

The Marketing Book

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now made it possible to target individual customers with pinpoint accuracy, leading to more personalized and often one-to-one communications (see Chapter 22 for more on this).

The chapter has been extensively revised to take account of these developments. In addition to reviewing the more traditional methods for segmentation and targeting based upon demographics, psychographics and geodemographics, Evans explores the fusion of personalized data which permits biographical segmentation. Of particular value is consideration of the differences between segmenting a 'cold' market from scratch and the application of the new methodologies to current customer databases.

The use of segmentation data in the development of customer relationship management (CRM) and relationship marketing is explored and should be considered in association with Chapters 3 and 19, which deal with these topics in greater detail.

Peter Doyle has completely rewritten his chapter (11) on 'Managing the marketing mix' to show how the adoption of value-based approaches to management may transform what traditionally has been a craft-based activity into a professional practice. In the past, marketing has lacked influence in the boardroom due to its inability to justify its contribution to the overall success of an organization – a failing epitomized by Lord Leverhulme's comment that 'I know half my advertising expenditure is wasted, the problem is I don't know which half'. In a rigorous, analytical, clinical but easily accessible way, Doyle explains how the concept of shareholder value and the application of financial analysis techniques can be used to manage each of the elements of the marketing mix effectively.

As he states in his summary: 'Finally, shareholder value provides the vehicle for the marketing professional to have an increasing impact in the boardroom. In the past, senior managers have often discounted the recommendations of the marketing teams because the marketing mix and strategies for investment have lacked a rational goal. Marketers have not had the framework for translating marketing strategies into what counts for today's top executives – maximizing shareholder value. Value-based provides the tools for optimizing the marketing mix.'

This is a *tour de force* from one of the UK's leading marketing academics and consultants that will undoubtedly encourage many readers to access the extended treatment to be found in his widely acclaimed book *Value-based Marketing: Marketing Strategies for Corporate Growth and Shareholder Value* (Wiley, 2000).

While the subject of branding has appeared in every edition of the *Marketing Book*, Chapter 15 is completely new as a result of a change in authorship. For this edition Leslie de Chernatony has taken over from Peter Doyle. Leslie is the author of a number of best-selling texts on branding, and was an obvious choice to provide a comprehensive overview of current thinking and practice on the subject.

In markets distinguished by hypercompetition it is becoming increasingly difficult to sustain a competitive advantage through product differentiation. As a consequence, marketing communications have assumed an even more important role in enabling sellers to position themselves effectively against competitors. To meet this challenge more traditional approaches emphasizing a particular communication approach and techniques have given way to a more strategic method in which a variety of communication disciplines are coordinated into an integrated procedure. This is identified as integrated marketing communications (IMC) and is the subject of an entirely new Chapter 16 by Tony Yeshin – an expert in the field.

As Yeshin points out: 'If all other things are equal – or at least more or less so – then it is what people think, feel and believe about a product and its competitors which will be important. Since products in many areas will achieve parity or comparability in purely functional terms, it will be the perceptual differences which consumers will use to discriminate between rival brands. Only

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risk seen in any innovation. As a consequence, a contagion or bandwagon effect will be initiated as consumers seek to obtain supplies of the new product and producers, recognizing the trend, switch over to making the new product in place of the old. The result is exponential growth.

Ultimately, however, all markets are finite and sales will level off as the market becomes saturated. Thereafter sales will settle down at a level which reflects new entrants to the market plus replacement/repeat purchase sales which constitutes the mature phase of the PLC. It is this phase which Levitt rightly characterizes as self-deceiving. Following the pangs of birth and introduction and the frenetic competitive struggle when demand took off, is it surprising that producers relax and perhaps become complacent when they are the established leaders in mature and profitable markets? But consumers like producers, are motivated by self-interest rather than loyalty and will be quite willing to switch their allegiance if a other new product comes along which offers advantages not present in the existing offering. Recognition of this represents a market opportunity for other innovators and entrepreneurs which they will seek to exploit by introducing their own new product and so initiating another new PLC while bringing to an end that of the product to be displaced.

The import of the PLC is quite simple, but frequently forgotten – *change is inevitable*. Its misunderstanding and misuse arise from the fact that people try to use it as a specific predictive device. Clearly, this is as misconceived as trying to guess the identity of a biological organism from the representation of a life cycle curve which applies equally to gnats and elephants.

Life cycles and evolution

As noted earlier, the PLC concept is based upon biological life cycles and this raises the question as to whether one can further extend the analogy from the specific level of the growth of

organisms and products to the general case of the evolution of species and economies. At a conceptual level this seems both possible and worthwhile.

Consider the case of a very simple organism which reproduces by cell division placed into a bounded environment – a sealed test tube containing nutrients necessary for the cell's existence. As the cell divides the population will grow exponentially, even allowing for the fact that some cells will die for whatever reason, up to the point when the colony reaches a ceiling to further growth imposed by its bounded environment. What happens next closely parallels what happens in product life cycles, industry life cycles and overall economic cycles – a strong reaction sets in. Discussing this in a biological context, Derek de Souza Price cites a number of ways in which an exponentially growing phenomenon will seek to avoid a reduction in growth as it nears its ceiling. Two of these, 'escalation', and 'loss of definition', seem particularly relevant in an economic context.

In the case of escalation, modification of the original takes place at or near the point of inflection and '... a new logistic curve rises phoenix-like on the ashes of the old'. In other words, the cell modifies itself so that it can prosper and survive despite the constraints which had impeded its immediate predecessor. In marketing, such a phenomenon is apparent in a strategy of product rejuvenation in which either new uses or new customers are found to revitalize demand.

In many cases, however, it is not possible to 'raise the ceiling' through modification and the cell, or whatever, will begin to oscillate wildly in an attempt to avoid the inevitable (the 'hausse' in the economic cycle which precedes crisis and depression). As a result of these oscillations the phenomenon may become so changed as to be unrecognizable, i.e. it mutates or diversifies and recommences life in an entirely new guise. Alternatively, the phenomenon may accept the inevitable, smoothing out the oscillations and settling in equilibrium at a

'civil', in the sense of maintaining a semblance of scholarly decorum whilst slugging it out, describes the situation very well – but the PoMo fandango undoubtedly carries connotations of crisis, of uncertainty, of catastrophe, of intellectual meltdown. Indeed, almost every commentator on the postmodern condition refers to this oppressive atmosphere of 'crisis'. Denzin (1997), for instance, describes three contemporary crises facing the citadels of cerebration:

- *crisis of representation*, where established modes of depicting 'reality' (e.g. theories, metaphors, textual genres) are inadequate to the task;
- *crisis of legitimacy*, where conventional criteria for assessing research output (validity, reliability, objectivity etc.) leave a lot to be desired; and
- *crisis of praxis*, where academic contributions signify fail to contribute to their resolution, or even clarification, of practical problems.

Although formulated with regard to the human sciences generally, these concerns are highly relevant to the state of late-twentieth-century marketing and consumer research. Our models are outmoded, our theories undertheorized, our laws lawless. Reliability is increasingly unreliable, the pursuit of reason unreasonable, and there are mounting objections to objectivity. Practitioners often fail to see the point of scholarly endeavour, despite the enormous amount of energy it absorbs, and get absolutely nothing of worth from the principal journals. Except, of course, when postmodernists publish therein.

This way up

The picture, however, is not completely bleak. The postmodern manoeuvre in marketing and consumer research, which has been in train for more than a decade, has brought benefits as well as costs. Scholarly conflict, remember, is

not necessarily a 'bad thing'. On the contrary, a host of thinkers, from Nietzsche to Feyerabend, has observed that conflict can be a force for the good, since it helps avoid intellectual disintegration, dilapidation and decline (Brown, 1998b; Collins, 1992).

Be that as it may, perhaps the greatest benefit of this postmodern pirouette is that it led to dramatic changes in the methodology, domain and source material of marketing research (see Belk, 1991, 1995; Hirschman and Holbrook, 1992; Sherry, 1991). Methodologically, it opened the door to an array of qualitative/interpretive research procedures predicated on hermeneutics, phenomenology, ethnography and personal introspection, to name the most prominent. In terms of domain, it focused attention on issues previously considered marginal to the managerial mainstream of brand choice and shopper behaviour (e.g. gift giving, compulsive consumption, obsessive collecting, grooming rituals, the meaning of personal possessions) and which has further encouraged researchers' interest in the tangential, peripheral or hitherto ignored (homelessness, drug addiction, prostitution, consumer resistance, conspicuous consumption in the developing world etc.). With regard to source material, moreover, it has given rise to the realization that meaningful insights into marketing and consumption can be obtained from 'unorthodox' sources like novels, movies, plays, poetry, newspaper columns, comedy routines and so forth. Few would deny that restaurant critic Jonathan Meades' portrayal of the Hamburger Hades, colloquially known as Planet Hollywood, is just as good, if not better, than anything currently available in the academic literature (Table 2.3).

The outcome of the postmodern schism is summarized in Table 2.4, though it is important to reiterate that this rupture is not as clear-cut as the columns suggest. Truth to tell, modernist approaches remain very much in the academic ascendant, notwithstanding postmodernists' brazen appropriation of the 'cutting edge'

is the fact that it resonates with what a raft of management commentators are saying. The business sections of high street bookstores may not be heaving with 'postmodern' titles, but they are replete with works that challenge the received marketing wisdom and contend that it is time for a change. As with the postmodernists, this emerging school of marketing thought is highly variegated and somewhat contradictory. However, the principal contributions can be quickly summarized under the following Eight Es:

- *Experiential* – ecstasy, emotion, extraordinary experience (e.g. Schmitt, 1999).
- *Environmental* – space, place and *genius loci* (Sherry, 1998).
- *Esthetic* – beauty, art, design (Dickinson and Svensen, 2000).
- *Entertainment* – every business is show business (Wolf, 1999).
- *Evanesence* – fads, buzz, the wonderful word of mouth (Lodish, 2000).
- *Evangelical* – spirituality, meaning, transcendence (Finan, 1998).
- *Ethical* – buy a lippy, save the world (Roddick, 2001).
- *Effrontery* – shock sells, who bares wins, gross is good (Ridderstrale and Nordstrom, 2000).

E-type marketing is many and varied, yet its espousers and enthusiasts share the belief that marketing *must* change. Nowhere is this ebullient ethos better illustrated than in John Grant's *New Marketing Manifesto*. 'New Marketing', he argues, is predicated on creativity; it treats brands as living ideas; it is incorrigibly entrepreneurial; it favours change over conservatism; it is driven by insight not analysis; and it is humanist in spirit rather than 'scientific'. Granted, Grant's final chapter reveals that New Marketing isn't so new after all (retro rides again) and at no point does he align his precepts with postmodernism (be thankful, as they say, for small mercies), but the fact of the matter is that he's singing from the postmodern marketing hymnbook (Grant, 1999, p. 182):

New Marketing is a challenge to the pseudo-scientific age of business. It is a great human, subjective enterprise. It is an art. New Marketing needs New Market Research. Old market research was largely there to objectify and to justify – to support conventions. New Marketing is here to challenge and seek the unconventional.

Thus spake postmodernism. I think . . .

Closing down sale

For many, 'postmodern' is the latest in a long line of pseudo-intellectual buzz words that attain prominence for a moment, only to pass swiftly into moribund obscurity. However, postmodernism's fifteen minutes of Warholesque fame seems to be dragging on a bit. Postmodern intrusions are evident across the entire spectrum of scholarly subject areas, marketing and consumer research among them. Indeed, the flotsam, jetsam and general detritus of consumer society are widely regarded, by non-business academics especially, as the very epitome of postmodernity.

'Postmodern', admittedly, is an umbrella term which shelters a number of closely related positions. These range from latter-day developments in the aesthetic sphere, most notably the blurring of hitherto sacrosanct boundaries between high culture and low, to the re-emergence of counter-Enlightenment proclivities among para-intellectuals and academicians.

The multifaceted character of postmodernity is equally apparent in marketing milieux. The phenomenon known as the postmodern consumer, which comprises gendered subject positions indulging in playful combinations of contrasting identities, roles and characters (each with its requisite regalia of consumables), is now an accepted, if under-investigated, socio-cultural artefact, as is the so-called 'postshopper'. The latter shops in a knowing, cynical, been-there-done-that-didn't-buy-the-souvenirs manner or loiters in the mall looking at other consumers looking at them. For Firat

buyers and sellers could be equally active in pursuing exchange. Equally, the work identified the influence of the business environment and atmosphere on both short-term exchange episodes and long-term relationships affecting co-operation, adaptation and institutionalization (Håkansson, 1982). Although the Interaction Approach was commended for advancing understanding of exchange in a business-to-business context, it was also criticized for (a) taking a single actor (buyer or seller) perspective (see Ford, 1997) and (b) being too difficult to operationalize (see Wilson, 1995). Whilst the latter problem has not been overcome, the early focus on dyadic interaction (one buyer and seller pair) was later superseded by the network approach, which looks at webs of linked relationships (see Andersson and Söderlund, 1988; Ford, 1997).

The major contributions of the interaction approach to our present understanding of relationship marketing include the following issues:

- Both buyers and sellers have similar roles in forming, developing and operating relationships (Håkansson, 1982; Ford, 1990).
- The match between supplier capability and customer need is accomplished by interaction between the two parties, and adaptation by one or both of them (Håkansson, 1982).
- Personal contacts are frequently used as a mechanism for initiating, developing and maintaining relationships (Turnbull, 1979; Cunningham and Homse, 1986).
- Interaction with other companies is the force that unifies the company and gives it the capability to perform its activities (Ford, 1990).
- Each party to a relationship may take the initiative in seeking a partner, and either party may attempt to specify, manipulate or control the transaction process. Thus, 'this process is not one of action and reaction: it is one of interaction' (Ford, 1997, p. xi).
- The relationship between buyer and seller is frequently long-term, close and involves complex patterns of interactions.
- The links between buyer and seller often become institutionalized into a set of roles that each party expects the other to perform.
- Both parties are likely to be involved in adaptations of their own processes or product technologies to accommodate the other, and neither party is likely to make unilateral changes to its activities without consultation or at least consideration of the reaction of their opposite number in the relationship.

