desired exchanges.
  + Planning is a systematic process of assessing opportunities and resources, determining marketing objectives, and developing marketing strategy and plans for implementation and control.
  + Organising marketing activities involves developing the internal structure of the marketing unit.
  + Proper implementation of marketing plans hinges on coordination of marketing activities, motivation of marketing personnel, and effective communication.
* The marketing control process consists of establishing performance standards, comparing actual performance with established standards, and reducing the difference between desired and actual performance.

# DISCUSSION STARTERS

## Discussion starter 1: Customer service

ASK: How many of you have ever experienced rejection or disappointment in a customer service experience?

This question can lead to a discussion on good and bad customer service. Transition into a discussion about the marketing concept, a firm’s market orientation, and/or customer relationship management, following the chapter outline.

## Discussion starter 2: Product variable

ASK: How many of you have tried the new Coke Zero and could taste a difference between Coke, Diet Coke and Coke Zero?

Play the 30-second Coke Zero commercial:

* http://www.youtube.com/watch?v=qEEMhnCeUsE)

This humorous clip illustrates that the product variable involves creating and modifying brands to remain connected to modern consumer tastes.

Transition into a discussion on the importance of the product variable within the marketing mix.

## Discussion starter 3: The exchange

ASK: Why is the exchange at the core of all marketing transactions? Why is it crucial to think marketing is applicable to exchanges beyond buyers and sellers?

Students should understand that marketing is about the exchange of values between two parties to arrive at mutually beneficial outcomes. If students are simply focused on buyers and sellers, they will not be able to conceive of marketing outside a sales transaction. The following examples may help students broaden their understanding:

* Volunteer organisations: Volunteers exchange the value associated with time to gain the value of assisting their community or supporting a meaningful cause. The organisation exchanges the opportunity to demonstrate support for a community or cause for volunteers’ time.
* Non-monetary transactions: During the holiday season, many organisations trade a discount coupon towards the purchase of new goods for used goods. Others may trade admission to an event for canned foods or other non-monetary contributions.

In these examples, marketing extends beyond buyers and sellers to others who engage in a value exchange. As these examples illustrate, marketing applies to non-profit entities as well as for-profit entities.

## Discussion starter 4: Socially responsible marketing

ASK: How do you feel marketing benefits society?

Be prepared for students to discuss the negative consequences of marketing activities, such as negative self-image among teen girls and consumption beyond fiscal responsibility (unnecessary wants). Steer the conversation to positive marketing attributes, using the text outline to guide this discussion.

Remind students marketing is a social process. Marketers must create value for all stakeholders. Items and issues of import to consumers and society are also significant to marketers. For example, environmental concerns are playing an increasingly important role in consumer choices. Marketers may take the opportunity to provide consumers environmentally friendly product alternatives as well as educate consumers about environmental impacts.

By constantly seeking to provide consumers with the best possible product alternatives, marketers drive continuous product innovation.

# CLASS EXERCISES

## Class exercise 1: Great and poor customer service experiences (from your students’ perspective)

ASK: Each student at the beginning of class to silently write up two recent customer service experiences, one highlighting excellent customer service and one highlighting pathetic customer service.

After the students have completed these two customer service vignettes, ask them to predict (in writing) which of the two customer service experiences is most likely to be longer as a class average. This emphasises what we (as marketers) think is important, but understanding what others (our customers) think is more important.

To conclude this exercise, the instructor could ask for volunteers to read their tales of Yo (positive ones) and tales of Woe (negative ones) or just simply ask the students to hand these in. If the second option is preferred, this data could be tabulated before the next class session and the results reported back to the students … along with the reading of several funny and/or particularly vivid experiences (both plus and minus).

To underscore the logic behind the power of negative customer testimonials, you can introduce the Rule of 66. On average, when a customer has a particularly bad experience, they will tell on average 11 people and these 11 people will tell an additional five people each. Thus 11 times 5 equals 55 and plus those original 11 people who were told the original bad experience make 66 people. See the following link for more information on the Rule of 66:

* http://therebelnetworker.com/negative-word-of-mouth-is-it-now-exponential

## Class exercise 2: Taste test

Conduct a blind taste test using Coke, Diet Coke and Coke Zero. Disguise the brands using partially filled paper cups, and have all students predict which is which.

