GLOBAL MARKETING IN THE 21ST CENTURY

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GENERAL OBJECTIVES OF THE SUBJECT
At the end of the course, Individuals will examine the principles of Global Marketing an apply them within the companies need critically reflect Marketing behavior within companies *and* their impact on the development of this course.

10. GLOBAL MARKETING IN THE 21ST CENTURY

10.1 Introduction of the Global Marketing
10.2 Relationships and Networks
10.3 The Marketing Concept
10.4 Marketer Responses and Adjustments

10.1 Introduction of the Global Marketing

The nations of the world are linked by a multidimensional network of economic, social, cultural, and political ties. As these connections become more important and complex, countries will find themselves richer but more vulnerable to foreign disturbances, and this vulnerability increasingly will move the issues surrounding international trade and finance into the political arena.

The Global Economy – World trade has grown sixteenfold since 1950, far outstripping the growth in GDP. GATT and WTO have helped to reduce tariffs from 40 percent in 1947 to an estimated 4 percent in 2000. As the WTO replaced GATT in 1996, the major challenge was to assure compliance and to assert the authority of the WTO over powerful regional trade agreements like the European Union (EU), the North American Free Trade Agreement (NAFTA), the Common Market of the South (MERCOSUR), and the Asian-Pacific Economic Cooperation (APEC). There are over eighty regional agreements between countries granting preferential access to each other's markets. Thus understanding the economics of trade is critical to understanding that the need for free trade flows from country to country.

The basis for trade involves two advantages: Absolute Advantage and Comparative Advantage. As provided by Adam Smith, the theory of selling what you are best at is known as Absolute Advantage. David Richardo pointed out that it is still possible to produce profitably what one is best at even if someone else is better, and this theory is well known as Comparative Advantage. Comparative Advantage measures a product's cost of production, not in monetary terms but in terms of forgone opportunity to produce something else. In essence, the theory of comparative advantage says it pays for countries to engage in international trade exporting in which they are efficient and to import goods that they are relatively inefficient at producing.

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In global economy, balance of payments is considered to be very important by many businesspeople, government officials and economists. It is an accounting record of the transactions between the residents of one country and the residents of the rest of the world over a given period of time. There are three important balance of payments measures: the balance on merchandise trade, the balance on goods and services, and the balance on current account. The last measure is considered to be a reflection of a nation's financial claims on other countries.

A ***global industry*** is one in which the strategic positions of competitors in major geographic or national markets are fundamentally affected by their overall global positions. Global firms—both large and small—plan, operate, and coordinate their activities and exchanges on a worldwide basis.

Today we can distinguish between a ***marketplace*** and a ***marketspace****.* The marketplace is ***physical, as when one goes shopping in a store***; marketspace is digital, as when one goes shopping on the Internet. E-commerce—business transactions conducted on-line—has many advantages for both consumers and businesses, including convenience, savings, selection, personalization, and information. For example, on-line shopping is so convenient that 30 percent of the orders generated by the Web site of REI, a recreational equipment retailer, is logged from 10 P.M. to 7 A.M., sparing REI the expense of keeping its stores open late or hiring customer service representatives.

However, the e-commerce ***marketspace*** is also *bringing pressure from consumers for lower prices and is threatening intermediaries such as travel agents, stockbrokers, insurance agents, and traditional retailers. To succeed in the on-line marketspace, marketers will need to reorganize and redefine themselves*.

The ***metamarket****,* a concept proposed by Mohan Sawhney, ***describes a cluster of complementary products and services that are closely related in the minds of consumers but are spread across a diverse set of industries***. The automobile metamarket consists of automobile manufacturers, new and used car dealers, financing companies, insurance companies, mechanics, spare parts dealers, service shops, auto magazines, classified auto ads in newspapers, and auto sites on the Internet. Car buyers can get involved in many parts of this metamarket. This has created an opportunity for *metamediaries* to assist buyers to move seamlessly through these groups. One example is Edmund's (www.edmunds.com), a Web site where buyers can find prices for different cars and click to other sites to search for dealers, financing, and accessories. Metamediaries can serve various metamarkets, such as the home ownership market, the parenting and baby care market, and the wedding market.

