

Audio Review Transcript

Chapter 13 Building Customer Relationships Through Effective Marketing

Although marketing encompasses a diverse set of decisions and activities performed by individuals, businesses, and non-business entities, it always begins and ends with the customer. The American Marketing Association defines marketing as the process of planning and executing the conception, pricing, promotion, and distribution of ideas, goods, and services to create exchanges that satisfy individual and organizational objectives. Marketing comprises eight major functions and numerous related activities.

Let's start by examining how marketing activities add value and with the concept of utility. You may recall that utility is the ability of a good or service to satisfy a human need. There are four kinds of utility. Form utility is created by converting production inputs into finished products. Marketing efforts are frequently used to determine the size, shape, and features that give a product its form utility. Place utility is created by making a product available at a location where customers wish to purchase it. Time utility is created by making a product available when customers wish to purchase it. Finally, possession utility is created by transferring title or ownership of a product to the buyer. Place, time, and possession utility have real value, much of which is added through marketing activities. Let's see how this happens by taking a brief look at marketing history.

In the late 18th and early 19th centuries, the demand for manufactured goods was so great that virtually everything that was produced was sold. Emphasis was placed on increased output and production efficiency. Marketing was limited to taking orders and distributing finished goods. In the 1920s, production began to exceed demand and producers had to direct their efforts to selling goods rather than just producing. Manufacturers produced goods they expected consumers to want and marketing consisted of promoting those products through personal selling, advertising, taking orders, and delivering goods.

During the 1950s, businesspeople realized that advertising and personal selling were not enough. They recognized they were not just manufacturers or sellers but were in the business of satisfying people's needs. As a result, they had to find out what people needed and then develop the goods and services to fill those needs. This evolved into the marketing concept, a business philosophy that involves the entire organization in the process of satisfying customers' needs while achieving the organization's goals. All functional areas play a role in providing customer satisfaction. Some companies today use relationship marketing, which involves developing mutually beneficial, long-term partnerships with customers to enhance customer satisfaction and to stimulate long-term customer loyalty. To truly implement the marketing concept, a firm must (1) obtain information about its current and potential customers; (2) use this information to pinpoint the specific needs and potential customers toward which it will direct its marketing activities; (3) mobilize its marketing resources to develop, price, promote, and deliver the product; and (4) obtain more marketing information—but this time on the effectiveness of its efforts.

How does a firm begin the process? First, it has to understand its markets. A market is a group of individuals, organizations, or both that need products in a given

category and that have the ability, willingness, and authority to purchase such products. Markets are broadly classified as consumer and business-to-business. Consumer markets consists of purchasers who intend to consume or benefit from the purchased products and who do not buy products to make a profit. Business-to-business markets, also called industrial markets, can be further divided into producer markets, which are individuals or organizations that buy certain products to use when making other products; reseller markets, such as wholesalers and retailers that buy finished products and sell them for a profit; governmental markets, which provide highways, education, energy, and defense; and institutional markets, which include churches, charities, not-for-profit schools and hospitals, and foundations.

Each type of market tends to respond to different marketing activities. So a firm has to design a marketing strategy, a plan that will enable an organization to make the best use of its resources and advantages to meet its objectives. The strategy consists of (1) the selection and analysis of the target market and (2) the creation and maintenance of an appropriate marketing mix. The marketing mix is a combination of product, price, distribution, and promotion developed to satisfy a particular target market. And a target market is a group of individuals, organizations, or both, for which a firm develops and maintains a marketing mix suitable for the specific needs and preferences of that group. In selecting a target market, marketing managers must keep in mind (1) the possible effects on the firm's sales, costs, and profits; (2) the available resources of the firm to satisfy that target market; and (3) the strength and number of competitors in the market. Most marketing managers take either the undifferentiated approach or the market segmentation approach.

The undifferentiated approach means directing a single marketing mix at the entire market for a particular period. This is used primarily for staple food items and some farm produce. Just about everything else requires the market segmentation approach. A market segment is a group of individuals or organizations within a market that share one or more characteristics. The process of dividing a market into segments and directing a marketing mix at a particular segment or segments rather than at the total market is called market segmentation. A firm may use a concentrated segmentation by directing the marketing mix at a single segment, or a differentiated segmentation by using multiple marketing mixes on multiple markets. A marketer may use a single characteristic, or basis.

We have mentioned the term marketing mix several times. Let's break it down into its four component parts and see what decisions go into each and how each influences marketing strategy. Product decisions include design, brand name, packaging and warranties, and the like. Pricing decisions include both base prices and discounts. Distribution decisions involve transportation, storage, intermediaries, and breadth of distribution. Promotion decisions focus on advertising, personal selling, sales promotion, and public relations. Each of these components will be discussed in depth in later chapters.