Most students will not be able to accurately distinguish between the various soft drinks. This underscores the importance of branding and promotion in which image can trump taste.

## Class exercise 3: Bottled water

As a beverage category, bottled water represents $66.6 billion in global annual sales. This category has grown at an impressive rate. The success of this product represents a success for marketing. In this exercise we will examine the reasons for its success.

1. Describe the target market for bottled water. How does bottled water create value for target market consumers?

2. Examine the marketing mix elements. Discuss the product, distribution, price and promotion for this product category. How did each element contribute to the success of this product category?

3. Bottled water has come under attack from environmental groups for the amount of waste created by the bottles. How do you feel this concern about packaging waste will impact sales? How could the marketing mix elements be used to address this concern?

## Class exercise 4: The target market is you

This exercise examines the vast array of products for which university students represent the primary target market.

* Step One: Brainstorm with the group a list of products that specifically target university students.
* Step Two: Next to each product list any other applicable target markets.
* Step Three: Evaluate each product and discuss whether university students will continue to use this product/service after university.
* Step Four: Choose one product/service and define its marketing mix.

# CHAPTER QUIZ

1. Goodness Superfoods’ Heart 1st cereal is aimed at people concerned about their heart health. These people represent Goodness Superfoods’:

a. marketing mix.

b. marketing strategy.

c. target market.

d. marketing tactic.

e. consumer advocates.

2. Customer relationship management (CRM) focuses on using \_\_\_\_\_\_\_\_ about customers to create marketing strategies that develop and sustain desirable customer relationships.

a. internal communication

b. information

c. purchasing power insights

d. marketing mix knowledge

e. implementation knowledge

3. Today, marketers use the term \_\_\_\_\_\_\_\_ to describe establishing long-term, mutually satisfying buyer–seller relationships.

a. relationship marketing

b. customer service

c. marketing management

d. exchange

e. utility

4. Developing the internal structure of a company’s marketing unit relates to which of the following marketing management activities?

a. Marketing control

b. Implementation

c. Organising

d. Planning

e. Managing

Answers: 1. c; 2. b; 3. a; 4. c

# SUGGESTED ANSWERS TO CHAPTER BOXES

## Sustainable marketing: Pedal power: Putting eco-responsibility into your customers’ hands

1. What other examples have you seen where a business has given customers an option to choose an eco-responsible option instead of a regular purchase?

Leading Australian provider of washroom services, Alsco, is helping business create greener workplaces by offering cotton towel as one of its hand-drying solutions. Cotton towels have half the environmental impact of paper towels, use 63% less energy and create 79% less waste. Another example is paper brand Reflex, which offers reams of 100% recycled office paper in addition to its standard office paper reams. A final example is supermarkets such as Woolworths and Coles, which provide consumers with the option to reduce plastic bag use by purchasing and reusing green bags.

2. Compare the cost of eco-responsible options versus the ‘regular’ option for several initiatives. Is there a trend, and if so, can you explain it?

Alsco’s cotton towel option requires more servicing, which translates to a higher price compared to less environmentally friendly paper towels. Reflex 100% recycled paper reams are slightly more expensive than standard Reflex paper reams. Woolworths and Coles various ‘green bag’ options start from around $1, whereas their plastic bags are free for store customers. From these examples it could be concluded that there is a trend of pricing eco-responsible options higher than their less environmentally friendly counterparts. Each product, however, also has a longer life, with cotton towels lasting 200 times longer than paper towels and green bags able to be reused hundreds of times.

## Marketing in transition: Efficiency and size make micro-cars a winning segment

1. Summarise key elements of the marketing mix (product, place, price and promotion, as well as people physical evidence, process and partnerships) as they relate to the micro-cars in this study.

The Mini Cooper and Smart car models meet consumer needs and wants for eco-friendly vehicles, addressing their environmental concerns. In addition, the product design meets consumer wants for vehicles that are smaller, more manoeuvrable and easier to park. In branching away from traditional car sale processes, the Smart car can be ordered over the Internet. The price of the micro car models also aims to be more affordable than their larger counterparts, without compromising consumer evaluations of quality. Promotion is via both traditional channels as well as online, including social media. The service personnel delivering the product are highly knowledgeable, well presented, professional and polite.