Marketers and Prospects - Another core concept is the distinction between marketers and prospects. A marketer is someone who is seeking a resand what he *gives.* The customer gets *benefits* and assumes *costs,* as shown in this equation:

1) Value
2) Benefits
3) Functional benefits
4) Emotional benefits
5) Costs Monetary costs
6) Time costs
7) Energy costs
8) Psychic costs

Based on this equation, the marketer can increase the value of the customer offering by:

1) Raising benefits
2) Reducing costs
3) Raising benefits
4) Reducing costs
5) Raising benefits by more than the raise in costs
6) Lowering benefits by less than the reduction in cost

A customer choosing between two value offerings, $V1$ and $V2$, will examine the ratio $V1/V2$. She will favor $V1$ if the ratio is larger than one; she will favor $V2$ if the ratio is smaller than one; and she will be indifferent if the ratio equals one.

Exchange and Transactions - *Exchange,* the core of marketing, involves obtaining a desired product from someone by offering something in return. For exchange potential to exist, five conditions must be satisfied:

1) There are at least two parties.
2) Each party has something that might be of value to the other party.
3) Each party is capable of communication and delivery.
4) Each party is free to accept or reject the exchange offer.
5) Each party believes it is appropriate or desirable to deal with the other party.

Whether exchange actually takes place depends upon whether the two parties can agree on terms that will leave them both better off (or at least not worse off) than before.

Exchange is a value-creating process because it normally leaves both parties better off. Note that exchange is a process rather than an event. Two parties are engaged in exchange if they are negotiating—trying to arrive at mutually agreeable terms. When an agreement is reached, we say that a transaction takes place. A ***transaction*** involves at least two things of value, agreed-upon conditions, a time of agreement, and a place of agreement.

Usually a legal system exists to support and enforce compliance among transactors. However, transactions do not require money as one of the traded values. A barter transaction, for example, involves trading goods or services for other goods or services. Note also that a transaction differs from a transfer. In a *transfer, A* gives a gift, a subsidy, or a charitable contribution to *B* but receives nothing tangible in return. Transfer behavior can also be understood through the concept of exchange. Typically, the transfer expects something in exchange for his or her gift—for example, gratitude or seeing changed behavior in the recipient. Professional fund-raisers provide benefits to donors, such as thank-you notes. Contemporary marketers have broadened the concept of marketing to include the study of transfer behavior as well as transaction behavior.

Marketing consists of actions undertaken to elicit desired responses from a target audience. To effect successful exchanges, marketers analyze what each party expects from the transaction. Suppose Caterpillar, the world's largest manufacturer of earth-moving equipment, researches the benefits that a typical construction company wants when it buys such equipment. One of Caterpillar's marketing tasks is to discover the relative importance of these different wants to the buyer. As the marketer, Caterpillar also has a want list. If there is a sufficient match or overlap in the want lists, a basis for a transaction exists. Caterpillar's task is to formulate an offer that motivates the construction company to buy Caterpillar equipment. The construction company might, in turn, make a counteroffer. This process of negotiation leads to mutually acceptable terms or a decision not to transact.

10.2 Relationships and Networks

Transaction marketing is part of a larger idea called relationship marketing. ***Relationship marketing*** aims to build long-term mutually satisfying relations with key parties - customers, suppliers, distributors—in order to earn and retain their long-term preference and business. Effective marketers accomplish this by promising and delivering high-quality products and services at fair prices to the other parties over time.

Relationship marketing builds strong economic, technical, and social ties among the parties. It cuts down on transaction costs and time. In the most successful cases, transactions move from being negotiated each time to being a matter of routine. The ultimate outcome of relationship marketing is the building of a unique company asset called a marketing network. A ***marketing network*** consists of the company and its supporting ***stakeholders*** (customers, employees, suppliers, distributors, university scientists, and others) with whom it has built mutually profitable business relationships. Increasingly, competition is not between companies but rather between marketing networks, with the profits going to the company that has the better network.