A firm has control over its marketing mix and can vary it to suit its markets. But there are other factors that a firm has no control over and that make up the marketing environment. These six environmental forces include (1) economic forces, which affect customers' ability to pay; (2) sociocultural forces, which result in changes in attitudes, beliefs, norms, customs, and lifestyles; (3) political forces, which arise through the

actions of elected officials; (4) competitive forces, which result from competitors' marketing plans; (5), legal and regulatory forces, which affect consumer protection and government regulation, and (6) technological forces, which can create opportunities or cause obsolescence.

Though a firm cannot control any of these forces directly, by developing a marketing plan that accounts for them, it can more easily adjust to changes. A marketing plan is a written document that specifies an organization's resources, objectives, strategy, and implementation and control efforts to be used in marketing a specific product or product group. A marketing plan can be short range—up to a year; medium range—1 to 3 years; or long range—3 to 5 years. The plan opens with an executive summary, which is followed by an extensive environmental analysis. This part includes an assessment of (1) the forces in the marketing environment, (2) the target market, and (3) the firm's current marketing objectives and performance. The environmental analysis is followed by assessments of the strengths and weaknesses within the firm, and the opportunities and threats posed by factors outside the firm. The next section states what the marketing objectives are designed to accomplish. This includes a discussion of each element in the marketing mix with objectives that provide a time frame and that must be consistent with the overall organizational objectives. Then the marketing strategies section details the selected target market and the specific marketing mix for that market. The marketing implementation section describes the process of putting the marketing strategies into effect by listing specific actions, how those activities will be performed and by whom, and how much they will cost. Finally, the evaluation and control section explains how the results will be measured and evaluated.

Measuring the sales potential of specific market segments helps a firm evaluate their feasibility and decide how to allocate resources to each segment. An analysis should indicate such information as time, geographic area, and the specific product or product line or product category. A sales forecast is an estimate of the amount of a product that an organization expects to sell during a certain period of time, based on a specified level of marketing effort. Accurate sales forecasts are critical because managers rely on them when they order raw materials and supplies, schedule production, secure financing, consider plant or equipment purchases, hire personnel, and plan inventory levels.

Marketing managers may obtain the information they need to make decisions by using a marketing information system and doing marketing research. A marketing information system is a framework for managing marketing information that is gathered continually from internal and external sources. Internal sources include sales figures, product and marketing costs, inventory levels, and sales force activities; external sources relate to the firm's suppliers, intermediaries, customers, competitors, and economic conditions.

The other way to obtain information is through marketing research, the process of systematically gathering, recording, and analyzing data concerning a particular marketing problem. Marketing research consists of six steps: (1) defining the problem, (2) making a preliminary investigation, (3) planning the research, (4) gathering factual information, (5) interpreting the information, and (6) reaching a conclusion. Technology can greatly enhance the quality and quantity of marketing information. Firms may develop their own internal databases or buy commercial ones, they may use the Internet to access a wide range of data, or they may subscribe to online information services.

Much of this information is used to determine buying behavior, the decisions and actions of people involved in buying and using products. This can be further broken down into consumer buying behavior, which is the purchasing of products for personal or household use, not for business purposes; and business buying behavior, the purchasing of products by producers, resellers, governmental units, and institutions. Consumer buying behavior depends on the type of item being purchased, whether it is a low-cost, frequently purchased item or a high-cost, seldom-purchased item. A consumer usually goes through a series of steps when making a purchase. These steps begin with acknowledging that a product or service is needed, then looking for information, weighing various alternatives, and then making the final choice. Many factors can affect the final choice, including situational, psychological, and social factors. Business buying behavior considers a product's quality, price, and the service provided by suppliers. Business purchases are often made by committee.

Consumers buy with the hope of getting a large amount of current and future satisfaction. They buy because they would rather have a particular good or service than the money they have to spend to buy it. Purchasing power is created by income, and there are three kinds of income. Personal income is the income an individual receives from all sources, *less* the Social Security taxes the individual must pay. Disposable income is personal income *less* all the additional personal taxes. And discretionary income is disposable income *less* savings and expenditures on food, clothing, and housing. Discretionary income is of primary importance to marketers because consumers have the most choice in spending it.

Why do consumers buy? Generally, for five reasons. (1) They have a use for the product. (2) They like the convenience the product offers. (3) They believe the purchase will enhance their wealth. (4) They take pride in ownership. And (5) They buy for safety.