Physical evidence encompasses both the online store as well as the physical dealerships, both of which are well designed and exude an air of luxury and refinement.

The ordering process is a unique characteristic for the Smart car, enabling online services in addition to dealership based ordering. Both brands also offer test drives and highly personalised service.

2. How is the marketing mix for this micro-car segment different from that of the SUV segment targeted by BMW’s and Mercedes’ X5 and GLE?

The micro models share many similarities with their larger BMW and Mercedes Benz model counterparts, including promotion, people and physical evidence. There are, however, a few notable differences. The product itself is largely different. Micro-cars are designed with the environment, space efficiency and ease of use in mind. Larger vehicles such as the BMW X5 and the Mercedes GLE are designed more with performance and luxury in mind. The micro models suit a more urban landscape, whereas the larger models are suitable for both urban areas, longer drives and rougher terrain. The larger models also differ in the driving experience that they deliver, providing consumers with more of a luxury and exhilaration focus. Currently the BMW X5 and the Mercedes GLE are purchased from authorised dealerships as opposed to the Smart car, which is also offered online. In addition, the BMW X5 and the Mercedes GLE are priced in a way that establishes and reflects the brands premium image rather than aiming to offer affordability.

## Marketing in action: Does marketing increase the value of products?

1. What benefits do you think consumers might believe they benefit from when they buy a branded product (such as Panadol paracetamol) rather than a generic, unbranded paracetamol?

When selecting a branded product such as Panadol over a generic or unbranded paracetamol, consumers might believe they are receiving more value. Panadol may be perceived as a more trusted brand, reinforced through advertising. Choice based on brand familiarity can also reduce time and effort involved in comparing brands, in turn benefiting the consumer. In addition, choosing the branded product may be influenced by previous positive brand experiences, deepening the trust between consumer and brand, as well as brand loyalty.

2. Reflect on your own purchase experiences: is there a situation when you have deliberately bought (or considered buying) a branded product when a generic alternative was available? If so, what was your own motivation?

Examples may include:

Cereal – Weetbix brand over a generic supermarket brand. The higher price of Weetbix brand may lead consumers to believe that it is higher quality.

Dental care – Colgate over a generic brand. Brand familiarity and advertising may lead consumers to believe that it will offer better performance.

## Ethical marketing: Facing ethical issues in marketing

1. Choosing to shop online rather than visiting a physical store is a growing trend, and provides consumers with increased convenience. Despite the added convenience, can you identify any ethical issues that may arise from shopping online?

Ethical issues arising from shopping online include privacy issues relating to process. When consumers shop online, web-based stores have the capacity to collect a wide range of data regarding consumption behaviours. The collection of consumer information brings issues of privacy and confidentiality rights under the ethical spotlight.

2. Imagine you are the marketing manager for sports apparel brand Nike. How would you implement ethical practices in relation to product, price, place, people and partnership categories for the Nike brand?

Product: Clearly disclose information regarding the materials used in Nike products, including the of country of origin and whether or not product materials are sourced sustainably.

Price: Set a price that reflects both the Nike brand’s image of quality, while remaining fair to consumers in relation to production costs.

Place: Ensure Nike distribution partners adhere to company-driven standards and guidelines regarding environmental impact.

People: Ensure all staff involved in the Nike product manufacturing process are of legal age, are provided with high standard working conditions and are remunerated in a fair and transparent manner.

Partnership: Ensure all partners throughout the supply chain are in no way exploiting the environment, the local community, employees or the end consumer through unethical practices.

## Marketing in action: Market-oriented organisations are environmental leaders

1. Discuss this identified connection between a strong market orientation and environmental leadership for specific organisations in the consumer goods sector.

In order for an organisation in the consumer goods sector to exhibit environmental leadership, it must also have implemented a market orientation. That is, an organisation needs to have strategically aligned its internal operations to meet the needs and wants of consumers. In doing so, organisations have been found to deliver products that are of high quality and adhere to environmental performance goals, resulting in environmental leadership.

2. The organisational value of a strong marketing orientation is shown by Gatignon’s research to also be valuable in terms of environmental leadership. What is the value for customers for an organisation implementing strong environmental leadership?