In the USA, research was also underway on business-to-business exchange, although, initially at least, this remained within the dominant mix management and a vertical paradigm. Earlier research had demonstrated the importance of power and conflict, particularly in channel research (El-Ansary and Stern, 1972; Wilkinson, 1975, 1979; Etgar, 1976), and in the early 1980s there was the beginning of a recognition that co-operation might prove to be a more important explanatory variable. In the latter part of the 1980s, two significant events occurred. Firstly, within the business environment generally, the impact of Japanese business systems, particularly 'just-in-time', was having an important impact on the competitiveness of US and European companies (see Speckman, 1988; Webster, 1992). One of the major sources of competitive advantage enjoyed by the Japanese was assumed to be the strength of business relationships and the nature of their distribution systems, where a major Japanese company would 'sit in a web of strong permanent relationships with its major creditors, suppliers, key customers and other important stakeholders ... bound together by complex and evolving ties of mutual benefit and commercial interest' (Doyle, 2002, p. 14). This propelled an interest in relationships generally (Webster, 1992; Möller and Wilson, 1995). Secondly, Dwyer *et al.* (1987) wrote a seminal paper that employed social exchange theory to offer insights into the motivation and process of relationship formation. The major contribution of this paper was the suggestion that, like business markets, consumer markets

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CHAPTER 4

The basics of marketing strategy

ROBIN WENSLEY

Marketing strategy sometimes claims to provide an answer to one of the most difficult questions in our understanding of competitive markets: how to recognize and achieve an economic advantage which endures. In attempting to do so, marketing strategy, as with the field of strategy itself, has had to address the continual dialectic between analysis and action, or in more common managerial terms between strategy formulation and strategic implementation. At the same time, it has also had to address a perhaps more fundamental question: how far, at least from a demand or market perspective, can we ever develop general rules for achieving enduring economic advantage.

Strategy: from formulation to implementation

From the late 1960s to the mid-1980s at least, management strategy seemed to be inevitably linked to issues of product-market selection and hence to marketing strategy. Perhaps ironically this was not primarily or mainly as a result of the contribution of marketing scholars or indeed practitioners. The most significant initial contributors, such as Bruce Henderson

and Michael Porter, were both to be found at or closely linked to the Harvard Business School, but were really informed more by particular aspects of economic analysis: neo-marginal economics and Industrial Organizational Economics respectively. Labelling the intellectual pedigree for Bruce Henderson and the Boston Consulting Group is rather more difficult than for Michael Porter. This is partly because much of the approach developed out of consulting practice (cf. Morrison and Wensley, 1991) in the context of a broad rather than focus notion of economic analysis. Some of the intellectual pedigree for the approach can be found in Henderson, who was at Harvard also, and Quant (1958), but some basic ideas such as dynamic economies of scale have a much longer pedigree (see, for instance, Jones, 1926). However, in various institutions the marketing academics were not slow to recognize what was going on and also to see that the centrality of product-market choice linked well with the importance attached to marketing. This expansion of the teaching domain had a much less significant impact on the research agenda and activity within marketing itself, where the focus continued to underplay the emerging importance of the competitive dimension (Day and Wensley, 1983). Hence the relatively atheoretical development continued into the process

r-strategist-small, new firms that are quick to move and not constrained by the inherent inertia confronting firms established in other environments. While r-strategists are flexible, they are also inefficient due to their lack of experience. After several r-strategists have entered a new environment, established organizations, k-strategists, overcome their inertia, enter the environment, and exploit their advantage of greater efficiency based on extensive experience. The characteristics of the environment and particularly the viable niches that emerge determine whether these successive entrants can coexist.

A niche is defined as the specific combination of resources that is needed to support a species or type of organization. Niche width indicates whether this combination of resource is available over a broad range of the resource space or whether it is only available in a narrow range of the space. A generalist is able to operate in a broad range while a specialist is restricted to a narrow range. The nature of a particular environment favours either generalists or specialists.

Environments are described by two dimensions: variability and frequency of environmental change. In a highly variable environment, changes are dramatic, and fundamentally different strategic responses are required for survival. In contrast, strategic alterations are not required to cope with an environment of low variability. A specialist strategy in which high performance occurs in a narrow portion of the environment is surprisingly more appropriate when environmental changes are dramatic and frequent. Under these conditions, it is unlikely that a generalist would have sufficient flexibility to cope with the wide range of environmental conditions it would face, whilst the specialist can at least outperform it in a specific environment. For a more detailed discussion of this analysis, see Lambkin and Day (1989), as well as an introduction to more complex strategy options involving polymorphism and portfolios. Achrol (1991) also develops this approach further with some useful examples. A

generalist strategist is most appropriate in an environment characterized by infrequent, minor changes, because this environment allows the generalist to exploit its large-scale efficiencies.

Comparing the key elements in different models of competition

In this analysis we have left out two other generic types of competitive analogy which are commonly used: sports games and military conflict. Whilst in general these can both be illuminating and informative, they represent in many ways intermediate categories between game theory and evolutionary biology.

The sports game approach focuses on the relationship between prior planning and the action in the game itself (including the degree of co-ordination between the various individual players, the interaction between competitive response within different time periods (play, game, season), the multiple routes to success but the general evidence that it is necessary to compete on more than one dimension, and that success rapidly encourages imitation. Within the sports game analogy, we recognize the key role of 'rules' and particularly changes in rules as a means of influencing competitive strategies.

The military analogies raise the related issue of what happens in competitive situations when the rules themselves are neither well codified nor necessarily fully accepted, combined with the fact that there is no analogy to the referee in the sports game context. Perhaps most useful from the point of view of competitive strategy is the focus on the balance between clarity and confusion in one's intentions and the general notion of signalling. It is important to avoid becoming over-committed to a particular approach because one's intentions can be read unambiguously by the enemy; on the other hand, a sense of direction is required to maintain internal cohesion and morale. The military perspective also reinforces the multiple time periods of the sports game

dependent variable and, second, the extent to which even if it does this regularity actually enables one to produce a clear prescription for managerial action.

- 2 Case study-based research on selected firms, often based on the notion of some form of outliers, such as those that perform particularly well. Here the problems are the extent to which the story that is told about the particular nature of the success concerned can be used to guide action in other organizations. In practice this often results in managerial prescriptions that are rather tautological and at the same time non-discriminating.

We will now consider examples of both types of this research.

Market share and ROI: the 10 per cent rule in practice

One of the most famous results from the PIMS database was that first reported by Bob Buzzell,

Brad Gale and Ralph Sultan in the *Harvard Business Review* in 1975 under the title 'Market Share – A Key to Profitability'. They reported on the relationship between ROI and market share on a cross-sectional basis within the then current PIMS database. Although, over the years, estimates of the R^2 of this relationship have varied, it generally shows a value of around 10 per cent up to a maximum of 15 per cent. We can start by simulating the original data that were used (Figure 4.4).

Figure 4.4 is a scatter plot of 500 datapoints (notional observations) where the relationship between the two implied variables is actually the equivalent of an R^2 of 0.12 or 12 per cent. Because of the statistical nature of the data distribution in the PIMS database, the fact that it is not strictly normal, it is only possible to simulate a dataset which has either the right range or the right slope within the correct proportion of variance explained. This simulation is based on the right range of values, so that the extreme points are estimated correctly. As a result, however, the actual slope is underestimated (see Wensley 1997a, b; Roberts,

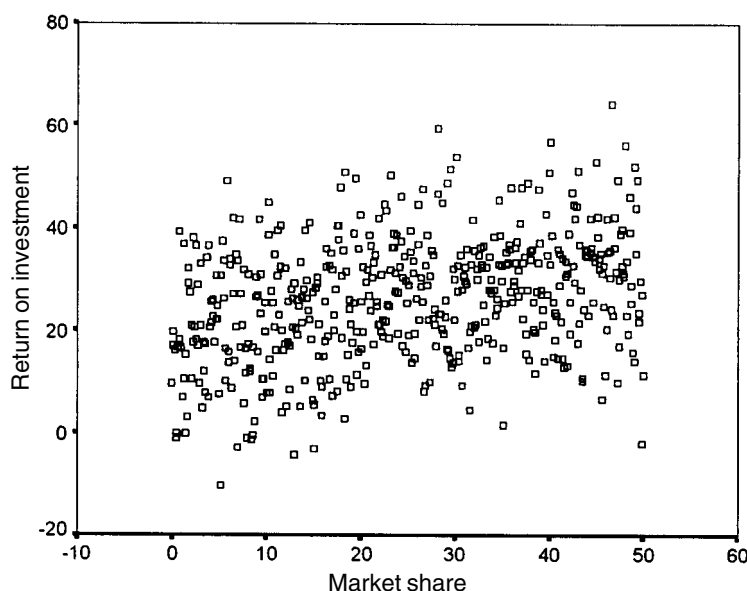


Figure 4.4 A scatter plot of 500 databases (notional observations)

predictive one, let alone one which aids the diagnostic process. The basic micro-economic framework which underlies the 'competitive advantage' approach, central to much marketing strategy analysis, should not be seen as an adequate description of the analytical and processual complexities in specific situations. It is a framework for predicting the key impacts of a series of market-mediated transactions: at the very least outcomes are the joint effect of decisions themselves and the selection process. In this sense the only valid criticism of the application of such a model is that either the needs of the situation are not met by the inherent nature of the model or that the model fails to perform within its own terms.

Relationship marketing

Equally, we may wonder how far the new found concern for relationship marketing is indeed new at all. The recognition that customers faced switching costs and that therefore the retention of existing customers was clearly an effective economic strategy is certainly not new. One can therefore sympathize with Baker (1993) when he commented:

For example, the propositions that companies need to understand the industry infrastructure and/or that working closely with customers is likely to improve product development success rates have been known and accepted many years now and are embedded in the curricula of most business schools.

(p. 88)

on the book by Regis McKenna (1992), *Relationship Marketing*.

More recently, Mattsson (1997) has considered much more critically the relationship between the underlying approaches in the 'markets as networks' and relationship marketing perspectives. He rightly observed that much of the problem lay in the various different approaches claiming to represent relationship marketing:

My conclusion is that if we take the limited view of relationship marketing, we come close to the first extreme position stated in the beginning of this article: relationship marketing and the network perspective have very little in common. Some relationship marketing aspects are even contradictory to basic views in the network perspective. Relationship marketing in its limited interpretation is just a marketing strategy aimed to increase customer loyalty, customer satisfaction and customer retention. Relationship marketing is aided by modern information technology that makes it possible to individualize communication with customers in a mass market. In that sense relationship marketing is just a basic application of the marketing management thinking.

However, let us consider the extended view that relationship marketing means that interaction between the parties over time, a relatively high mutual dependency between seller and buyer and a major concern for how individual relationships are interconnected in sets and networks. Then we will come much closer to my second initial position that relationship marketing and the network perspective have much to gain from more research interaction and mutual awareness than what is presently the case. Relationship marketing research would benefit from the following aspects of network perspective research: more focus on embeddedness of actors and relationships, more consideration of the buyer's point of view, more descriptive studies on interaction and relationships over time, more concern at the meso and macro levels in the governance structure, more use of longitudinal research methods, including case studies. Obviously, both relationship marketing and the network perspective must become increasingly aware of, and contribute to, research developments in a broader social science framework where the focus is on the function of relationships between economic actors.

It may well be that the relationship marketing movement will have a rather similar impact on marketing to that of the market share in the 1970s and early 1980s. As such, the renewed emphasis on the nature of the customer relationship, which is self-evidently

these questions has the same title as the infamous Peters and Waterman classic, 'In Search of Excellence'. Interestingly, however, Kauffman is drawing a distinction between the 'lesser' criteria of 'excellence' compared with 'optimality'! Kaufmann goes on to discuss the logic of what he calls a 'patch' structure in which at various levels the form of organization involves a series of relatively autonomous subunits, which under certain conditions are more effective at achieving a system-wide performance maxima compared with the more extreme options which he terms, rather controversially, the fully integrated 'Stalinist' system, or the fully autonomous 'Italian leftist' system!

However, despite the fact that some of these general notions are now to be seen in the mainstream of strategic management thought (see Stacey, 1995), we should remain cautious. Horgan (1997) suggests that we should be cautious of the likely advances to be made in the field that he has dubbed 'chaoplexity':

So far, chaoplexologists have created some potent metaphors, the butterfly effect, fractals, artificial life, the edge of chaos, self-organized criticality. But they had not told us anything about the world that is both concrete and truly surprising, either in a negative, or in a positive sense. They have slightly extended the borders of our knowledge in certain areas, and they have more sharply delineated the boundaries of knowledge elsewhere.

(p. 226)

Marketing processes

Not surprisingly, the 1990s saw a renewed interest in the marketing process and particularly in the nature of the processes which support the development of a marketing orientation. This approach has been encouraged by the renewed attempts to model the nature of marketing orientation due to both Narver and Slater (1990) and Kohli and Jaworski (1990). In essence, the shift is one that Herb

Simon (1979) recognized in his original distinction between substantive and procedural rationality, in which he suggested that it was an appropriate response to the problem of bounded rationality to focus attention more on the appropriate process for arriving at a particular choice rather than developing a general analytical approach to make that choice in any particular situation.

Much empirical research, in particular that based on key informant surveys, has been undertaken to establish the extent to which various operational measures of marketing orientation are correlated with commercial success. On top of this, there has been work to establish some of the possible antecedents for such orientation, including measures related to the accumulation and organizational dispersion of market research data. The results remain somewhat contradictory, but it seems likely that some level of association will finally emerge, although whether it will achieve the minimum 10 per cent target which we considered earlier is rather another question. It is worth noting that, even for samples of only 50, we can roughly speaking achieve a significant result, using the 'normal' $p < 0.05$ criterion, and yet only have about 5 per cent of the variability 'explained'.

On top of this, we need to address more fundamental questions about the underlying logic of procedural rationality in this context. As we have suggested above, it is reasonable to argue that some consideration in any marketing context of each element in the 3Cs (customers, competitors and channels) must surely be seen as sensible. How far such a process should be routinized within a particular planning or decision making schema is another matter. Much of the writing in the area of marketing orientation suggests that the appropriate mechanisms and procedures are unproblematic, yet everyday experience in organizations suggests that achieving an effective response to the market is difficult and indeed may not be susceptible to programmed responses.