Marketing Channels - To reach a target market, the marketer uses three kinds of marketing channels. ***Communication channels*** deliver messages to and receive messages from target buyers. They include newspapers, magazines, radio, television, mail, telephone, billboards, posters, fliers, CDs, audiotapes, and the Internet. Beyond these, communications are conveyed by facial expressions and clothing, the look of retail stores, and many other media. Marketers are increasingly adding ***dialogue channels*** (e-mail and toll-free numbers) to counterbalance the more normal ***monologue channels*** (such as ads).

The marketer uses *distribution channels* to display or deliver the physical product or service(s) to the buyer or user. There are physical distribution channels and service distribution channels, which include warehouses, transportation vehicles, and various ***trade channels*** such as distributors, wholesalers, and retailers. The marketer also uses ***selling channels*** to effect transactions with potential buyers. Selling channels include not only the distributors and retailers but also the banks and insurance companies that facilitate transactions. Marketers clearly face a design problem in choosing the best mix of communication, distribution, and selling channels for their offerings.

Supply Chain - Whereas marketing channels connect the marketer to the target buyers, the ***supply chain*** describes a longer channel stretching from raw materials to components to final products that are carried to final buyers. For example, the supply chain for women's purses starts with hides, tanning operations cutting operations, manufacturing, and the marketing channels that bring products to customers. This supply chain represents a ***value delivery system.*** Each company captures only a certain percentage of the total value generated by the supply chain. When a company acquires competitors or moves upstream or downstream, its aim is to capture a higher percentage of supply chain value.

Competition - Competition, a critical factor in marketing management, includes all of the actual and potential rival offerings and substitutes that a buyer might consider. Suppose an automobile company is planning to buy steel for its cars. The car manufacturer can buy from U.S. Steel or other U.S. or foreign integrated steel mills; can go to a mini mill such as Nucor to buy steel at a cost savings; can buy aluminum for certain parts of the car to lighten the car's weight; or can buy some engineered plastics parts instead of steel.

Clearly U.S. Steel would be thinking too narrowly of competition if it thought only of other integrated steel companies. In fact, U.S. Steel is more likely to be hurt in the long run by substitute products than by its immediate steel company rivals. U.S. Steel also must consider whether to make substitute materials or stick only to those applications in which steel offers superior performance. We can broaden the picture by distinguishing four levels of competition, based on degree of product substitutability:

1) **Brand competition:** A company sees its competitors as other companies that offer similar products and services to the same customers at similar prices. Volkswagen might see its major competitors as Toyota, Honda, and other manufacturers of medium price automobiles, rather than Mercedes or Hyundai.

2) **Industry competition:** A company sees its competitors as all companies that make the same product or class of products. Thus, Volkswagen would be competing against all other car manufacturers.

3) **Form competition:** A company sees its competitors as all companies that manufacture products that supply the same service. Volkswagen would see itself competing against manufacturers of all vehicles, such as motorcycles, bicycles, and trucks.

4) **Generic competition:** A company sees its competitors as all companies that compete for the same consumer dollars. Volkswagen would see itself competing with companies that sell major consumer durables, foreign vacations, and new homes.

Marketing Environment - Competition represents only one force in the environment in which all marketers operate. The overall marketing environment consists of the task environment and the broad environment. The *task environment* includes the immediate actors involved in producing, distributing, and promoting the offering, including the company, suppliers, distributors, dealers, and the target customers. Material suppliers and service suppliers such as marketing research agencies, advertising agencies, Web site designers, banking and insurance companies, and transportation and telecommunications companies are included in the supplier group. Agents, brokers, manufacturer representatives, and others who facilitate finding and selling to customers are included with distributors and dealers.

The ***broad environment*** consists of six components:

- Demographic Environment
- Economic Environment
- Natural Environment
- Technological Environment
- Political-Legal Environment
- S*ocial-cultural environment.*

These environments contain forces that can have a major impact on the actors in the task environment, which is why smart marketers track environmental trends and changes closely.