Strong environmental leadership has benefits for both the organisation and the consumer. For the consumer, an organisation’s environmental leadership is born from a market orientation, whereby the organisation strives to meet the needs and wants of consumers. In addition to benefiting from a customer orientation, consumers also benefit from access to more environmentally friendly, innovative and high-quality products and services.

# SUGGESTED ANSWERS TO STUDY TOOLS

## Issues for discussion and review

1. What strategic variables make up the expanded marketing mix?

This question is testing knowledge of a key learning objective. The strategic variables that make up the expanded marketing mix are:

* *Product.* A product can be a good, a service, an idea, an experience or a combination thereof.
* *Price.* The price variable relates to decisions and actions associated with establishing pricing objectives and policies, and determining product prices.
* *Place (distribution).* A key for successful products is that they are available at the right time and in convenient locations (places). However, ‘place’ is not always a specific, or physical, location – it includes Internet locations, too.
* *Promotion.* Promotion relates to the activities used to inform individuals, companies or groups about the organisation and its products.
* *People.* The people involved with preparing, producing and presenting the product – typically the organisation’s employees.
* *Physical evidence.* The location, décor, lighting and other physical elements that are associated with the product that contribute to the customer’s perception of the product or service.
* *Process.* Automation or the use of self-service technology, which enhance the customer’s satisfaction with the product.
* *Partnership.* The company’s relationships with partner organisations throughout the supply chain.

2. Define ‘marketing’. How has your definition changed after reading this chapter?

The text defines marketing as the process of creating, distributing, promoting and pricing goods, services and ideas to facilitate satisfying exchange relationships with customers in a dynamic environment.

The second part of this question can be used to stimulate class discussion about how the average person views marketing – and how their thinking has changed after reading how the discipline defines marketing.

3. How is an organisation’s market orientation reflected in its activities?

Market-orientated organisations define their products not as what the companies make or produce but as what they do to satisfy customers. Therefore, the activities of market-oriented firms reflect that customers, the purchasers of the products that organisations develop, promote, distribute and price, are the focal point of their activities.

4. What are the dynamic forces shaping the marketing environment? Describe how these forces affect marketing activities.

The marketing environment, which surrounds both customers and the marketing mix, includes competitive, economic, political, legal and regulatory, technological and sociocultural forces.

Marketers have little control of these environmental forces, but they can affect both buyers and sellers in dramatic and unpredictable ways. They can influence customers by affecting their lifestyles, standards of living and preferences and needs for products. They can help to determine whether and how a marketing manager can perform certain marketing activities. Marketing environment forces can influence buyer’s reactions to the company’s marketing mix.

Marketers must be aware of forces in the marketing environment, adapt to them, and capitalise on the opportunities they provide.

5. What are the basic elements of the marketing concept?

The marketing concept is an organisational philosophy that states that an organisation should try to provide products that satisfy customers’ needs through a coordinated set of activities that also allow the organisation to achieve its goals. The major focus is customer satisfaction.

6. What is value? How can marketers use the marketing mix to enhance the perception of value?

The text defines value as a customer’s subjective assessment of benefits relative to costs in determining the worth of a product. Examples of ways marketers can modify their marketing mixes to enhance perceptions of value include offering product features or enhancements that provide desirable consumer benefits, using promotion to create a positive image or prestigious characteristics that consumers consider in value assessment, pricing products according to consumer use, and offering convenient distribution outlets.

7. Describe the types of activities involved in the marketing management process.

Marketing management is the process of planning, organising, implementing and controlling marketing activities to facilitate effective and efficient exchanges. Planning is the systematic process for assessing opportunities and resources, determining marketing objectives, and strategising implementation and control. The organisation of marketing activities requires the development of marketing unit internal structures. Implementation requires coordinating marketing activities, motivating marketing personnel and effectively communicating within the marketing unit. The marketing control process includes the establishment of performance standards, comparison of actual performance with established standards, and reduction of the gap between desired and actual performance.

8. What are some of the broader ways in which marketing is important to businesses and to the global economy?

Businesses must sell their products or services to survive. So the development of products and services that satisfy customer’s needs is critical. The importance of marketing is that many marketing activities contribute to the development of satisfying products and services. This also explains why as much as 50% of a product’s purchase price is for the marketing costs of the product/service. The financial resources generated from the sale of goods and services can be used to develop innovative products and to hire employees and buy raw materials.