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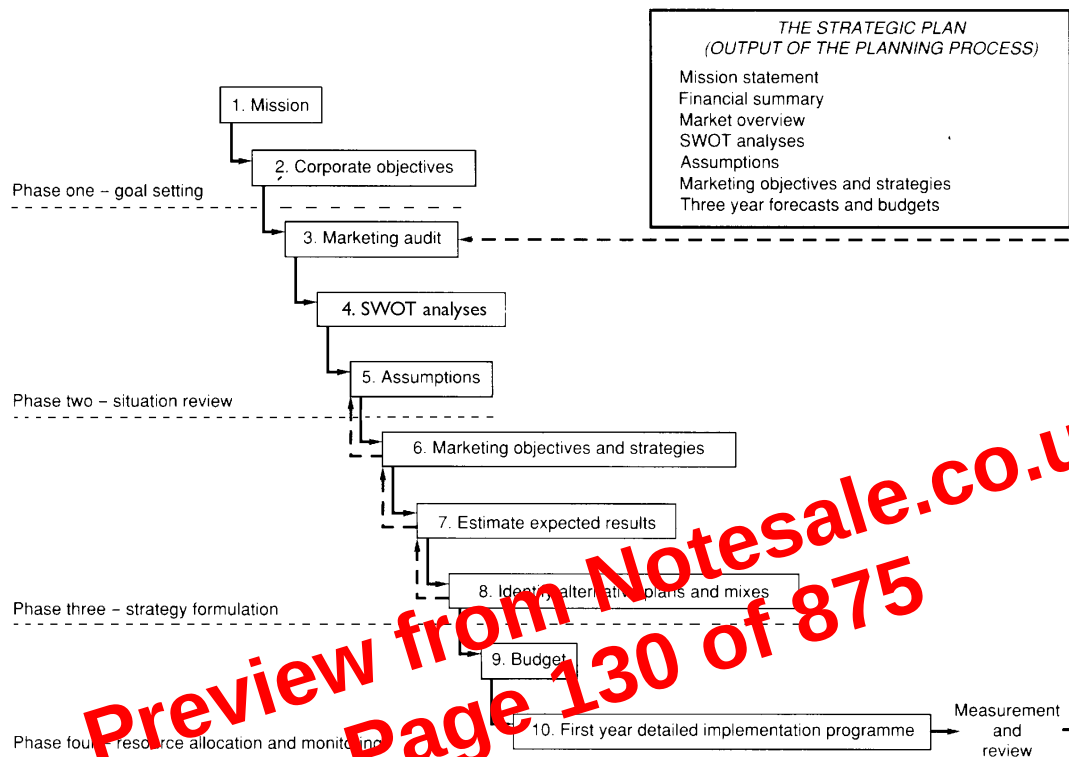


Figure 5.2 The ten steps of the strategic marketing planning process

Where marketing planning has failed, it has generally been because companies have placed too much emphasis on the procedures themselves and the resulting paperwork, rather than on generating information useful to and consumable by management. But more about reasons for failure later. For now, let us look at the marketing planning process in more detail, starting with the marketing audit.

What is a marketing audit?

Any plan will only be as good as the information on which it is based, and the marketing audit is the means by which information for planning is organized. There is no reason why marketing cannot be audited in the same way as accounts, in spite of its more innovative,

subjective nature. A marketing audit is a systematic appraisal of all the external and internal factors that have affected a company's commercial performance over a defined period.

Given the growing turbulence of the business environment and the shorter product life cycles that have resulted, no one would deny the need to stop at least once a year at a particular point in the planning cycle to try to form a reasoned view of how all the many external and internal factors have influenced performance.

Sometimes, of course, a company will conduct a marketing audit because it is in financial trouble. At times like these, management often attempts to treat the wrong symptoms, most frequently by reorganizing the

leaves the 'factory', apart from those involved in physical distribution. When it comes to pricing, any form of discounting that reduces the expected gross income – such as promotional or quantity discounts, overrides, sales commission and unpaid invoices – should be given the most careful attention as marketing expenses. Most obvious marketing expenses will occur, however, under the heading of promotion, in the form of advertising, sales salaries and expenses, sales promotion and direct mail costs.

The important point about the measurable effects of marketing activity is that anticipated levels should result from careful analysis of what is required to take the company towards its goals, while the most careful attention should be paid to gathering all items of expenditure under appropriate headings. The healthiest way of treating these issues is through zero-based budgeting.

We have just described the strategic marketing plan and what it should contain. The tactical marketing plan layout and content should be similar, but the detail is much greater, as it is for one year only.

Marketing planning systems design and implementation

While the actual process of marketing planning is simple in outline, a number of contextual issues have to be considered that make marketing planning one of the most baffling of all management problems. The following are some of those issues:

- When should it be done, how often, by whom, and how?
- Is it different in a large and a small company?
- Is it different in a diversified and an undiversified company?
- What is the role of the chief executive?
- What is the role of the planning department?
- Should marketing planning be top-down or bottom-up?

- What is the relationship between operational (one year) and strategic (longer-term) planning?

Requisite strategic marketing planning

Many companies with financial difficulties have recognized the need for a more structured approach to planning their marketing and have opted for the kind of standardized, formalized procedures written about so much in textbooks. Yet, these rarely bring any benefits and often bring marketing planning itself into disrepute.

It is quite clear that any attempt at the introduction of formalized marketing planning requires a change in a company's approach to managing its business. It is also clear that unless a company recognizes these implications and plans to seek ways of coping with them, formalized strategic planning will be ineffective.

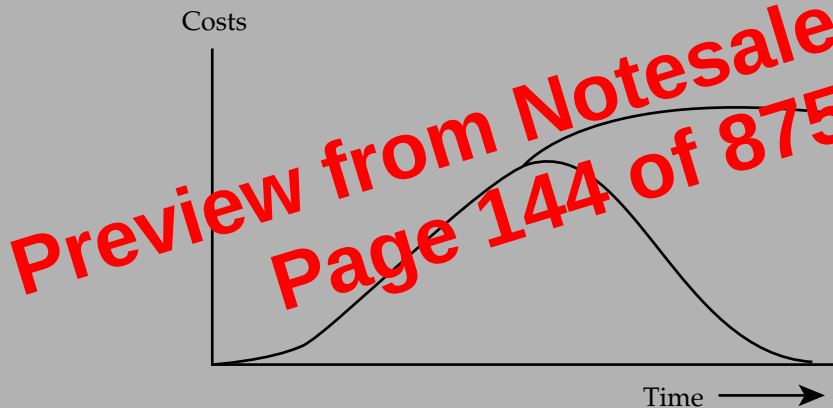
Research has shown that the implications are principally as follows:

- 1 Any closed-loop planning system (but especially one that is essentially a forecasting and budgeting system) will lead to dull and ineffective marketing. Therefore, there has to be some mechanism for preventing inertia from setting in through the over-bureaucratization of the system.
- 2 Planning undertaken at the functional level of marketing, in the absence of a means of integration with other functional areas of the business at general management level, will be largely ineffective.
- 3 The separation of responsibility for operational and strategic planning will lead to a divergence of the short-term thrust of a business at the operational level from the long-term objectives of the enterprise as a whole. This will encourage preoccupation with short-term results at operational level, which normally makes the firm less effective in the longer term.

Guideline 6 Understanding market segmentation

- Not all customers in a broadly-defined market have the same needs.
- Positioning is easy. Market segmentation is difficult. Positioning problems stem from poor segmentation.
- Select a segment and serve it. Do not straddle segments and sit between them.
 - 1 Understand how your market works (market structure)
 - 2 List what is bought (including where, when, how, applications)
 - 3 List who buys (demographics; psychographics)
 - 4 List why they buy (needs, benefits sought)
 - 5 Search for groups with similar needs.

Guideline 7 Understanding the dynamics of product/market evolution



The biological analogy of birth, growth, maturity and decline is apt. Corporate behaviour, particularly in respect of the marketing mix, must evolve with the market. Share-building in mature markets is difficult and often results in lower prices. Those with lower costs have an advantage at the stage of maturity. Life cycles will be different between segments.

4 Understanding competitors

Guideline 4 is merely an extension of the marketing audit. Suffice it to say that if any organization, big or small, does not know as much about its close competitors as it knows about itself, it should not be surprised if it fails to stay ahead.

5 Understanding strengths and weaknesses

Guideline 5 sets out potential sources of differentiation for an organization. It represents a

fairly comprehensive audit of the asset base. Together with written summaries of the other two sections of the marketing audit (Guidelines 3 and 4), there should be a written summary of all the conclusions.

If the sources of the company's own competitive advantage cannot be summarized on a couple of sheets of paper, the audit has not been done properly. If this is the case, the chances are that the organization is relying on luck. Alas, luck has a habit of being somewhat fickle!

successive level of management throughout the organization, lower-level analyses are synthesized into a form that ensures that only the essential information needed for decision-making and control purpose reaches the next level of management. Thus, there are hierarchies of audits, SWOT analyses, assumptions, objectives, strategies and plans. This means, for example, that at conglomerate headquarters, top management have a clear understanding of the really key macro issues of company-wide significance, while at the lower level of profit responsibility, management also have a clear understanding of the really key macro issues of significance to the unit.

It can be concluded that a good measure of the effectiveness of a company's marketing planning system is the extent to which different managers in the organization can make a clear, lucid and logical statement about the main problems and opportunities they face, how they intend to deal with these, and how what they are doing fits in with some greater overall purpose.

Once-a-year ritual

One of the commonest weaknesses in the marketing planning systems of those companies whose planning systems fail to bring the expected benefits, is the ritualistic nature of the activity. In such cases, operating managers treat the writing of the marketing plan as a thoroughly irksome and unpleasant duty. The pro formas are completed, not always very diligently, and the resulting plans are quickly filed away, never to be referred to again. They are seen as something which is required by headquarters rather than as an essential tool of management. In other words, the production of the marketing plan is seen as a once-a-year ritual, a sort of game of management bluff. It is not surprising that the resulting plans are not used or relegated to a position of secondary importance.

In companies with effective systems, the planning cycle will start in month three or four

and run through to month nine or ten, with the total twelve-month period being used to evaluate the ongoing progress of existing plans by means of the company's marketing intelligence system. Thus, by spreading the planning activity over a longer period, and by means of the active participation of all levels of management at the appropriate moment, planning becomes an accepted and integral part of management behaviour rather than an addition to it which calls for unusual behaviour. There is a much better chance that plans resulting from such a system will be formulated in the sort of form that can be converted into things that people are actually going to do.

Separation of operational planning from strategic planning

Most companies make long-term projections. Unfortunately, in the majority of cases these are totally separate from the short-term planning activity that takes place largely in the form of forecasting and budgeting. The view that they should be separate is supported by many of the writers in this field, who describe strategic planning. Indeed, many stress that failure to understand the essential difference between the two leads to confusion and prevents planning from becoming an integrated part of the company's overall management system. Yet it is precisely this separation between short- and long-term plans which the author's research revealed as being the major cause of the problems experienced today by many of the respondents. It is the failure of long-term plans to determine the difficult choices between the emphasis to be placed on current operations and the development of new business that lead to the failure of operating management to consider any alternatives to what they are currently doing.

The almost total separation of operational or short-term planning from strategic or long-term planning is a feature of many companies whose systems are not very effective. More often than not, the long-term strategic plans

specific title of marketing planning manager, they have usually been appointed as a result of the difficulty of controlling businesses that have grown rapidly in size and diversity, and which present a baffling array of new problems to deal with.

Their tasks are essentially those of system design and co-ordination of inputs, although they are also expected to formulate overall objectives and strategies for the board. In all cases, it is lack of line management skills and inadequate organizational structures that frustrates the company's marketing efforts, rather than inadequacies on the part of the planner. This puts the onus on planners themselves to do a lot of the planning, which is, not surprisingly, largely ineffective.

Two particularly interesting facts emerged from the author's research. Firstly, the marketing planning manager, as the designer and initiator of systems for marketing planning, is often in an impossible delicate political position vis-à-vis both senior superior line managers and more junior operational managers. It is clear that not too many chief executives understand the role of planning and have unrealistic expectations of the planner, whereas for their part the planner cannot operate effectively without the full understanding, co-operation and participation of top management, and this rarely happens.

This leads on naturally to a second point. For the inevitable consequence of employing a marketing planning manager is that they will need to initiate changes in management behaviour in order to become effective. Usually these are far reaching in their implications, affecting training, resource allocation, and organizational structures. As the catalyst for such changes, the planner, not surprisingly, comes up against enormous political barriers, the result of which is that they often become frustrated and eventually ineffective. This is without doubt a major issue, particularly in big companies.

The problems which are raised by a marketing planning manager occur directly as a

result of the failure of top management to give thought to the formulation of overall strategies. They have not done this in the past because they have not felt the need. However, when market pressures force the emerging problems of diversity and control to the surface, without a total willingness on their part to participate in far-reaching changes, there really is not much that a planner can do.

This raises the question again of the key role of the chief executive in the whole business of marketing planning.

Part 3 conclusions

Consultants have argued that introducing change does not always mean forcing new ideas into an unresponsive client system. Indeed, such an approach invariably meets resistance for the organization's 'anti-bodies' whose sole purpose is to protect the status quo from the germs of innovation.

A quicker and more effective method is to remove or reduce the effect of the barriers which will stop the proposed improvement from becoming effective. Thus, any attempt to introduce systematic strategic marketing planning must pay due concern to all the barriers listed in this section.

Of course, not all of them will be the same for every organization, but without a doubt the most critical barrier remains the degree of support provided by the chief executive and top management. Unless that support is forthcoming, in an overt and genuine way, marketing planning will never be wholly effective.

Summary

Strategic marketing planning, when sensibly institutionalized and driven by an organization's top management, can make a significant contribution to the creation of sustainable

competitive advantage. It is, however, important to distinguish between the *process* of marketing planning and the *output*. Indeed, much of the benefit will accrue from the process of analysis and debate amongst relevant managers and directors rather than from the written document itself.

Twelve guidelines were provided which have been shown to be significant contributors to determining an organization's competitiveness.

Finally, there are many human organizational and cultural barriers which prevent an organization deriving the maximum benefit from strategic marketing planning. Being aware of what these are will go some way to helping organizations overcome them.

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Further reading

Table 6.1 Summary of the results

	<i>Food innovations</i>	<i>Home software applications</i>	<i>Organizational software use</i>	<i>Financial services</i>
Do innovators buy or use more?	No – adaptors do	Yes	No. Involved adaptors and innovators	For some products
What other factors influence behaviour?	Involvement	Involvement, situation	Involvement, situation	Involvement, situation
Principal consumer behaviour(s)	Complex Dissonant/ Variety-seeking [Habitual]	Dissonant Variety-seeking Complex Habitual	Dissonant Complex	Complex
Marketing mix considerations	Dual strategy	Dual strategy	Dual strategy	Tailor to individual product

each application is a discrete, discontinuous use initiation. And financial services might fall between the two: of medium involvement, representing an infrequent but important purchase, a dynamically continuous innovation. Assael (1991/1996) uses similar dimensions of buying situations to classify the consumer behaviours for different types of product (Bhate, 1992). Hence:

Complex buying behaviour occurs when the consumer is highly involved, the product is expensive and risky, and there are perceived differences in the brands available. The consumer in this case goes through a cognitive learning process, i.e. search for information, evaluation of products etc. Assael (1996) claims that it is typical consumer behaviour for appliances and durables such as 'autos, electronics, photography systems'. Consumers actively search for information to evaluate and consider alternative brands by applying specific criteria

such as resolution and portability for a camera, and economy, durability and service for a car.