Marketing Mix
Marketers use numerous tools to elicit the desired responses from their target markets. These tools constitute a marketing mix: **Marketing mix** is the set of marketing tools that the firm uses to pursue its marketing objectives in the target market. The tools into four broad groups that he called the four Ps of marketing:

- Product
- Price
- Place
- Promotion

Marketing-mix decisions must be made to influence the trade channels as well as the final consumers. Typically, the firm can change its price, sales-force size, and advertising expenditures in the short run. However, it can develop new products and modify its distribution channels only in the long run. Thus, the firm typically makes fewer period-to-period marketing-mix changes in the short run than the number of marketing-mix decision variables might suggest. Robert Lauterborn suggested that the sellers' four Ps correspond to the customers' four C's. **Four Ps Four C's:**

- Product Customer Solution
- Price Customer Cost
- Place Convenience
- Promotion Communication

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

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Company Orientations Toward The Marketplace - Marketing management is the conscious effort to achieve desired exchange outcomes with target markets. But what philosophy should guide a company's marketing efforts? What relative weights should be given to the often conflicting interests of the organization, customers, and society? For example, one of Dexter Corporation's most popular products was a profitable grade of paper used in tea bags. Unfortunately, the materials in this paper accounted for 98 percent of Dexter's hazardous wastes. So while Dexter's product was popular with customers, it was also detrimental to the environment. Dexter assigned an employee task force to tackle this problem. The task force succeeded, and the company increased its market share while virtually eliminating hazardous waste.

The Four P Components of the Marketing Mix Company Orientations Toward the Marketplace Clearly, marketing activities should be carried out under a well-thought-out philosophy of efficient, effective, and socially responsible marketing. In fact, there are five competing concepts under which organizations conduct marketing activities: production concept, product concept, selling concept, marketing concept, and societal marketing concept.

The **production concept,** one of the oldest in business, holds that consumers prefer products that are widely available and inexpensive. Managers of production-oriented businesses concentrate on achieving high production efficiency, low costs, and mass distribution. This orientation makes sense in developing countries, where consumers are more interested in obtaining the product than in its features. It is also used when a company wants to expand the market. Texas Instruments is a leading exponent of this concept. It concentrates on building production volume and upgrading technology in order to bring costs down, leading to lower prices and expansion of the market. This orientation has also been a key strategy of many Japanese companies.

The Product Concept - Other businesses are guided by the **product concept,** which holds that consumers favor those products that offer the most quality, performance, or innovative features. Managers in these organizations focus on making superior products and improving them over time, assuming that buyers can appraise quality and performance. Product-oriented companies often design their products with little or no customer input, trusting that their engineers can design exceptional products. A General Motors executive said years ago: "How can the public know what kind of car they want until they see what is available?" GM today asks customers what they value in a car and includes marketing people in the very beginning stages of design.

However, the product concept can lead to ***marketing myopia***. Railroad management thought that travelers wanted trains rather than transportation and overlooked the growing competition from airlines, buses, trucks, and automobiles. Colleges, department stores, and the post office all assume that they are offering the public the right product and wonder why their sales slip. These organizations too often are looking into a mirror when they should be looking out of the window.

The **selling concept,** another common business orientation, holds that consumers and businesses, if left alone, will ordinarily not buy enough of the organization's products. The organization must, therefore, undertake an aggressive selling and promotion effort. This concept assumes that consumers must be coaxed into buying, so the company has a battery of selling and promotion tools to stimulate buying. The selling concept is practiced most aggressively with unsought goods—goods that buyers normally do not think of buying, such as insurance and funeral plots. The selling concept is also practiced in the nonprofit area by fund-raisers, college admissions offices, and political parties.

Most firms practice the selling concept when they have overcapacity. Their aim is to sell what they make rather than make what the market wants. In modern industrial economies, productive capacity has been built up to a point where most markets are buyer markets (the buyers are dominant) and sellers have to scramble for customers.

Prospects are bombarded with sales messages. As a result, the public often identifies marketing with hard selling and advertising. But marketing based on hard selling carries high risks. It assumes that customers who are coaxed into buying a product will like it; and if they don't, that they won't bad-mouth it or complain to consumer organizations and will forget their disappointment and buy it again. These are indefensible assumptions. In fact, one study showed that dissatisfied customers may bad-mouth the product to 10 or more acquaintances; bad news travels fast, something marketers that use hard selling should bear in mind.