Marketing is important in the global economy because through its role generating profits, and the direct employment of people engaged in marketing activities, marketing provides employment for many people and helps sell products. This, in turn, generates profits essential to the survival of individual businesses as well as to the health and ultimate survival of the global economy.

9. What is green marketing? Identify and discuss an Australian company that is engaged in socially responsible marketing.

Green marketing is a strategic process involving stakeholder assessment to create meaningful long-term relationships with customers while maintaining, supporting and enhancing the natural environment.

Information on the sustainability and green marketing of companies is available on the Internet. Students should search for ‘green marketing’ to identify relevant companies. Class discussion can centre on how sustainability is integrated into the marketing mix: promotions, place, pricing and product; for example, regarding:

Product – NAB has developed an innovative funding product called ‘Environmental Upgrade Funding’, which overcomes funding obstacles for commercial property owners to reduce the carbon footprint of their properties.

Place – companies are attempting to reduce their carbon emissions from energy used in the transportation of their goods. For example ‘food miles’ is a key issue for food companies, and bedding manufacturer Sealy sources local components wherever possible to reduce carbon miles in their mattresses.

Promotions – organisations are using recycled, unbleached paper to prepare their advertising material.

Pricing – for example, Qantas is enabling customers to add carbon off-setting to their flight by adding a small contribution to the price of their airfare.

## Marketing applications

1. Identify a business that does not display a marketing orientation. What characteristics of this organisation indicate that it does not have a market-orientation? How could the business implement the marketing concept?

Teachers should get students to identify a business that they are familiar with that has failed to clearly establish an information system to discover and satisfy customers’ real needs.

Discussing the firm’s lack of market orientation, students will learn about the importance of satisfying customers’ and, thereby, firms’ own objectives.

Some students may not be aware of the large amount of business transactions they engage in (which lend themselves to the study of the marketing concept). These can include (late) buses, trams or trains on their way to university, (poor) service in their local cafeteria and many others.

2. Identify the probable target markets for the following products:

a. Uncle Tobys Traditional Oats

b. Jalna Biodynamic Yoghurt

c. Australian Rules football (AFL)

A well-defined target market is a crucial element of a marketing strategy. Organisations generally focus their marketing efforts on a specific group of customers, or target market. Students should understand why, for the above mentioned products, the target markets will be different. Students should be introduced to the concept of geographic (location-based) as well as demographic/socioeconomic and behavioural segmentation.

Jalna Biodynamic Yoghurt’s target group, for instance, is mainly young single women and middle-upper class families. In defining their target market, marketers at Jalna will take into account the stage of family life cycle, income, household size, etc. In this case, parallels could be drawn to Uncle Tobys Oats target market, and differences with regard to AFL football.

An engaging way of illustrating a typical target market to students is to show an ad for the different products (including a quick discussion around the target market of the publication or channel in which this ad was featured).

3. What clues do the companies’ websites give regarding the companies’ view of their product’s target markets?

Looking at the websites of the companies mentioned shows that Jalna has a lot of young women pictured – with a few infants. Uncle Tobys has images of families and older people (the traditional heartland of porridge). Uncle Toby’s also has brand ambassadors who are all young, fit athletes and their community news is all sports related. The AFL site is very ‘newsy’ and mostly has images of men.

All brands have Facebook pages to connect with their customers.

4. Discuss the variables of the marketing mix (product, price, promotion, distribution, people/participants, physical evidence, processes and partnerships) as they might relate to each of the following:

a. Visy, an innovative package provider and recycler ([www.visy.com.au](http://www.visy.com.au))

b. Rod Laver Arena, a stadium at Melbourne Park that hosts major events and the Australian Open tennis ([www.rodlaverarena.com.au](http://www.rodlaverarena.com.au))

c. The Iconic, an online store ([www.theiconic.com.au](http://www.theiconic.com.au))

d. Bailey’s Sydney, a tour company (<http://baileys-sydney.com>).

This discussion should allow students to realise how different the elements of the marketing mix are for the above-mentioned businesses.