Dissonant buying behaviour occurs when the consumer is highly involved, sees no significant differences among the brands available and buys the product in a hurry, but once purchase has been made has second thoughts. He or she may go out again and collect information to reduce dissonance. Such behaviour is typical of the purchase of adult cereals and snack foods. There is limited problem solving here, because the consumer is not familiar with the brands. A new line of microwaveable snacks might be introduced; unaware of the product class, the consumer is attracted to the idea of trial to compare with known snackfoods. Limited information search takes place and limited evaluation of brand alternatives.

Habitual buying occurs when there is no significant difference in brands and the consumer is not highly involved in the purchase,

thinking and empirical research with the needs of marketing managers to understand their customers and potential customers.

Kardes, F. R. (1994) Consumer Judgment and Decision Processes, in Wyer, R. S. and Srull, T. K. (eds), *Handbook of Social Cognition*, Vol. 2, Erlbaum, Hillsdale, NJ, pp. 399–466. The entire two-volume handbook is essential reading for consumer psychologists and marketing researchers. Kardes' chapter applies the findings of social cognition research to consumer decision making. It is well informed by the concerns of consumer psy-

chology and marketing management, and provides a recent assessment of a fast-growing literature.

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CHAPTER 7

Business-to-business marketing: organizational buying behaviour, relationships and networks

PETER W. TURNBULL and SHEENA LEEK

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Introduction

In this chapter an attempt is made to trace the development of research and practice in business-to-business marketing. The term 'business-to-business marketing' is increasingly replacing the more traditional 'industrial marketing' and 'organizational marketing' descriptions, and will be used in this chapter to describe those marketing activities of any kind of organization, public or private, which has exchange relationships with other organizations.

The understanding of organizational buyer behaviour can be seen as a process of development over the past 40 years within the wider context of industrial or business-to-business marketing theory. Unfortunately, the study of business-to-business marketing has 'been a poor relation within the broad family of attempts to understand the markets and marketing in general' (Ford, 1990, p. 1). Most early theory was based on a rather simplistic transfer

of consumer goods-based knowledge which propounded 'effective' marketing largely as a manipulation of the marketing mix. Unfortunately, this approach largely ignored the realities of business-to-business markets. However, a number of researchers have recognized the difference of organizational buyers and their behaviour, and a number of paradigms have emerged to better understand and explain the complexity facing researchers and managers working in this field. Perhaps the most important of these more recent conceptualizations is that relating to interaction, relationships and networks, originally developed by the IMP (International Marketing and Purchasing) group – (Hakansson, 1982; Turnbull and Cunningham, 1981), which has led to the current interest in relationship marketing.

An understanding of the organizational buying process is fundamental to the development of appropriate business-to-business marketing strategy. The organizational buyer is influenced by a wide variety of factors, both

practice according to convention or convenience, even within the framework of a centralized policy. Sheth (1973) concludes that the greater the degree of centralization, the less likely the company will tend towards joint decision making.

Organizations with several operating subsidiaries, particularly if these are overseas, will have an overall policy regarding centralization. Even where control is highly centralized, subsidiaries may, nevertheless, be given varying degrees of freedom in choosing suppliers of specified product categories. The degree of centralization may therefore be vital to both the composition of the buying centre for these services, and also relevant to the development of a strategy for international marketing.

Finally, Sheth (1973) suggests that the composition of the buying centre will be dependent upon the company orientation. If a company is technology orientated, the buying centre is likely to be dominated by engineering people who will, in essence, make the buying decision.

These various research findings highlight the necessity for a supplier's marketing management to know the policies and buying routines of its customers. By studying both existing and potential customers, suppliers can develop marketing strategies targeted to the important buying influences.

Product factors

The product variable embraces a number of characteristics, including product essentiality, technical complexity, value of the purchase, consequence of failure, novelty of the purchase and frequency of the purchase.

Weigand (1968) defines a product as 'a variety of promises to perform'. Performance will be judged according to the expectations that the individual has of the product, and it is important to remember that different people and organizations will have different perceptions and expectations of the product. As Alexander *et al.* (1961) have pointed out:

The broad basic differences between types of goods arises not so much from their variations in their physical characteristics as differences in the ways in which and the purposes for which they are bought.

Where a product is central to an organization's operations it is likely that the purchase will be decided upon jointly by all the parties concerned. This is also likely to be true in instances of high capital expenditure. In both of these instances the consequence of failure may be severe and so where the possibility or the consequence of failure are perceived to be higher it is likely that purchase decisions will be shared.

Bauer (1960) coined the term 'perceived risk', and Cyert and March (1963) applied the concept of risk avoidance as one of their basic concepts explaining the behaviour of the firm. They suggest that, in order to avoid uncertainty and failure, organizations avoid the necessity of having to anticipate events in the future by emphasizing short-term feedback, and impose standard operating procedures to ease the burden of decision making.

Hill and Hillier (1977) use the term 'risky shift' to explain how members of a group take decisions involving a higher degree of risk than they would do as individuals. The 'risky shift' concept is central to the composition of the buying centre, and highlights the point that its composition will vary as a result of the characteristics of the product being purchased and particularly in relation to the perceived risk of the buying situation. More recent work by Greatorex *et al.* (1992) has demonstrated the importance of perceived risk in computer systems purchasing.

Buying situation

Product complexity will be situation specific and should not be regarded *per se*, but rather in the way it is related to the purchaser's technical knowledge and expertise. Knowledge and expertise will arise out of previous experience

This necessarily brief discussion of buying stages underlines several of the models of buying behaviour discussed later in this chapter. Before moving on to this topic, however, it is necessary to consider the last characteristic of organizations – the motivations and objectives of the organizations and their members.

Buying goals

Both Cox (1966) and Campbell (1966) have analysed the buying behaviour as a problem-solving activity and recognize that the whole purchasing process is designed to meet certain aims or objectives on both the organizational level and the individual level. These objectives, it is suggested, can relate either directly or indirectly to the buying task. However, a variety of factors can intervene between the original purchase objectives and the final buying decision. The cost of searching for the product or service that exactly fits the purchase specifications may be prohibitive or, alternatively, such a product or service may not be available. White (1969) indicated that in some instances a major determinant of buying behaviour is the desire for work simplification.

Therefore, in many instances both organizations and individuals may be pursuing 'satisficing' rather than maximizing courses of action in their behaviour, whereby a compromise will be reached between the attainment of the purchasing objectives and the actual purchase.

Models of organizational buying behaviour

The previous discussion of the decision-making unit, purchase situation and buying stages is fundamental to an understanding of the various models of organizational buyer behaviour which have been postulated in the past 30 years. The purpose of modelling buyer behaviour is to clarify the relationships between

various inputs, such as selling, previous experience or competitor activities, the purchasing process and the outputs, which are the purchase or rejection of a product or service from a particular source.

Many models have been proposed and an excellent summary of the early work in the field is made by Webster and Wind (1972b) in their book, *Organizational Buyer Behaviour*. The authors define four main categories of model:

- 1 Task-related.
- 2 Non-task related.
- 3 Complex.
- 4 Multidimensional.

Task-related models

These are based on the view that the desire for rational or optimal outcomes is a fundamental determinant of behaviour. These models focus on concepts such as lowest purchase price, lowest total cost, constrained choice, rational economics, and materials management.

Non-task-related models

With non-task-related models, the perspective shifts from the demands of the task to be accomplished to the personal interests that might be affected by the outcome. Examples of the key concepts used in non-task-related models include:

- Individual desire for ego enhancement or personal gain.
- Desire to avoid risk in decision making (Bauer, 1960; Newall, 1977).
- Gratification of buyer and seller through a dyadic relationship (Evans, 1963; Bonoma and Johnston, 1978).
- Lateral relationships between buyer and colleagues (Tosi, 1966).
- Relationships with significant other persons from within the company, and their effect on transmission and interpretation of information (Webster, 1965).

is truly comprehensive, and honours concepts from the fields of individual, organizational and social psychology, economics, management, sociology and politics.

Webster and Wind recognize the existence of a buying centre and argue that organizational buying is a multi-person process subjected to and influenced by the aggregate behaviour of a number of people, and also by the interaction between them. The activities of both individuals and the collective buying centre are influenced by a variety of factors, some of which are related to the buying task (task variables which include rational and

economic motivations) and non-task variables (a variety of emotional or non-rational reasons for purchasing decisions).

Webster and Wind suggest that the final buying decision is dependent on influences exerted from four spheres:

- 1 The general environment
- 2 The organization
- 3 Interpersonal influences
- 4 The influence of the individual

It is possible to identify three key elements of the model and their interplay, as shown in Table 7.4.

Table 7.4 Key factors affecting organizational buying decisions

Level of influence on behaviour	Source of influence	Types of constraints to behaviour that emerge
1. The firm's environment	Physical, legal, economic, technical, political, cultural, suppliers, customers, governments	Information, products and services, business conditions, values, norms
2. The organization	Business climate, physical climate, technological climate, economic climate, cultural climate, structure of work, personnel, organizational goals	Technology relevant for purchasing organization of the buying centre, buying tasks, members of the buying centre
3. The buying team	Technological constraints, buying group structure, buying group tasks, member characteristics, member goals	Task and non-tasks: – activities – interactions – orientations
4. The individual	Motivation, cognition, personality, learning, roles	Buying decision process, individual DM unit, group DM unit ↓ buying decision

Based on Webster and Wind (1972b).

In the brief description of the four areas which follows, we shall emphasize how the interaction model stresses the importance of the individual and the level of his/her interpersonal and intercompany skills.

The interactive process

Relationships between buyers and sellers can be broken into a series of episodes. Each episode contributes to the overall relationship, which will be developed over a greater period of time. These episodes can be considered in terms of elements of exchange. For example, the exchange of the actual product or service, the exchange of information, the exchange of money or social exchanges. The greater the extent of uncertainty concerning these elements, the more likely that increased interaction will take place to resolve these uncertainties and allow the parties to become familiar with each other and develop mutual trust.

The occurrence of episodes over time can lead to the interaction becoming routinized and to preconceptions regarding the role set of both individuals and organizations. Such routine patterns of behaviour may become characteristic of a single relationship or else of a whole industry. Mutual adaptations may occur between buyers and sellers which will result in cost reductions or some other advantage. The existence of such adaptations can serve to bring each party closer together. This can therefore act as a major influence on changing marketing or buying policies.

The participants

Interaction occurs between organizations and individuals, and is dependent on the nature of the organization and its members. Relevant factors may be the firm's technology, size, experience and structure, or the individual's motives, attitudes and perceptions. These factors have already been discussed at some length in previous sections.

The environment

The interaction process takes place in the general prevailing environmental conditions, which will determine certain norms of behaviour and values. Particularly relevant factors may be the market structure, social systems or economic conditions, and the degree of internationalization of the economy and/or the industry.

The atmosphere

The outcome of a relationship is the atmosphere which results from the various exchanges and adaptations. The atmosphere refers specifically to the degree of closeness between the buyer and seller, which will be reflected in the level of conflict or co-operation in their interaction. The nature of the atmosphere can be planned. The development of a close relationship with a 'good atmosphere' may result in advantageous conditions for the buyer and seller. However, in order to avoid power dependence, where one party becomes vulnerable to the power of the other, the 'closeness' of the atmosphere may be regulated and in some circumstances a company may deliberately choose to have a distant, even confrontational, style of relationship.

The interaction model focuses on the relationships between individuals both within and between firms. It portrays dynamic and developing relationships, which approximate to the reality of organizational purchasing, in a way that none of the previous models are able to do. In so doing, it presents a more complex picture of organizational buying and offers a challenge to the researcher to find a universal pattern of relationships from which to build a comprehensive model.

Metcalf *et al.* (1992) have shown how the interaction approach is a valuable paradigm for analysing the relationship development of aircraft engine suppliers and aircraft manufacturing customers, whilst Turnbull and Valla (1986a, b) developed a strategic planning model

Suppliers' relationships with their customers cannot be treated in isolation, as they will be increasingly affected by these trends in the supply strategies of customers. Suppliers also need to consider the scope of what they offer, their posture and the structure of their customer relationships. In terms of their offerings to customers, the supplier may have to offer technological innovativeness and competence, adaptations and superior logistics. The posture or type of interaction that occurs between companies will vary from simple transactional relationships to close co-operative relationships (Hakansson and Snehota, 1990). The structure of the customer base is measured by the type and number of relationships the supplier has. These three factors interact and determine how the suppliers allocate their limited resources among their customers.

An understanding of the focal company's position in the network and how the interactions in one relationship may affect the others is necessary for performing relationship portfolio analysis. The aim of relationship portfolio analysis is to provide a framework for analysing current relationships to enable the tactical and strategic management of relationships in the future (Zolkiewski and Turnbull, 2001). These authors argue that the approach is equally important to both supply and procurement management. This approach highlights:

- existing relationships which need to be developed;
- relationships which should be maintained at the 'status quo';
- relationships which should be terminated;
- areas where new relationships could be developed;
- areas where different elements of the marketing offer should be emphasized.

Essentially, the analysis results in the grouping of similar relationships, whether they are suppliers or buyers, and is a development of segmentation. It allows the characteristics of the different groups of customers and suppliers

to be analysed and is an important aspect of the management of relationships.

A number of relationship portfolio models have been developed over the years: Fiocca (1982), Campbell and Cunningham (1983), Shapiro *et al.* (1987), and Turnbull and Zolkiewski (1997) focus on relationships with customers, whereas Krapfel *et al.* (1991) and Olsen and Ellram (1997) focus on relationships with suppliers (see Zolkiewski and Turnbull, 1999, for a review of the models). These models are quite problematic as they vary considerably in relation to the actual variables used, the number of variables used and the number of steps used to integrate the information. Practitioners need to use their insight and judgement as well as considering carefully the reasons why they are using relationship portfolio analysis when selecting a model. Although all the researchers recognize the major difficulties inherent in the implementation of such an analysis, they agree that at least conceptually, relationship portfolio analysis, planning and management make an important contribution to effective marketing management.

Key account management is another tool which entails examining relationships from a strategic perspective. It is an approach usually adopted by the supplier who aims to build a portfolio of loyal key accounts by offering them, on a continual basis, a product/service package tailored to their individual needs (McDonald *et al.*, 2000). Once again, an understanding of the focal company's position in the network and its relationships is vital for deciding which relationships should be developed into key accounts. Relationship portfolio analysis could be used to provide a strategic perspective for selecting key accounts (Zolkiewski and Turnbull, 2001). This approach would be an improvement on past approaches put forward by Barrett (1986) and Boles *et al.* (1999), who suggest that key accounts should be large customers relative to the company's typical customer. This is an inadequate strategic approach as it focuses on high volume buyers only. The use of relationship portfolio analysis

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situation under investigation and not some cartoon-like image with distorted features.