10.3 The Marketing Concept

The marketing concept, based on central tenets crystallized in the mid-1950s, challenges the three business orientations we just discussed. The **Marketing concept** holds that the key to achieving organizational goals consists of the company being more effective than its competitors in creating, delivering, and communicating customer value to its chosen target markets.

Theodore Levitt of Harvard drew a perceptive contrast between the selling and marketing concepts: ***"Selling focuses on the needs of the seller"***; "**marketing on the "needs of the buyer**. Selling is preoccupied with the seller's need to convert his product into cash; marketing with the idea of satisfying the needs of the customer by means of the product and the whole cluster of things associated with creating, delivering and finally consuming it." The ***marketing concept*** rests on four pillars: ***target market, customer needs, integrated marketing, and profitability.*** The selling concept takes an inside-out perspective. It starts with the factory, focuses on existing products, and calls for heavy selling and promoting to produce profitable sales. The marketing concept takes an outside-in perspective. It starts with a well-defined market, focuses on customer needs, coordinates activities that affect customers, and produces profits by satisfying customers.

Target Market - Companies do best when they choose their target market(s) carefully and prepare tailored marketing programs. For example, when cosmetics giant Estee Lauder recognized the increased buying power of minority groups, its Prescriptives subsidiary launched an "All Skins" line offering 115 foundation shades for different skin tones. Prescriptives credits All Skins for a 45 percent sales increase since this product line was launched.

Customer Needs - A company can carefully define its target market yet fail to correctly understand the customers' needs. Clearly, understanding customer needs and wants is not always simple. Some customers have needs of which they are not fully conscious; some cannot articulate these needs or use words that require some interpretation. We can distinguish among five types of needs:

1) Stated Needs
2) Real Needs
3) Unstated Needs
4) Delight Needs
5) Secret Needs

Responding only to the stated need may shortchange the customer. For example, if a customer enters a hardware store and asks for a sealant to seal glass window panes, she is stating a solution, not a need. If the salesperson suggests that tape would provide a better solution, the customer may appreciate that the salesperson met her need and not her stated solution.

A distinction needs to be drawn between ***responsive marketing, anticipative marketing,*** **and** ***creative marketing. A responsive marketer finds a stated need and fills it, while an anticipative marketer looks ahead to the needs that customers may have in the near future***. In contrast***, a creative marketer discovers and produces solutions that customers did not ask for, but to which they enthusiastically respond***. Sony exemplifies a creative marketer because it has introduced many successful new products that customers never asked for or even thought were possible: Walkmans, VCRs, and so on. Sony goes beyond customer-led marketing: It is a *market-driving* firm, not just a market-driven firm. Akio Morita, its founder, proclaimed that he doesn't serve markets; he creates markets.

Why is it supremely important to satisfy the needs of target customers? Because a company's sales come from two groups: new customers and repeat customers. One estimate is that attracting a new customer can cost five times as much as pleasing an existing one. And it might cost 16 times as much to bring the new customer to the same level of profitability as that of the lost customer. ***Customer retention*** is thus more important than ***customer attraction***.

Integrated Marketing - When all of the company's departments work together to serve the customers' interests, the result is ***integrated marketing***. Integrated marketing takes place on two levels.

First, the various marketing functions—sales force, advertising, customer service, product management, marketing research—must work together. All of these functions must be coordinated from the customer's point of view. Second, marketing must be embraced by the other departments.

According to David Packard of Hewlett-Packard: "Marketing is far too important to be left only to the marketing department!" Marketing is not a department so much as a companywide orientation. Xerox, for example, goes so far as to include in every job description an explanation of how each job affects the customer. Xerox factory managers know that visits to the factory can help sell a potential customer if the factory is clean and efficient. Xerox accountants know that customer attitudes are affected by Xerox's billing accuracy.

To foster teamwork among all departments, the company must carry out internal marketing as well as external marketing. ***External marketing is marketing directed at people outside the company. Internal marketing is the task of hiring, training, and motivating able employees who want to serve customers well***. In fact, internal marketing must precede external marketing. It makes no sense to promise excellent service before the company's staff is ready to provide it.