Visy, for instance, will typically engage in more business-to-business marketing in order to establish and maintain customer relationships without direct contact to end consumers. In contrast, a boutique tour operator like Bailey’s Sydney has to establish very personal, individual relationships with trip makers as well as continue broad consumer marketing activities. It is important for students to discuss each product or service and how its nature determines all the elements of the marketing mix.

### Online exercise

5. ADMA (Association for Data-Driven Marketing & Advertising) is Australia’s largest marketing and advertising association. Visit its website at <http://www.adma.com.au> and find the answers to the questions below.

a. What is the association’s overarching goal?

ADMA’s goal is to protect, support and champion excellence in data-driven marketing and advertising in Australia, and beyond. It does this by providing marketing guidance, ideas, insight and innovation to its membership base.

b. Who does the association serve, and in what way?

ADMA membership is primarily organisations. Many resources are made exclusively available for the marketers within those organisations. However, a range of articles is also available for anyone to access. ADMA also represents members’ views to government in relation to important issues affecting marketing and advertising in Australia.

c. What services does the organisation provide?

ADMA manages the national ‘Do Not Mail Service’ and administers codes of conduct that ADMA members agree to adhere to. Consumers can obtain information about those codes, and register a complaint for breaches, with ADMA.

In addition to administering codes of conduct and managing the Do Not Mail Service, ADMA provides a lot of services to its members. Membership benefits include:

Knowledge Lab – a source of content relating to data-driven marketing and advertising information, trends, news and insights both locally and globally

Compliance Hub – a compliance resource centre

events – industry-relevant events throughout the year

ADMA Spark – an education program

awards – to recognise the best marketing and advertising campaigns and agencies as judged by a panel of respected industry leaders

regulatory and compliance assistance – ADMA plays a key role in the development and promotion of regulatory guidelines to assist marketers in complying with legislation.

## Developing your marketing plan

1. Discuss how the marketing concept contributes to a company’s long-term success.

The marketing concept is a managerial philosophy that states that an organisation should try to satisfy customers’ needs through a coordinated set of activities that also allows the organisation to achieve its goals. The marketing concept contributes to a company’s long-term success in several ways. First, the marketing concept realises that for any exchange to be sustainable, both parties (i.e. buyers and sellers) must have their needs met. The marketing concept fully embraces this. Second, the marketing concept requires organisations to generate market intelligence pertaining to current and future customer needs. Understanding future customer needs is essential to sustaining long-term success. Finally, businesses want to satisfy customers and build meaningful long-term buyer–seller relationships because doing so helps a firm boost its financial value and the marketing concept is the most proven way to deliver this result.

2. Describe the level of market orientation that currently exists in your company. How will a market orientation contribute to the success of your new product?

In answering this question, students will need to first identify a company, then describe the level of marketing orientation that currently exists within this company, and finally explain how a marketing orientation will contribute to the excess of the new product introduced.

3. What benefits will your product provide to the customer? How will these benefits play a role in determining the customer value of your product?

Students will need to thoughtfully explain what specific benefits their new product will provide to customers. As an example, if their new product were a soft drink, the soft drink would have to provide great taste and have attractive packaging and probably a cool name.

# WRITTEN CASE STUDY

## Apple: Value at its core

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There is a pretty good chance that a large number of consumers are familiar with more than one or two Apple products. Apple has a lot of loyal customers cross the globe.

Far fewer people know that in September 1997, Apple was two months from filing for bankruptcy.30 In 1995, Apple launched the PowerBook 5300, the first Power PC-based PowerBook. Unfortunately, this product received low consumer acceptance due to problems with its batteries as well as its performance, leading to a damaged market reputation for Apple.31 Originally, the PowerBook 5300 was designed to use Lithium-ion batteries. However, some of these new batteries burst into flames. Switching to NiMH (nickel metal hydride) made the battery inefficient. Moreover, PowerBook 5300 was slower than expected.32 At the same time, Microsoft’s Windows 95 multimedia operating system was released.33 This created further pressures to keep Apple alive in a world dominated by Windows-Intel-based PCs. Apple began losing customers, the focal point in value chain delivery in marketing.

Steve Jobs, Apple’s co-founder, who returned to Apple in 1997 taking the leadership role, undertook several initiatives. He negotiated a $150 million investment from Microsoft in return for non-voting shares, exploiting Bill Gates’ concern about what a failed Apple would mean to Microsoft’s anti-trust case34 with the Department of Justice.