There are many definitions of marketing research; here is a sample:

Marketing research is the function which links the consumer, customer and public to the marketer through information – information used to identify and define market opportunities and problems; generate, refine and evaluate marketing actions; monitor marketing performance; and improve understanding of marketing as a process.

Marketing research specifies the information required to address these issues, designs the method for collecting information; manages and implements the data collection process; analyses the results; and communicates the findings and their implications.

(The American Marketing Association, 1988,

The Dictionary of Marketing Terms)

Marketing research is the systematic and objective approach to the development and provision of information for the marketing decision-making process.

(Kinneer and Taylor, 1996)

Marketing research is the systematic and objective identification, collection, analysis and dissemination of information for the purpose of assisting management in decision-making related to the identification and solution of problems and opportunities in marketing.

(Malhotra, 1999)

Through these definitions two key words recur: systematic and objective.

- **Systematic:** the research process should be well planned and organized, with rules set in advance of the project being instigated, to govern the types of data to be collected, the way in which it is to be collected, the system of analysis to be employed etc.
- **Objective:** the research should be conducted in a way that eliminates, as far as possible, bias and the corruption of data by subjectivity/emotion. Marketing research does not take place in a laboratory but it should, at all times, aim for 'scientific' objectivity.

Types of research

Webb (2002) classifies marketing research into three groups:

- 1 Exploratory research.
- 2 Conclusive research.
- 3 Performance monitoring (routine feedback) research.

Each stage in the decision-making process determines the appropriate class of research that should be employed.

Exploratory research

This is usually employed in the initial stages of the research project when uncertainty/ignorance are at their highest. It is characterized by flexibility, an absence of formal structure and/or the desire to measure. It may be used to define the parameters of the environment in which the problems/opportunities exist, and to uncover those salient variables which are relevant to a full understanding of that environment. Exploratory research may alert the researchers to any temporal/seasonal effects which may have an impact upon the results (Radas and Shugan (1998) say: 'Virtually every product in every industry in every country is seasonal'); it may identify any dialects/jargon which may be the common currency, and it may allow an estimation to be made as to how easy/difficult it will be to carry out any subsequent research. Data sources may include secondary sources of data, observation, mini-surveys, interviews with experts and case histories.

Conclusive research

This can be employed to generate information to evaluate and to select course(s) of action. Conclusive research is formal, objective and

makes different assumptions regarding the way in which the numbers reflect the situation under measurement.

Nominal scales assign numbers to objects, variables or people to show that they belong to some stipulated category, categories which are mutually exhaustive and mutually exclusive.

In this scale, numbers have no mathematical value, they merely show that the people, objects etc. belong to a nominated group. Thus, people who read *The Guardian* might be assigned to the value 7 and those who read *The Times* to the value 456. The only mathematical function which can be undertaken is to count the number of objects inside each category. Bus numbers, bank accounts and football team shirt numbers are all nominal scales.

Ordinal scales rank order objects/people etc. according to the amount of a property which it/they possess. But respondents in a research programme must be able to discriminate between items of interest with respect to an attribute, i.e. they must have the ability to say that this tea, for example, tastes better than that tea. They are saying that this tea, the preferred one, has more of the attribute 'good taste' than the other does – their second choice. Ordinal scales do not enable researchers to know/infer by how much one item is preferred over the others in the same category. Thus, it is not possible to say if the difference between the first and second and between the second and third is the same, more, or less. Students' examination results, first place, second place etc., is an example of an ordinal scale.

Interval scales possess order and distance, but not a unique origin, i.e. their zero point is arbitrary. Thus, meaningful statements about the distance between two objects on a scale may be made. It is permissible to say that the difference between scale points 7 and 8 is the same as the difference between scale points 57 and 58. However, interval scales do not allow researchers to make meaningful statements about the value of a scale point being a multiple of another value on the same scale.

Ratio scales possess order, distance and a unique origin indicated by zero. All mathematical operations are allowed here, so it can be said that a reading of 80 on a scale is four times a reading of 20 on the same scale. Three feet is three times larger than 1 foot and 10 pounds is twice as large as 5 pounds. Measures such as height, weight and volume are examples of ratio scales.

Attitudes and their measurement

Marketing researchers usually seek to measure respondents' attitudes towards, for example, a change in packaging, price, a new product, politicians etc. But attitude measurement can sometimes be a rather difficult concept for such a practical subject as marketing research to come to terms with. How have attitudes been defined?

Two of the most useful and illuminating definitions are as follows:

... an individual's enduring perceptual, knowledge-based, evaluative and action-oriented processes with respect to an object or phenomena.

(Kinnear and Taylor, 1996)

... mental states used by individuals to structure the way they perceive their environment and guide the way they respond to it.

(Aaker *et al.*, 2001)

While there are many definitions other than the above, there is broad agreement that an attitude is a learned mental state of readiness, a way in which individuals construct their own worlds such that when confronted with a certain stimulus they act in a certain manner.

Attitudes are not held to be the only cause of human behaviour, there are many other factors having an impact upon the individual at the moment at which the behaviour under

method, it is quick to use and relatively simple to administer – it does not require a sampling frame. However, there is the possibility that the interviewer shows bias in the way the individual units are selected and in the difficulty that may arise in uncovering relevant and available quota controls.

Probability versus non-probability sampling techniques

Tull and Hawkins (1993) provide the following list of factors that are worthy of consideration when choosing a sampling method:

- 1 Are proportions and/or averages required or are projectable totals needed?
- 2 Are highly accurate estimations of population values necessary?
- 3 How large might non-sampling error be? What size of error due to frame choice, non-response, measurement and population specification is likely?
- 4 Will the population be homogeneous or heterogeneous with respect to the characteristic of interest?
- 5 What will be the cost if the results are above/below the required error tolerance?

They say that '... the need for projectable totals, low allowable errors, high population heterogeneity, small non-sampling errors and high expected costs of error favour the use of probability sampling'.

Size of sample

The size of a sample depends, in the main, upon the required degree of accuracy that the research objectives demand. This will depend upon:

- 1 The degree of variability in the population – the more heterogeneous that population, the larger the sample size required.
- 2 The presence of population subgroups – the sample must be large enough to allow for a valid analysis of these.

Sample size estimation depends upon:

- *Judgement* – rests on the experience of the research consultant. But research workers should beware of making an arbitrary choice, ignoring such factors as cost, value and the required level of accuracy – this is the method of last resort.
- *What can be afforded* – though commonly used, this method ignores the value of the information to be collected, only looking at the cost. For example, a small sample may be more useful, though of a higher cost per unit, than a larger sample if the collected information is of a high value.
- *Required size per cell* – used in quota and stratified sampling techniques. It is usual to accept a minimum, 30 units per cell before any statistical analysis can proceed. Thus, if there are two age groups and five geographical areas to be sampled, 10 cells will result, hence a sample of 300 units is required.
- *Statistical methods* – sample sizes may be calculated using the formula:

$$\frac{\sigma}{N} = \frac{\text{Required level of accuracy}}{\text{Level of confidence}}$$

where σ = standard deviation and N = size of sample.

Analysis of the results

The researcher will now be in possession of data from both primary and secondary sources; it must now be processed such that it is possible to draw appropriate conclusions.

In commencing the analysis, two questions need to be answered:

- With reference to the research objectives, what meanings should be obtained?
- What statistical methods should be employed to obtain those meanings given the way in which the data were collected?

company's major objective is to maximize total profits by establishing optimal sales target volumes and marketing mixes for the two channels (or customer segments) subject to the existing limiting constraints.

- 8 *Causal model* consists of two main analytical models for testing causal hypotheses (path analysis and LISREL). **Path analysis** is used on those occasions when some of the variables are unobservable or have modest reliabilities. (This tool should not be confused with the critical path method (CPM), which is one of the networking programming models discussed below.) LISREL is of paramount importance in marketing situations, when we want to investigate both measurement and cause, i.e. structural components, of a system (e.g. in a consumer behaviour study).
- 9 *Hybrid models* are methods that combine deterministic and probabilistic (stochastic) properties (e.g. dynamic programming, heuristic programming and stock control). These tools are particularly useful in handling distribution problems, as explained below.
- 10 *Networking programming models* are generally used for planning, scheduling and controlling complex projects. There are two fundamental analytical techniques: the critical path method (CPM), and the performance evaluation and review technique (PERT). The differences between the two are, first, that the PERT acknowledges uncertainty in the times to complete the activities, while the CPM does not. Second, the PERT restricts its attention to the time variable while the CPM includes time–cost trade-offs. These two together are also called critical path analysis (CPA) techniques.

The ten sets of methods above in no way exhaust the quantitative methods in marketing. The selection of techniques presented in this chapter is based either on their particular current relevance of handling many marketing problems or/and because of their potential in marketing research and analysis.

Multivariate methods

The multivariate methods in marketing are probably the predominant techniques of the last two decades, not only because of the wide variety of flexible techniques available in this category, but mainly because they answer the most pressing need of marketing research, which is to obtain the ability to analyse complex, often interrelated and interdependent data. There are six main multivariate sets of methods: factor analysis; latent analysis; cluster analysis; multidimensional scaling; correspondence analysis; and correspondence analysis.

Factor analysis

Factor analysis (FA) is primarily a tool to reduce a large number of variables to a few interpretable constructs. The method is used for exploration and detection of patterns in the data with the view to obtaining data reduction, or summarization, which could be more amenable for reaching decisions and taking marketing management actions. The software for FA is readily available and is standard in any SPSS (Statistical Package for Social Science) package. The input data are collected from respondents and the main limitations are how many factors to extract and the labelling of the emerging factors. Factor analysis could be used for analysing consumer behaviour, market segmentation, product/service attributes, company images, etc.

Latent analysis

Latent structure analysis (LA) is a statistical technique somewhat related to factor analysis, which can be used as a framework for investigating causal systems involving both manifest variables and latent factors having discrete components. Latent structure analysis shares the objective of factor analysis, i.e. first, to extract important factors and express relationships of variables with these factors and,

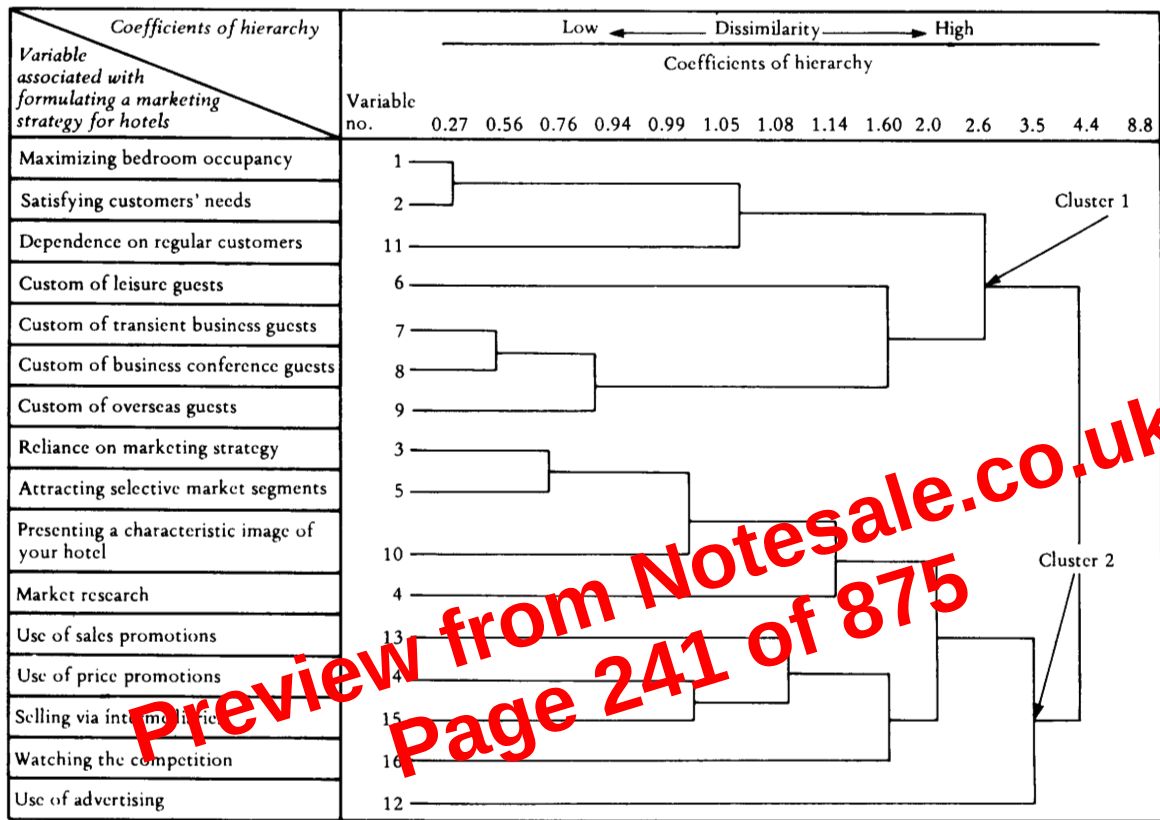


Figure 9.2 Hierarchical clustering of variables associated with a marketing strategy for hotels

Source: Meidan (1983).

using, to a larger extent, marketing tools and techniques, while cluster 1 strategy is more 'passive'. Low coefficients of hierarchy (or low dissimilarity) indicate high relationships or high similarity. For example, variables 1 and 2 are highly correlated, that is, they aggregate early, at a coefficient of 0.27. In contrast, variable 12 (use of advertising) is highly dissimilar to other variables and associates with the remaining coefficients in cluster 2 only at the 3.5 level. A possible explanation of this could be that hotels adopting the marketing strategy indicated by cluster 2 use an alternative communication mix and/or other marketing tools (e.g. variables 13, 14, 15, 4, 5, 10, etc.).