Managers who believe the customer is the company's only true **"profit center"** consider the traditional organization chart—a pyramid with the CEO at the top, management in the middle, and front-line people and customers at the bottom—obsolete. Master marketing companies invert the chart, putting customers at the top. Next in importance are the front-line people who meet, serve, and satisfy the customers; under them are the middle managers, who support the front-line people so they can serve the customers; and at the base is top management, whose job is to hire and support good middle managers.

Profitability - The ultimate purpose of the marketing concept is to help organizations achieve their objectives. In the case of private firms, the major objective is profit; in the case of nonprofit and public organizations, it is surviving and attracting enough funds to perform useful work. Private firms should aim to achieve profits as a consequence of creating superior customer value, by satisfying customer needs better than competitors. For example, Perdue Farms has achieved above-average margins marketing chicken—a commodity if there ever was one! The company has always aimed to control breeding and other factors in order to produce tender-tasting chickens for which discriminating customers will pay more.

How many companies actually practice the marketing concept? Unfortunately, too few. Only a handful of companies stand out as master marketers: Procter & Gamble, Disney, Nordstrom, Wal-Mart, Milliken & Company, McDonald's, Marriott Hotels, American Airlines, and several Japanese (Sony, Toyota, Canon) and European companies (IKEA, Club Med, Nokia, ABB, Marks & Spencer). These companies focus on the customer and are organized to respond effectively to changing customer needs. They all have well-staffed marketing departments, and all of their other departments—manufacturing, finance, research and development, personnel, purchasing—accept the customer as king. Most companies do not embrace the marketing concept until driven to it by circumstances. Various developments prod them to take the marketing concept to heart, including sales declines, slow growth, changing buying patterns, more competition, and higher expenses. Despite the benefits, firms face three hurdles in converting to a marketing orientation: organized resistance, slow learning, and fast forgetting. Some company departments (often manufacturing, finance, and research and development) believe a stronger marketing function threatens their power in the organization. Resistance is especially strong in industries in which marketing is being introduced for the first time—for instance, in law offices, colleges, deregulated industries, and government agencies. In spite of the resistance, many companies manage to introduce some marketing thinking into their organization. Over time, marketing emerges as the major function. Ultimately, the customer becomes the controlling function, and with that view, marketing can emerge as the integrative function within the organization.

The Societal Marketing Concept - Some have questioned whether the marketing concept is an appropriate philosophy in an age of environmental deterioration, resource shortages, explosive population growth, world hunger and poverty, and neglected social services. Are companies that successfully satisfy consumer wants necessarily acting in the best, long-run interests of consumers and society? The marketing concept sidesteps the potential conflicts among consumer wants, consumer interests, and long-run societal welfare.

Yet some firms and industries are criticized for satisfying consumer wants at society's expense. Such situations call for a new term that enlarges the marketing concept. We propose calling it the **societal marketing concept,** which holds that the organization's task is to determine the needs, wants, and interests of target markets and to deliver the desired satisfactions more effectively and efficiently than competitors in a way that preserves or enhances the consumer's and the society's well-being.

The societal marketing concept calls upon marketers to build social and ethical considerations into their marketing practices. They must balance and juggle the often conflicting criteria of company profits, consumer want satisfaction, and public interest. Yet a number of companies have achieved notable sales and profit gains by adopting and practicing the societal marketing concept. Some companies practice a form of the societal marketing concept called "***cause related marketing"***.

Pringle and Thompson define this as "activity by which a company with an image, product, or service to market builds a relationship or partnership with a 'cause,' or a number of 'causes,' for mutual benefit." They see it as affording an opportunity for companies to enhance their corporate reputation, raise brand awareness, increase customer loyalty, build sales, and increase press coverage. They believe that customers will increasingly look for demonstrations of good corporate citizenship. Smart companies will respond by adding "higher order" image attributes than simply rational and emotional benefits. Critics, however, complain that cause-related marketing might make consumers feel they have fulfilled their philanthropic duties by buying products instead of donating to causes directly.