Capitalising on the second chance, Jobs streamlined Apple’s product range, deleting underperformers to deliver value for customers. He cut all of their desktop models back to one. In the laptop category, he similarly cut all models back to one. Printers and other peripherals were all delisted from their offering. He also cut the distributors and five out of six national retailers. In brief, Jobs simplified Apple’s offering for customers by removing the business activities that failed to deliver value for customers.

To stimulate growth, Apple, under the command of Steve Jobs, launched the iPod music player and iTunes in 2001, iPhone in 2007 and iPad in 2010. These products have contributed to building Apple’s reputation as the world’s most innovative firm, leading to strong results. In Australia, iPhone, for instance, captures 46% market share.35 When releasing the first iPad in 2010, Jobs reported that there had been 50 million visitors to 284 Apple stores worldwide in the previous quarter. In the 18 months since its inception, the App store had offered more than 140,000 applications that attracted 3 billion downloads.36

These products have returned customers’ hearts back to Apple. Apple has won fanatical customers, who are willing to line up in front of stores to be the first customer to buy the new product. Everyone, including the diehard fans, is watching Apple’s next moves. Customers continually raise their expectations, making it more challenging to create value for customers. When releasing the iPhone 7, current Apple CEO, Tim Cook, announced changes that include upgrades to the battery and processor, enhanced camera technology and water-resistant casing.37 However, the most notable change is not about adding something new. Rather, it is the removal of the headphone jack, the circular port where users can plug in their headphones. This product again focuses on making customers’ life better.38 On its release day in Sydney on 16 September 2016, diehard Aussie Apple fans began waiting in line 48 hours before the product hit the store.39

A series of successful innovations in winning customers’ hearts has brought Apple a dramatic sales increase from USD$7 billion in 199740 to USD$233 billion in 2015.41 The balanced combination of marketing mix variables delivered through their innovation has seen Apple winning the crown as the most valuable brand globally in 2016.42 How long will Apple enjoy this success?

## Questions for discussion

1. Select one Apple product and outline its value for customers.

Major Apple’s products include iPod, iPhone, iTunes and iPad. Value includes the key benefit for customers. Apple’s products, in general, provide mobility benefit for customers. iPod’s value revolves around mobile music, for instance. iPhone delivers mobile communication. iTunes provides customers with mobile music store. iPad delivers mobile connection to photos, documents, etc.

2. Marketers aim at creating superior value for customers. Describe how the value that Apple delivers to its customers is related to its financial performance.

The value that Apple delivers for their customers helps building the relationship, which is the key element in marketing. Brands with high customer satisfaction will enjoy ongoing business relationship with the customers. This eventually brings strong financial performance.

3. Apple iPhone 7 was launched on 16 September 2016 in Australia. This product has removed the headphone jack. In your opinion, is this the right decision to create value for customers? Outline your argument.

Some comments may support this. The reason to support this decision revolves around bringing practicality and modern feel. The other comments may be against this decision. The argument revolves around removing jack is not considered as innovative. This is not a breakthrough that Apple brought.

30 Richard Rumelt, Good Strategy Bad Strategy (London: Profile Books, 2012), 11–13.

31 ‘Beleaguered: Apple bottoms out, 1996 to 1998’, Welcome to Low End Mac, September 29, 2006, accessed December 7, 2016, http://lowendmac.com/2006/beleagueredapple-bottoms-out-1996-to-1998/.

32 Dan Knight, ‘PowerBook 5300, a compromised Mac’, Welcome to Low End Mac, March 4, 2014, accessed 21 December, 2016, http://lowendmac.com/2014/powerbook-5300-a-compromised-mac/.

33 Richard Rumelt, Good Strategy Bad Strategy (London: Profile Books, 2012), 11–13.

34 John C. Abell, ‘Aug. 6, 1997: Apple rescued – by Microsoft’, Wired, August 6, 2009, accessed December 5, 2016, https://www.wired.com/2009/08/dayintech\_0806/.