Multidimensional scaling

Multidimensional scaling (MS) is a measurement technique concerned mainly with the representation of relationship, differences, dissimilarities (or similarities), substitutability, interaction, etc. among behavioural data such as perceptions, preferences and attitudes. The input data on various objects (variables) which are to be analysed are collected from the subjects (respondents) by a number of direct or indirect questions. The questions can be either of Likert type (i.e. a five-point scale questionnaire indicating the level of agreement or disagreement to statements) or, alternatively, asking each of the respondents to rank the variables to be investi-

- 3 In the case of a new product that differs substantially from its principal competitors, the same elements cannot be used for aggregating utilities.
- 4 The effects of promotion and distribution effort on competitive reaction are not considered.
- 5 Perceptions from a concept statement and those from the actual product may differ.
- 6 New products may take several years to reach the market, during which time customer preferences and competitive products may have undergone substantial changes. Conjoint analysis has been applied widely on consumer research (Vriens, 1994), in advertising evaluation (Stanton and Reese, 1983) and other commercial uses (Cattin and Wittink, 1982).

dimensional tables. It can often be impossible to identify any relationships in a table and very difficult to account for what is happening. Correspondence analysis unravels the table and presents data in an easy-to-understand chart. One approach for generating maps uses cross-classification data (e.g. brands rated as having or not having a set of attributes) as a basis (Hoffman and Franke, 1986). In this approach both brands and attributes are simultaneously portrayed in a single space. This technique is particularly useful to identify market segments, track brand image, position a product against its competition, and determine who nonrespondents in a survey most closely resemble. Correspondence analysis shows the relationships between rows and columns of a correspondence or a cross-tabulation table. This method can be used for analysing binary, discrete or/and continuous data. CA belongs to the family of multidimensional scaling techniques and could be employed to scale a matrix of non-negative data to represent points

Correspondence analysis

Correspondence analysis (CA) is a visual or graphical technique for representing multiple

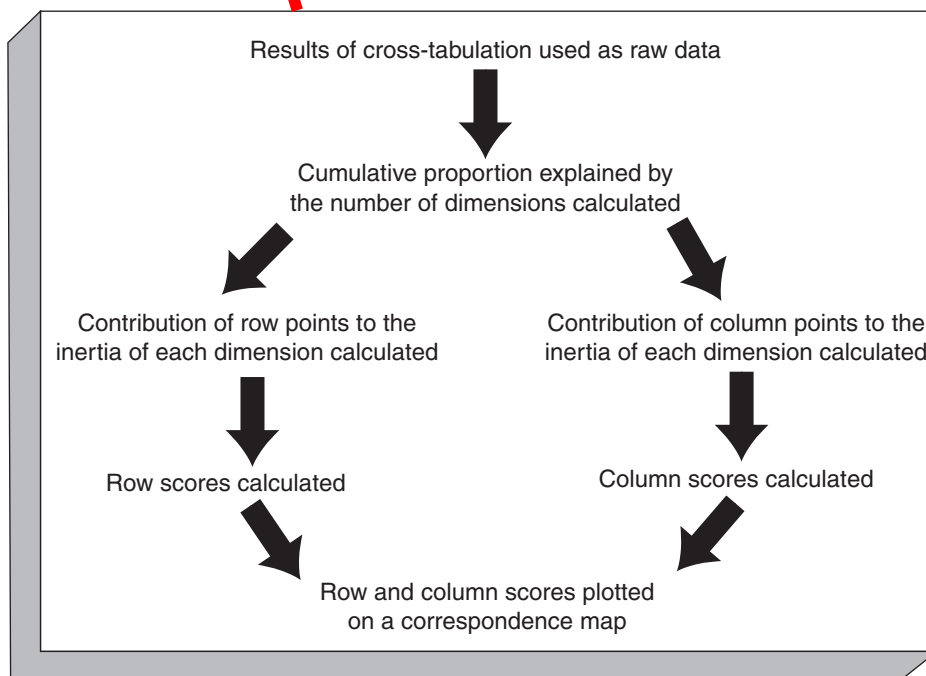


Figure 9.3 Procedural steps for correspondence analysis

Table 9.1 Main multivariate methods and their marketing applications

<i>Method</i>	<i>Based on</i>	<i>Marketing applications</i>	<i>Main advantages</i>	<i>Main limitations</i>
Factor analysis	Identification of relationships among variables and establishing the 'weight' (factor loadings) for these variables	Determine corporate marketing images, consumer behaviour and attitudes	Data reduction, identification of the main constructs (factors that underline the data characteristics)	Applicable only to interval-scaled data
Latent analysis	Investigation of both manifest and latent factors by estimating these latent parameters	Segmentation research, market structure analysis (Dillon and Mulani, 1989)	Could be used for investigating causal systems involving latent variables	Difficulties in estimating the latent variables
Cluster analysis	Developing similarity or dissimilarity measures (coefficients), or distance measures to establish clusters association	Primarily for segmentation studies and strategy (Saunders, 1994)	Enables classification of brands, products, customers, distributors, etc.	Different clustering methods could generate different clusters
Multidimensional scaling	Calculating the proximity (or, alternatively, of dominance) among attributes/variables and respondents	Market research, market share analysis (Coates et al., 1994), market segmentation, brand positioning, etc.	Presents the entire structure of variables, making it easier to visualize and interpret relationship/similarities among data	Different software packages required for different types of data input
Conjoint analysis	Measurement of psychological judgements by measuring the joint effect of two or more independent variables on the ordering of a dependent variable	Consumer research (Vriens, 1994), advertising evaluations (Stanton and Reese, 1983)	Enables calculation of preferences. Suitable for product design and attitude measurement	Measures first utility rather than behaviour
Correspondence analysis	Graphical technique for representing multidimensional tables. For procedure, see Figure 9.3	Selling functions in bank branches (Meidan and Lim, 1993), market segments, track brand images	Can be used for analysing binary, discrete and/or continuous data. Facilitates both within- and between-set squared distance comparison. Fast, easy to interpret	Limited applications in marketing because of lack of suitable software

law. The stochastic process method is commonly used in building brand-choice models of consumers. In all, there are three basic types of stochastic process methods – the zero-order, Markovian and learning models – and each has its own set of assumptions.

The zero-order model assumes that past brand choice has no effect on future brand choice. There are studies on the existence of brand or store loyalties using the zero-order model approach which have defined brand loyalty as a proportion of total purchases within a product class that a household devotes to its favourite or most frequently purchased brand.

The Markov model assumes that only the most recent purchases affect the brand-choice decisions. Using the Markovian model, one can measure the expected number of periods before an individual would try a particular brand. Markov models should be used for dynamic market predictions such as equilibrium market shares, average time to trial, which is a measure of the attractive power of the brand, and for evaluating the success of new product introduction. One other area where Markovian analysis has been employed in marketing is in making personal selling decisions, where it is used in the modelling of sales-effort allocation to customers.

The third of the stochastic process methods is the learning model, which postulates that brand choice is dependent upon a complete history of past brand purchases, as the effect of purchasing a brand is cumulative. Therefore, when applied in the brand-switching complex, this will mean that purchase of a brand will ultimately increase the probability of purchasing the same brand again. This model may be used in monitoring consumer behaviour.

Statistical decision theory

Decision theory is often used to evaluate the alternative outcomes of different decisions and to find the best possible decision. Associated with the statistical decision theory is the deci-

sion tree diagram, which portrays the various alternative decisions and their consequences. Game theory, discussed below, is commonly regarded as an analytical approach to decision making involving two or more conflicting individuals, each trying to minimize the maximum loss (minimax criterion).

One other application of game theory is for formulating advertising budget decisions. In statistical decision theory, probabilities of each outcome are based upon either past data or subjective estimates. Pricing decisions in advertising are another area where decision theory can be applied. The main disadvantage of this method is the subjective estimation of the probability for each decision.

Decision trees can also be used to decide whether or not to test-market a new product before launching it. Cadbury-Schweppes Ltd used this technique to help in deciding the feasibility of test-marketing a new chocolate product. By carrying out a test-market programme of the new chocolate, the earnings obtained exceeded those of embarking on a national launch without prior test-marketing. This method has been used for making merchandising decisions, such as finding the optimum mix of sizes and widths of fashion shoes to be ordered, especially when the possible alternative choices were numerous and carried high costs.

Game theory

Game theory, when compared with decision theory, has found limited applications in marketing. Nevertheless, it has been applied to retailing institutions in making product decisions. Game theory helps management to decide on its advertising budgets without any prior knowledge of competitors' budgeting decisions.

In pricing advertisements, Higgins (1973) used game theory to provide solutions. The total reward for all the firms included in the pricing decision study was considered fixed, the decision resting on which product price to

proposal for generalizing classical set theory. The Pawlak rough set model is based on the concept of an equivalence relation. Research has shown that a generalized rough set model need not be based on equivalence relations axioms. Lingras and Yao (1998) demonstrated that a generalized rough set model could be used for generating rules from incomplete databases. These rules are based on plausibility functions. These authors also emphasized the importance of rule extraction from incomplete databases in data mining.

An RST approach was used by Dimitras *et al.* (1999) to provide a set of rules able to discriminate between healthy and failing firms in order to predict business failure. The evaluation of its predictive ability was the main objective of the study. The results were very encouraging, compared with those from discriminate and logit analyses, and proved the usefulness of the method. The rough set approach discovers relevant subsets of characteristics and represents in these terms all important relationships between the key constructs. The method analyses only facts hidden in the input data and communicates with the decision maker in the material language of rules derived from his or her experience.

A recent development in RST is the variable precision rough set (VPRS) model, by Ziarko (1993a, b). Unlike RST, which constructs deterministic rules (i.e. 100 per cent in correct classification by a rule), the VPRS model enables a level of confidence in correct classification by a rule. That is, they are probabilistic rules.

Dissatisfied customers pose numerous potential problems for any organization – for example, negative word of mouth, reduced change of repeat lower brand loyalty. All of these problems will negatively affect the measurements of any business, e.g. profits and market shares. Therefore, assessing customer satisfaction level and more importantly why they are dissatisfied has great benefits to any company. This is particularly true in high competitive globalized markets, where search costs are low and the cost of switching supplier negligible.

Variable precision rough sets (VPRS)

A further RST innovation has been the development by Ziarko (1993a, b) of a variable precision rough sets (VPRS) model, which incorporates probabilistic decision rules. This is an important extension since, as noted by Kattan and Cooper (1998), when discussing computer-based decision techniques in a corporate failure setting, 'In real world decision making, the patterns of classes often overlap, suggesting that predictor information may be incomplete . . . This lack of information results in probabilistic decision making, where perfect prediction accuracy is not expected.'

An *et al.* (1996) applied VPRS (which they termed 'enhanced RST') to generating probabilistic rules to predict the demand for water. Relative to the traditional rough set approach, VPRS has the additional desirable property of allowing for partial classification compared to the complete classification required by RST. More specifically, when an object is classified using RST it is assumed that there is complete certainty that it is a correct classification. In contrast, VPRS facilitates a degree of confidence in classification, invoking a more informed analysis of the data, which is achieved through the use of a *majority inclusion* relation.

This paper extends previous work by providing an empirical exposition of VPRS, where we present the results of an experiment which applies VPRS rules to the corporate failure decision. In addition, we mitigate the impact of using the subjective views of an expert (as employed in previous studies) to discretize the data, by utilizing the sophisticated FUSINTER discretization technique, which is applied to a selection of attributes (variables) relating to companies' financial and non-financial characteristics. The discretized data, in conjunction with other nominal attributes, are then used in this new VPRS framework to identify rules to classify companies in a failure setting.

To facilitate a comparison of our experimental VPRS results with those of existing

conditional probabilities of allocation at least equal to β . More formally:

$$\begin{aligned} &\beta\text{-positive region of the set } Z \subseteq U: POS_{\beta}^Z(Z) \\ &= \bigcup_{Pr(Z|X_i) \geq \beta} \{X_i \in E(P)\} \text{ with } P \subseteq C. \end{aligned}$$

Following An *et al.* (1996), β is defined to lie between 0.5 and 1. Hence for the current example, the condition equivalence class $X_1 = \{o_1, o_4, o_6\}$ have a majority inclusion (with at least 60 per cent majority needed, i.e. $\beta = 0.6$) in Y_H , in that most objects (two out of three) in X_1 belong in Y_H . Hence X_1 is in $POS_{0.6}^Z(Y_H)$. It follows $POS_{0.6}^Z(Y_H) = \{o_1, o_4, o_5, o_6, o_7\}$.

Corresponding expressions for the β -boundary and β -negative regions are given by Ziarko (1993a) as follows:

$$\begin{aligned} &\beta\text{-boundary region of the set } Z \subseteq U: BND_{\beta}^Z(Z) \\ &= \bigcup_{1-\beta < Pr(Z|X_i) < \beta} \{X_i \in E(P)\} \text{ with } P \subseteq C, \\ &\beta\text{-negative region of the set } Z \subseteq U: NEG_{\beta}^Z(Z) \\ &= \bigcup_{Pr(Z|X_i) \leq 1-\beta} \{X_i \in E(P)\} \text{ with } P \subseteq C. \end{aligned}$$

Using P and Z from the previous example, with $\beta = 0.6$, then $BND_{0.6}^Z(Y_H) = \emptyset$ (empty set) and $NEG_{0.6}^Z(Y_H) = \{o_2, o_3\}$. Similarly, for the decision class Y_L it follows that $POS_{0.6}^Z(Y_L) = \{o_2, o_3\}$, $BND_{0.6}^Z(Y_L) = \emptyset$ and $NEG_{0.6}^Z(Y_L) = \{o_1, o_4, o_5, o_6, o_7\}$.

VPRS applies these concepts by firstly seeking subsets of the attributes, which are capable (via construction of decision rules) of explaining allocations given by the whole set of condition attributes. These subsets of attributes are termed β -reducts or *approximate reducts*. Ziarko (1993a) states that a β -reduct, a subset P of the set of conditional attributes C with respect to a set of decision attributes D , must satisfy the following conditions: (i) that the subset P offers the same quality of classification (subject to the same β value) as the whole set of condition

attributes C ; and (ii) that no attribute can be eliminated from the subset P without affecting the quality of the classification (subject to the same β value).

The quality of the classification is defined as the proportion of the objects made up of the union of the β -positive regions of all the decision equivalence classes based on the condition equivalence classes for a subset P of the condition attributes C .

As with decision tree techniques, *ceteris paribus*, a clear benefit to users of VPRS is the ability to interpret individual rules in a decision-making context (as opposed to interpreting coefficients in conventional statistical models). Hence VPRS-generated rules are relatively simple, comprehensible and are directly interpretable with reference to the decision domain. For example, users are not required to possess the technical knowledge and expertise associated with interpreting classical models. These VPRS characteristics are particularly useful to decision makers, who are interested in interpreting the rules (based on factual cases) with direct reference to the outcomes they are familiar with.