How Business And Marketing Are Changing - We can say with some confidence that "the marketplace isn't what it used to be." It is changing radically as a result of major forces such as technological advances, globalization, and deregulation. These forces have created new behaviors and challenges:

Customers increasingly expect higher quality and service and some customization. They perceive fewer real product differences and show less brand loyalty. They can obtain extensive product information from the Internet and other sources, permitting them to shop more intelligently. They are showing greater price sensitivity in their search for value.

Brand manufacturers are facing intense competition from domestic and foreign brands, which is resulting in rising promotion costs and shrinking profit margins. They are being further buffeted by powerful retailers who command limited shelf space and are putting out their own store brands in competition with national brands.

Store-based retailers are suffering from an oversaturation of retailing. Small retailers are succumbing to the growing power of giant retailers and **"category killers."** Store-based retailers are facing growing competition from direct-mail firms; newspaper, magazine, and TV direct-to-customer ads; home shopping TV; and the Internet. As a result, they are experiencing shrinking margins. In response, entrepreneurial retailers are building entertainment into stores with coffee bars, lectures, demonstrations, and performances, marketing an "experience" rather than a product assortment.

Company Responses and Adjustments - Given these changes, companies are doing a lot of soul-searching, and many highly respected firms are adjusting in a number of ways. Here are some current trends:

- ***Reengineering:*** From focusing on functional departments to reorganizing by key processes, each managed by multidiscipline teams.
- ***Outsourcing:*** From making everything inside the company to buying more products from outside if they can be obtained cheaper and better. *Virtual companies* outsource everything, so they own very few assets and, therefore, earn extraordinary rates of return.
- ***E-commerce:*** From attracting customers to stores and having salespeople call on offices to making virtually all products available on the Internet. Business-to business purchasing is growing fast on the Internet, and personal selling can increasingly be conducted electronically.
- ***Benchmarking:*** From relying on self-improvement to studying world-class performers and adopting best practices.
- ***Alliances:*** From trying to win alone to forming networks of partner firms.
- ***Partner–suppliers:*** From using many suppliers to using fewer but more reliable suppliers who work closely in a **"partnership"** relationship with the company.
- ***Market-centered:*** From organizing by products to organizing by market segment.
- ***Global and local:*** From being local to being both global and local.
- ***Decentralized:*** From being managed from the top to encouraging more initiative and "intrepreneurship" at the local level.

10.4 <u>Marketer Responses and Adjustments</u>

As the environment changes and companies adjust, marketers also are rethinking their philosophies, concepts, and tools. Here are the major marketing themes at the start of the new millennium:

- ***Relationship marketing:*** From focusing on transactions to building long-term, profitable customer relationships. Companies focus on their most profitable customers, products, and channels.

- ***Customer lifetime value:*** From making a profit on each sale to making profits by managing customer lifetime value. Some companies offer to deliver a constantly needed product on a regular basis at a lower price per unit because they will enjoy the customer's business for a longer period.
- ***Customer share:*** From a focus on gaining market share to a focus on building customer share. Companies build customer share by offering a larger variety of goods to their existing customers and by training employees in cross-selling and up-selling.
- ***Target marketing:*** From selling to everyone to trying to be the best firm serving well defined target markets. Target marketing is being facilitated by the proliferation of special-interest magazines, TV channels, and Internet newsgroups.
- ***Individualization:*** From selling the same offer in the same way to everyone in the target market to individualizing and customizing messages and offerings.
- ***Customer database:*** From collecting sales data to building a data warehouse of information about individual customers' purchases, preferences, demographics, and profitability. Companies can "data-mine" their proprietary databases to detect different customer need clusters and make differentiated offerings to each cluster.
- ***Integrated marketing communications:*** From reliance on one communication tool such as advertising to blending several tools to deliver a consistent brand image to customers at every brand contact.
- ***Channels as partners:*** From thinking of intermediaries as customers to treating them as partners in delivering value to final customers.
- ***Every employee a marketer:*** From thinking that marketing is done only by marketing, sales, and customer support personnel to recognizing that every employee must be customer-focused.
- ***Model-based decision making:*** From making decisions on intuition or slim data to basing decisions on models and facts on how the marketplace works.