35 Paul Smith, ‘Apple and Samsung battle intensifies as Australian smartphone sales slow’, Australian Financial Review, March 15, 2016, accessed December 21, 2016, http://www.afr.com/technology/mobilesand-tablets/apple-and-samsung-battleintensifies-as-australian-smartphonesales-slow-20160311-gngijp.

36 ‘iPad Introduction - Apple Special Event January 27, 2010 – Part 1 of 10’, YouTube, 9:56, accessed December 11, 2016, posted by Boris Liu, January 28, 2010, https://www.youtube.com/watch?v=WLBQVKwcIDw.

37 Zack Brooke, ‘Why killing the headphone jack was the best decision Apple ever made’, Marketing News, October (2016): 3–6.

38 Zack Brooke, ‘Why killing the headphone jack was the best decision Apple ever made’, Marketing News, October (2016): 3–6.

39 Matthew Dunn, ‘People have been queuing outside the Apple store for 48 hours to secure the iPhone 7’, news.com.au, September 16, 2016, accessed 12 December, 2016, http://www.news.com.au/technology/gadgets/mobile-phones/people-havebeen-queuing-outside-the-apple-store-for-30-hours-to-secure-the-iphone-7/newsstory/9557c1d58900a0f5a320bf3e7c523462.

40 Apple Computer Inc.1997, Annual report, accessed December 5, 2016, http://investor.apple.com/secfiling.cfm?filingid=1047469-97-6960&cik=320193.

41 Apple Computer Inc. 2015, Annual report, accessed December 5, 2016, http://investor.apple.com/secfiling.cfm?filingid=1193125-14-383437.

42 ‘Best Global Brands 2016 Rankings’, Interbrand, accessed December 12, 2016, http://interbrand.com/best-brands/bestglobal-brands/2016/ranking/.

# VIDEO RESOURCES

## Marketing profile video

See end of Part IM for notes.

## Chapter video case: Cruising to success: The tale of New Belgium Brewing

#### Summary

This case illustrates how New Belgium Brewing’s market orientation has helped the company grow from a small business to America’s third-largest brewery. Since its founding, New Belgium has emphasised the importance of meeting the needs of its many stakeholder groups, and that philosophy continues to guide the company’s marketing activities. While students may be familiar with the company’s corporate social responsibility activities, it is important for them to realise that those activities are part of the company’s marketing strategy and thus its profitability.

#### Questions for discussion

1. How has New Belgium implemented the marketing concept?

According to the marketing concept, an organisation should try to provide products that satisfy customers’ needs through a coordinated set of activities that also allow the organisation to achieve its goals. New Belgium considers its customers and other stakeholders at every level of its marketing activities, which has led to the company’s popularity and success. Students may cite examples related to each part of the marketing mix, so make sure they focus on how the marketing mix contributes to customer satisfaction and the marketing concept.

To ensure customer satisfaction, New Belgium focuses on creating quality products. The company engages in market research when creating its beers. It continually creates new products to keep customers engaged and excited about the brand. Even the company’s focus on sustainability reflects what is important to their customers. However, New Belgium’s corporate social responsibility activities are not just philanthropic – they are strategic. Because New Belgium beers provide more value, customers are willing to pay premium prices, which leads to higher profits for the company and its impressive 15 per cent growth rate.

2. What has Kim Jordan done to create success at New Belgium?

Kim Jordan created a unique marketing mix for New Belgium. Under her direction, the company crafted quality beers (product), placed them on shelves and in bars (distribution), created a unique indie brand (promotion) and increased its profit by providing more value and charging a higher price. In addition, Jordan’s vision for New Belgium’s corporate culture creates value for all stakeholder groups – including employees, customers, the environment and the community – and fosters loyalty to the New Belgium brand.

3. How does New Belgium’s focus on sustainability as a core value contribute to its corporate culture and success?

Sustainability has been a major part of the company’s vision since its founding. For this reason, New Belgium strives to incorporate environmental responsibility directly into its business strategies. Sustainability is important to several of New Belgium’s stakeholder groups, which increases customer and employee loyalty. Because of this, the company’s environmental philosophy creates a competitive advantage. Environmentally conscious consumers are more likely to do business with a company that incorporates green practices into its business activities. Sustainable practices also increase consumers’ perceptions of the value of New Belgium’s prices, which results in higher prices and better financial returns for the company.