Dempster–Shafer theory

The Dempster–Shafer theory (DST) of evidence originated in the work of Dempster (1967) on the theory of probabilities with upper and lower bounds. It has since been extended by numerous authors and popularized, but only to a degree, in the literature on artificial intelligence (AI) and expert systems, as a technique for modelling reasoning under uncertainty. In this respect, it can be seen to offer numerous advantages over the more ‘traditional’ methods of statistics and Bayesian decision theory. Hajek (1994) remarked that real, practical applications of DST methods have been rare, but subsequent to these remarks there has been a marked increase in the applications incorporating the use of DST. Although DST is not in widespread use, it has been applied with some success to such topics as face recognition (Ip and Ng,

1994), statistical classification (Denoeux, 1995) and target identification (Buede and Girardi, 1997). Additional applications are centred around multi-source information, including plan recognition (Bauer, 1996).

Applications in the general areas of business decision making are in fact quite rare. An exception is the paper by Cortes-Rello and Golshani (1990), which although written for a computing science/AI readership, does deal with the 'knowledge domain' of forecasting and marketing planning. The DST approach is as yet very largely unexploited.

Decision analysis relies on a subjectivist view of the use of probability, whereby the probability of an event indicates the degree to which someone believes it, rather than the alternative frequentist approach. The latter approach is based only on the number of times an event is observed to occur. Bayesian statisticians may agree that their goal is to estimate objective probabilities from frequency data, but they advocate using subjective prior probabilities to improve the estimates.

Shafer and Pearl (1990) noted that the three defining attributes of the Bayesian approach are:

- 1 Reliance on a complete probabilistic model of the domain or 'frame of discernment'.
- 2 Willingness to accept subjective judgements as an expedient substitute for empirical data.
- 3 The use of Bayes' theorem (conditionality) as the primary mechanism for updating beliefs in light of new information.

However, the Bayesian technique is not without its critics, including among others Walley (1987), as well as Caselton and Luo (1992), who discussed the difficulty arising when conventional Bayesian analysis is presented only with weak information sources. In such cases, we have the 'Bayesian dogma of precision', whereby the information concerning uncertain statistical parameters, no matter how vague, must be represented by conventional, exactly specified, probability distributions.

Some of the difficulties can be understood through the 'Principle of Insufficient Reason', as illustrated by Wilson (1992). Suppose we are given a random device that randomly generates integer numbers between 1 and 6 (its 'frame of discernment'), but with unknown chances. What is our belief in '1' being the next number? A Bayesian will use a symmetry argument, or the Principle of Insufficient Reason, to say that the Bayesian belief in a '1' being the next number, say $P(1)$, should be $1/6$. In general, in a situation of ignorance, a Bayesian is forced to use this principle to evenly allocate subjective (additive) probabilities over the frame of discernment.

To further understand the Bayesian approach, especially with regard to the representation of ignorance, consider the following example, similar to that in Wilson (1992). Let a be a proposition that:

live in Byres Road, Glasgow'.

How could one construct $P(a)$, a Bayesian belief in a ? First, we must choose a frame of discernment, denoted by Θ and a subset A of Θ representing the proposition a ; we would then need to use the Principle of Insufficient Reason to arrive at a Bayesian belief. The problem is there are a number of possible frames of discernment Θ that we could choose, depending effectively on how many Glasgow roads can be enumerated. If only two such streets are identifiable, then $\Theta = \{x_1, x_2\}$, $A = \{x_1\}$. The Principle of Insufficient Reason then gives $P(A)$ to be 0.5, through evenly allocating subjective probabilities over the frame of discernment. If it is estimated that there are about 1000 roads in Glasgow, then $\Theta = \{x_1, x_2, \dots, x_{1000}\}$ with again $A = \{x_1\}$ and the other x values representing the other roads. In this case, the 'theory of insufficient reason' gives $P(A) = 0.001$.

Either of these frames may be reasonable, but the probability assigned to A is crucially dependent upon the frame chosen. Hence one's Bayesian belief is a function not only of the information given and one's background

Table 9.12 Some major deterministic operational research techniques applicable in marketing (the methods, advantages, limitations and when recommended to use)

<i>Method</i>	<i>Based on</i>	<i>Marketing applications</i>	<i>Main advantages</i>	<i>Major limitations</i>
Linear programming	Objective and constraint linear functions	(a) Advertising (Higgins, 1973), space, optimal media mix allocations (b) Distribution problems, site location (Kotler, 1972) (c) Budget allocation, new product decision (Wilson, 1975) (d) Planning product mixes (e) Marketing mix decisions	(a) Maximizes profitability of allocations, subject to constraints (b) Minimizes costs (c) Aids management in decision making	(a) Difficult to obtain and formulate the various functions (b) Constraints must be altered as soon as external and/or internal factors change
Transportation model	Transportation/ allocation matrix ascertaining the minimum costs, routes, quantities supplied, etc.	To allocate resources, supply etc. by reducing transportation costs. Suitable particularly for department stores, truck rental firms, transport companies	Very suitable for managerial decision making	Inaccurate in the longer run as a result of changes in costs
Non-linear programming	Non-linear objective functions and non-linear constraint relationships	To find the maximum return to a new product search, subject to budget constraint	(a) When the relationships are non-linear (b) When the objective function is non-linear while the constraints are non-linear	Difficult to establish non-linear relationships

scheduling and controlling in all functions of management. For a number of reasons, this technique is particularly applicable for use in marketing management. First, marketing management, by definition, involves the co-ordination of many other functions and activities: advertising; distribution; selling; market research; product research and development. Second, much of the work in marketing can be of a project nature (for example, new product launch, organization of a sales promotion, setting up of a new distribution system).

CPA is based on the assumption that some of the activities of a marketing project are in a concurrent relationship and take place simultaneously. The advantages to be gained from CPA in marketing are similar to those obtained in other functions, except that the centrality of the marketing function, particularly in some consumer goods firms, increases its desirability.

There are a large number of possible applications of PERT and CPM: for new product launch (Roberson, 1970); distribution planning (LaLonde and Headon, 1976); sales negotiations; and purchasing (Bird *et al.*, 1973); launching a marketing company/project/department; sales promotions; conference organization; advertising campaigns; new store openings; realigning sales territories, etc.

Budnick *et al.* (1977) proposed using network planning for product development, while others suggest the use of the CPM to co-ordinate and plan the hundreds of activities which must be carried out prior to commercialization of a new product. Johansson and Redinger (1979) used path analysis to formulate an advertising-sales relationship of a hairspray product.

Chaos theory

Chaos theory has the potential to contribute valuable insights into the nature of complex systems in the business world. As is often the case with the introduction of a new management metaphor, 'chaos' is now being 'discovered' at all levels of managerial activity (Stacey, 1993).

What is chaos theory?

Chaos theory can be compactly defined as 'the qualitative study of unstable aperiodic behaviour in deterministic non-linear dynamical systems' (Kellert, 1993, p. 2). A researcher can often define a system of interest by representing its important variables and their interrelationships by a set of equations. A system (or, more technically, its equations) is dynamical when the equations are capable of describing changes in the values of system variables from one point in time to another. Non-linear terms involve complicated functions of the system variables such as: $y_t + 1 = x_t y_t$.

Chaos theorists have discovered that even simple non-linear sets of equations can produce complex aperiodic behaviour. The most familiar example is the logistic equation of the form: $x_{t+1} = rx_t(1 - x_t)$ where x lies between 0 and 1. This system is deterministic in the sense that no stochastic or chance elements are involved. Figure 9.8 depicts the behaviour of this system for varying levels of r .

At values of $r < 2$, iterating over the logistic equation will result in the system stabilizing at $x = 0$ (Figure 9.8a). Between $r = 2$ and $r = 3$, the system reaches equilibrium at progressively higher values of x (Figure 9.8b). At around $r = 3$, the system is seen to bifurcate into two values. The steady-state value of x alternates periodically between two values (Figure 9.8c). As r continues to increase, it continues to increase in periodicity, alternating between 2, then 4, 8 and 16 points. When r is approximately 3.7, another qualitative change occurs – the system becomes chaotic. The output ranges over a seemingly infinite (non-repeating) range of x values (Figure 9.8d).

Chaotic systems are also unstable, exhibiting a sensitive dependence on initial conditions.

The Lyapunov exponent is a mathematically precise measure of the degree of sensitive dependence on initial conditions. The Lyapunov exponent takes the one-dimensional form $e^{\lambda t}$. If $\lambda < 0$, then the initial differences will

meant that marketers are more able to analyse customer behaviour at an individual level, and they increasingly aim to be able to cultivate long-term relationships with those customers who contribute most to the financial position of the organization. In this way, there has been much attention devoted to concepts of relationship marketing, customer relationship management (CRM) and one-to-one marketing. It has to be said that much of this is rhetoric rather than reality, as is discussed later.

The next section outlines what are suggested as being the main criteria for segmentation to be effective.

Segmentation criteria and categories

Segmentation involves identifying homogeneous buying behaviour within a segment (and heterogeneous buying between segments) such that each segment can be considered a target for a distinct marketing mix.

Criteria for segmentation

To help with this process, potential segments should satisfy a number of criteria (Frank *et al.*, 1972). The four main and nine sub-criteria are (Van Raaij and Verhallen, 1994):

- 1 Typifying the segments:
 - *Identification*. Differentiation of segment from other segments.
 - *Measurability*. Identification of segments in terms of differences in individual and household characteristics or other 'measurable' characteristics should be possible.
- 2 Homogeneity:
 - *Variation*. Heterogeneity between segments in terms of behavioural response (Engel *et al.*, 1972).
 - *Stability*. Although this criterion suggests that segments should be relatively stable over time and that switching of consumers from one segment to another should not be frequent, the use of data mining tools allows the identification of individuals' changed circumstances or behaviour, such that they can now be switched from one target group to another.
- 3 Usefulness:
 - *Congruity*. Homogeneity within segments in terms of behavioural responses.
 - *Accessibility*. Segments should be accessible in terms of communications media and distribution outlets. This means that it must be possible to reach the segment. Traditionally, this meant the selection of those advertising media that match the segment's media profile in demographic terms, or selecting appropriate distribution channels, again through a matching of demographic profile with the equivalent profile of those most likely to frequent different types of retail outlets. Increasingly, however, especially since around the start of the 1980s, more sophisticated market profiling and targeting dimensions have been deployed. The date is significant because it reflects the first use of the national census for marketing purposes, as is explained later.
 - *Substantiality*. Segments should be of sufficient size to enable specific marketing actions. This does not mean that segments need to be especially large, but profitable enough to have distinct marketing mixes aimed at them. Again, as we will see later, new 'marketing metrics' have facilitated greater sophistication in calculating not only the most profitable segments, but even the most profitable individual customers.
- 4 Strategic criteria:
 - *Potential*. The segments should have enough potential for marketing objectives, e.g. profitability.
 - *Attractiveness*. Segments should be structurally attractive to the producer, e.g. create a competitive advantage for the company (Porter, 1979).

supporting characteristics rather than as the main segmentation base. We start by exploring some demographic characteristics within the applied context of a hypothetical case study.

Demographics

A drinks company has researched potential markets for its new drink, a cross between an alcopop and 'mixer'. The product might appeal to the youth market as a stronger 'soft' drink and to older markets as a sweet mixer for spirit-based drinks. The company discovered that several market reports such as MINTEL, KEYNOTE and Market Assessment have conducted some research into the usage of alcopops and spirits. The company also conducted its own survey and qualitative group discussion research amongst consumers, and discovered that those most likely to be interested in this product are 16–24, females from CH households either as dependent children or in a first household of their own. The next most likely segment was found to be 50–60, males from AB households in which children have grown up and left home.

These are demographic characteristics but respondents to this form of market research are (and should be to comply with the Market Research Society's Code of Conduct) anonymous and not added to any database for, for example, mailing list creation.

The value of these characteristics depends upon the extent to which they satisfy the above criteria for segmentation.

For instance, in terms of estimating market size within the substantial criterion, it would be usual for the demographic profile to be used to estimate the size of this segment in the population as a whole – based on the incidence of their demographic characteristics in the total population. For the accessible criterion it has been traditional for a demographic market profile to be matched with media profiles in order to select appropriate advertising media to reach the selected segment. Similar demographic profiles exist for those frequenting different

retail outlets and therefore selection of channel can be based on demographics as well.

As for understanding why segments behave as they do, demographics are less clear. If there is a relationship between an age group, or gender or social grade and purchasing behaviour, is this a causal relationship or mere coincidence?

Age

Age is still a valid base for many markets. The drinks company here has identified 'young adult' and 'teenage' segments, for example. In general terms, these have become important spenders, for example, demanding their own products and searching for their own identity. A complicating factor is that this group has been found to be especially individualistic and sceptical of marketing activity. This doesn't make them difficult to reach, but it is proving harder to influence them. A decade ago they were labelled as 'Generation X', and Coupland (1991) and Ritchie (1995) have analysed their behaviour and attitudes; these have been further reported by Bashford (2000). It is possible that marketing can provide some of what Generation X might be looking for – greater interactivity and participation in marketing communications. The current 16–24s have been termed Generation Y or the Millennial Generation (Adam Smith Institute, 1998). Many in this category have been found to be materialists, brand orientated, risk takers, keen on business, hedonism, illegal drugs and have a disrespect for politics. The Future Foundation (2000) extended this research and found them to be more accepting of multinationals and less interested in protesting.

Further analysis of Generation Y has been conducted by Shepherdson (2000) and Gofton (2002).

If this group were targeted, this profile could provide useful clues as to the sort of message and media to use and reach them.