These major themes will be examined throughout this book to help marketers and companies sail safely through the rough, but promising, waters ahead. Successful companies will change their marketing as fast as their marketplaces and marketspaces change, so they can build customer satisfaction, value, and retention.

Executive Summary - All marketers need to be aware of the effect of globalization, technology, and deregulation. Rather than try to satisfy everyone, marketers start with market segmentation and develop a market offering that is positioned in the minds of the target market. To satisfy the target market's needs, wants, and demands, marketers create a product, one of the 10 types of entities (goods, services, experiences, events, persons, places, properties, organizations, information, and ideas). Marketers must search hard for the core need they are trying to satisfy, remembering that their products will be successful only if they deliver value (the ratio of benefits and costs) to customers. Every marketing exchange requires at least two parties—both with something valued by the other party, both capable of communication and delivery, both free to accept or reject the offer, and both finding it appropriate or desirable to deal with the other. One agreement to exchange constitutes a transaction, part of the larger idea of relationship marketing. Through relationship marketing, organizations aim to build enduring, mutually satisfying bonds with customers and other key parties to earn and retain their long-term business. Reaching out to a target market entails communication channels, distribution channels, and selling channels. The supply chain, which stretches from raw materials to the final products for final buyers, represents a value delivery system. Marketers can capture more of the supply chain value by acquiring competitors or expanding upstream or downstream.

In the marketing environment, marketers face brand, industry, form, and generic competition. The marketing environment can be divided into the task environment (the immediate actors in producing, distributing, and promoting the product offering) and the broad environment (forces in the demographic, economic, natural, technological, political-legal, and social-cultural environment). To succeed, marketers must pay close attention to the trends and developments in these environments and make timely adjustments to their marketing strategies. Within these environments, marketers apply the marketing mix—the set of marketing tools used to pursue marketing objectives in the target market. The marketing mix consists of the four Ps: product, price, place, and promotion.

Companies can adopt one of five orientations toward the marketplace. The production concept assumes that consumers want widely available, affordable products; the product concept assumes that consumers want products with the most quality, performance, or innovative features; the selling concept assumes that customers will not buy enough products without an aggressive selling and promotion effort; the marketing concept assumes the firm must be better than competitors in creating, delivering, and communicating customer value to its chosen target markets; and the societal marketing concept assumes that the firm must satisfy customers more effectively and efficiently than competitors while still preserving the consumer’s and the society’s wellbeing. Keeping this concept in mind, smart companies will add ***“higher order”*** image attributes to supplement both rational and emotional benefits.

The combination of technology, globalization, and deregulation is influencing customers, brand manufacturers, and store-based retailers in a variety of ways. Responding to the changes and new demands brought on by these forces has caused many companies to make adjustments. In turn, savvy marketers must also alter their marketing activities, tools, and approaches to keep pace with the changes they will face today and tomorrow.

NOTES

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3. Jay Conrad Levinson and Seth Grodin, *The Guerrilla Marketing Handbook* (Boston: Houghton Mifflin, 1994).
4. See Irving J. Rein, Philip Kotler, and Martin Stoller, *High Visibility* (Chicago: NTC Publishers, 1998).
5. See Philip Kotler, Irving J. Rein, and Donald Haider, *Marketing Places: Attracting Investment, Industry, and Tourism to Cities, States, and Nations* (New York: Free Press, 1993).
6. See Carl Shapiro and Hal R. Varian, "Versioning: The Smart Way to Sell Information," *Harvard Business Review,* November–December 1998, pp. 106–14.
7. Peter Drucker, *Management: Tasks, Responsibilities, Practices* (New York: Harper & Row, 1973), pp. 64–65.
8. *Dictionary of Marketing Terms,* 2d ed., ed. Peter D. Bennett (Chicago: American Marketing Association, 1995).
9. From a lecture by Mohan Sawhney, faculty member at Kellogg Graduate School of Management, Northwestern University, June 4, 1998.