The older potential segment for the drinks company is composed of those in their fifties –

Table 10.5 ACORN 'segments'

Category and label	Description
Category A Group 1	Wealthy Achievers, Suburban Areas The majority of people in this group live in a large detached house and have access to two or more cars. They are typically well-educated professional people, the corporate managers in their middle-age, enjoying the fruits of their labour. These are the consumers with the money and the space to enjoy very comfortable lifestyles.
Category A Group 2	Affluent Greys, Rural Communities This group covers Britain's better-off farming communities – residents here are 12 times more likely than average to be involved in agriculture. Many are self-employed and work long hours. The very high incidence of visitors and households which are not the main residence show that these areas also include many holiday homes.
Category A Group 3	Prosperous Pensioners, Retirement Areas The better-off senior citizens in society are to be found in Group 3. Living in flats, detached houses or bungalows, these are old folk who can enjoy their retirement in pensioned comfort after their professional or executive careers. They are likely to own their home outright, so they have the disposable income to enjoy themselves.
Category B Group 4	Affluent Executives, Family Areas These are the well-qualified business people successfully juggling jobs and families. There are lots of young women in this group. With mortgages, young children and often two or more cars to support, these busy people need their incomes but aren't having too hard a time making ends meet. They are likely to have large, modern detached houses and generally enjoy a good standard of living.
Category B Group 5	Well-Off Workers, Family Areas In a wide range of well-paid occupations, people in Group 5 are likely to be in couples, often with children aged 0–14. Both Mum and Dad are working hard to pay off the mortgage on their detached or, more probably, semi-detached home. While they are not as highly qualified as people in Group 4, they still have an agreeable lifestyle, often with more than two cars per household.
Category C Group 6	Affluent Urbanities, Town and City Areas These are the young couples or single people starting out in life, a few years and a couple of kids behind the people in Group 4! They tend to live in flats, terraced houses or bedsits. There are quite a number of students in this group. Car ownership is average, reflecting the urban setting.
Category C Group 7	Prosperous Professionals, Metropolitan Areas People in Group 7 share many characteristics with Group 6. However, they live in more cosmopolitan areas with a high ethnic mix. They take the train or underground to the office each day, working long hours in fairly senior roles and making the most of their high qualifications.
Category C Group 8	Better-Off Executives, Inner City Areas These are well-qualified people, over a third of whom are single with no dependants. The age profile here is younger than for Groups 6 and 7, and there are many more students and other characteristics of academic centres. This group also has a relatively high proportion of professionals and executives, and shares many of the cosmopolitan features of Group 7.
Category D Group 9	Comfortable Middle Ageds, Mature Home Owning Areas Mr and Mrs Average are to be found in these areas – they are close to the national 'norm' on just about every key characteristic. Living in a detached or semi-detached house with at least one car, likely to be an older married couple, Group 9 represents middle-of-the-road Britain. They are not particularly well-off but have few problems with unemployment or health.

Table 10.8 People UK

Life stage 1

Silver spoons
Popcorn and pop music
Friends in flats
Urban multicultural

Starting Out

Young people with affluent parents
Singles in low value housing
Young flat sharers
Mixed metropolitan singles

Life stage 2

Legoland families
Caravans and funfairs
Struggling singles

Young with Toddlers

Prosperous marrieds with pre-school children
Young families in mid-value homes
Single parents on low incomes

Life stage 3

On the right track
PC parents
School fetes
Car boot sales
Camping and cottages
Loan-loaded lifestyles
Satellites and scratchcards

Young Families

Up-market executive families
Affluent liberal young marrieds
Aspiring couples with young children
Traditional families with average incomes
Moderate incomes, outdoor pursuits
Low incomes and high loans
Poorer families without bank accounts

Life stage 4

Telebanking townies
Solvent set
On the terraces
Pubs and pool

Singles/Couples No Kids

City flat sharers with affluent active lifestyles
Financially aware middle-aged singles/couples
Blue collar singles
Poorer singles in deprived areas

Life stage 5

Serious money
Affluent intelligentsia
Two-car suburbia
Conventional families
Cross-channel weekenders
Gardens and pets
Neighbourhood watch
Staid at home
Tabloids and TV

Middle Aged Families

Wealthy families in exclusive areas
Cultured well-off couples
Prosperous people with teenage children
Comfortable households with traditional values
Moderately well-off settled families
Established families in country areas
Average incomes, suburban semis
Families with teenage children in low value semis
Lower income families with older children

Life stage 6

Prosperous Empty Nesters
Young at heart
Cautious couples
Radio 2 fans
Urban elderly
Beer and Bookies

Empty Nesters

Older couples living in expensive houses
Older couples with active interests
Modest lifestyles and moderate means
Average incomes and traditional attitudes
Poorer couples in council housing
Low income families with teenage children

with Experian's MOSAIC geodemographic system and MapInfo's geographical information system (GIS) to show 'hot spots' geographically of where these potentially best target segments might be found. As we have seen, MOSAIC uses postcodes and the data mining/CRM software has spatial analysis capabilities through a dynamic link to MapInfo.

To further hone the characteristics of this 'best prospect' segment, the data mining/CRM software can be used to overlay other customer characteristics onto the map in order to redraw and filter this target segment further. Here, the first map has been filtered using Income over £35 000, Marital Status = Married, and Age in the 45–70 band. These are the characteristics that the same data mining/CRM software identified as being the ones possessed by the 'best' current customers of both Account Types A and B, according to their RFM profile. The data mining/CRM software extracts the names and addresses of customers with these same characteristics who currently have only purchased Account Type A as representing the best prospect segment for the cross-selling campaign for Type B. This is done by merely selecting the 'hot spot zones' from the second map in Figure 10.4. Names and addresses are produced almost instantly, providing a contact list that satisfies the accessible criterion for segmentation. This target segment would presumably have a higher propensity to purchase both products A and B. Although the segment is composed of those who have currently only purchased A, it contains those who possess the characteristics of the best customers who have purchased both products.

There is more that can be done. The fullest benefit from existing customer data comes from looking at all of the attributes together. The easiest way to achieve this is via CHAID, which in this case is an integral component of the data mining/CRM software being used and of most similar packages.

CHAID is a type of cluster analysis in which large samples are broken down into homogeneous subsets. Based on scores on the

dependent variable, clusters are formed that differ maximally between clusters on the dependent variable. The approach is very useful for market segmentation and is becoming very popular amongst data-driven marketers.

CHAID will produce a tree-like analysis which identifies different segments based on the variables themselves, but also on the effects of the variables interacting with each other (regression doesn't automatically do this). Where there is no significant difference between some of the variables, CHAID will combine these into a larger 'segment'.

Here, various customer and transactional attributes have been investigated to see which best explain the characteristics of customers who have both A and B. A 'tree' structure represents different 'hot' and 'cold' 'branches' through the data. Each branch represents a different level of importance in explaining who are A and B customers are. Each attribute is assessed and the most important or 'significant' forms the first split. Taking the entire customer base in this instance, 87.37 per cent of all customers have both Accounts A and B (Figure 10.5).

By following the 'hottest branch', the company can understand which characteristics are possessed by those customers who have purchased both Account Types A and B. Figure 10.5 shows these to be: Married and Male. For this group of customers, the percentage with both Accounts A and B rises to 96.12 per cent compared with 87.37 per cent of entire unsegmented base.

Further branches of the CHAID tree might cascade down to even more segments based on whichever variables prove to be significant. Space prevents showing further stages here, but assume the analysis produced 60 target segments. Each of these would have significant and different characteristics. Targeting could be done on a 'test' basis in which a sample from each might be targeted and those with better response rates could then be targeted with the full 'roll-out' campaign. Also, each could be

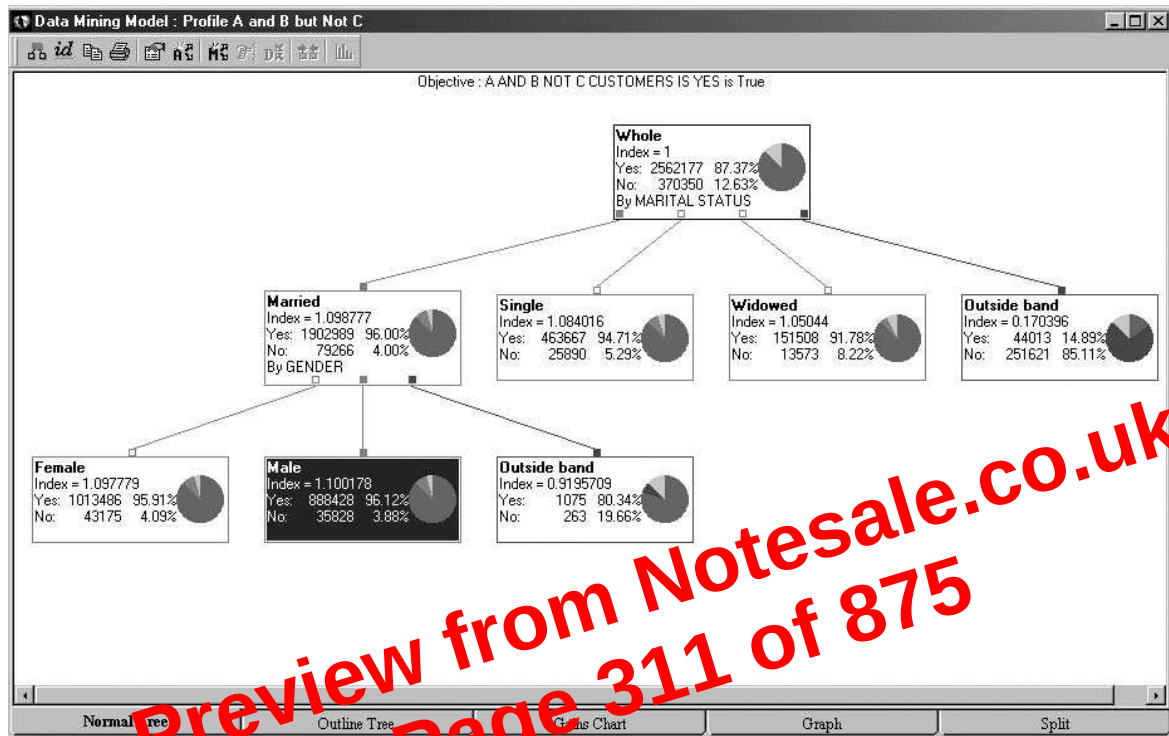


Figure 10.5 Data mining model

several years and which can be further overlaid by geodemographics. Geodemographics itself would be based on the National Census which, in the case of the UK, represents 60 million people and the analysis of up to 80 census variables plus financial and other variables used to cluster neighbourhood groups. This is further overlaid with personalized details of 20 million individuals and the hundreds of product/service interests they have marked on lifestyle surveys.

One-to-one segmentation and CRM

There is some evidence that some segments want to behave more as individuals and therefore perhaps be treated as such by marketers (Evans, 1989), but although the discussion

above probably gives the impression that we have moved to 'segments of one', one-to-one marketing is not the norm and perhaps is more rhetoric than reality. Dibb (2001) explores aspects of this and points out that 'at the heart of segmentation strategy is the notion that customers will allow themselves to be managed'. Indeed, the use of the word 'management' in CRM might signal that 'relationship management' is an oxymoron. It implies power and that that power is one way.

Such data analysis as has been outlined above can lead to individuals being targeted, but not necessarily as individuals. The CHAID example demonstrated that although individual data were processed, the resulting segments are still aggregates even if their constituent members are targeted by name and address, and probably with different styles of offer from

nearly all of the company's best customers. The company was then able to purchase a list of every citizen who belonged to these groups and who also lived in those geographic areas in which the company wanted to acquire new customers. This is the 'identikit' or 'cloning' approach. It is the process of replicating customer characteristics in non-customers in order to select the best prospects for a marketing programme.

Lifetime value analysis

Another metric of data-driven segmentation is the LTV (lifetime value analysis). Lifetime is perhaps something of an overstatement – it doesn't mean the lifetime of the customer, but rather a designated period of time during which they are a customer of your organization. Depending on the type of products or services on offer, lifetime might be as little as 6 months (as in purchases for baby products) or as long as 10 years (as in the automotive market). Essentially, different sectors have worked out the probable lifetime value of the 'average' customer and calculated accordingly. Whatever period is relevant, however, the concept of what that customer is worth to the organization in sales and profit terms over a period of time is a useful concept that can inform target segment selection.

To take an extreme example, if a car company is only concerned with acquiring customers and does nothing to retain them, there is a fair chance that each customer who buys one of their cars this year will go on to buy another make next time – and the time after that and so on. The value of the sale might be £10 000, but subtracting acquisition costs, production and other costs could mean a net profit of just a few pounds.

With a more dedicated retention programme the company could expect that customer to buy one of their cars every third year for, perhaps, 12 years – not just at £10 000 but as they progress through their life stages they may

be able to buy more expensive models. So, with lower costs of retaining a customer than acquiring him/her in the first instance, together with repeat buying and the prospect of up-selling over a period of time, the sales value could be as high as, say, £70 000 (£10k + £12k + £14k + £16k + £18) plus cross-sales of related accessories and servicing. Those segments (analysed as individuals according to their transactional and profile data) would be selected for targeting – and for particular forms of targeting such as loyalty schemes or other retention devices.

Allowable cost for targeting

Furthermore, for those selected target segments, it is then possible to calculate a 'mini' profit and loss account for the 'average' sale. Consider a simple example in which the selling price of a directly distributed computer is £1000, its cost of production is £600, order handling is £40, 'p&p' is £20 and the desired profit is £250. Costs would total £660, so the 'contribution' is £340 (£1000 – £660). The selling price is £1000 and the sum of costs and desired profit for the average sale is £910 (£660 costs + £250 desired profit), so the allowable cost for targeting is £90 (£1000 – £910).

This analysis can be done for different selling prices and different promotional campaigns, and shows how selected segments can be further analysed in order to set allowable costs for targeting them.

Having determined which segments to target – and indeed which customers and/or potential customers to target within these – the next stage is to consider how to position the product or service in the market.

Positioning

The third strand of what is referred to as STP (segmentation, targeting and positioning) involves deciding on the position within the

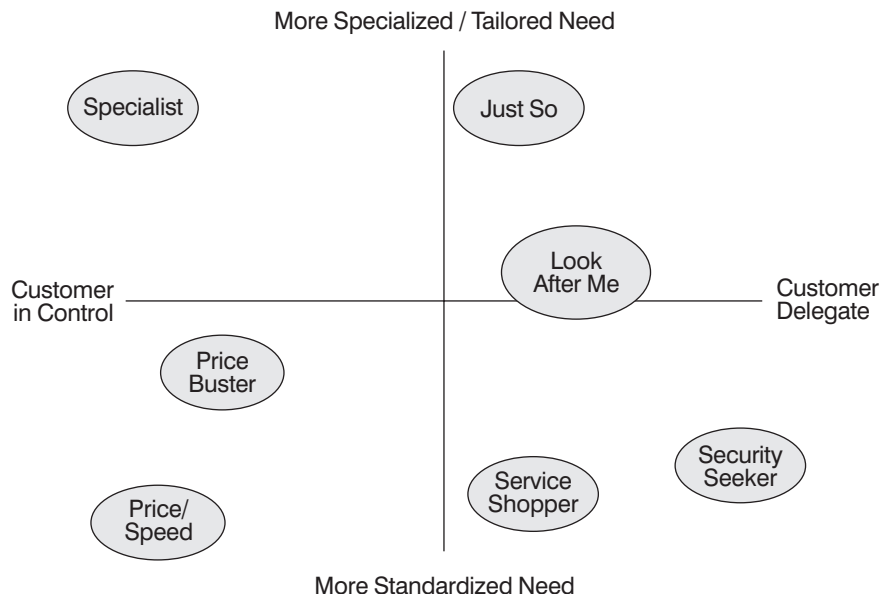
market that the product or service is to occupy. In doing this, the company is stating to customers what the product or service means and how it differs from current and potential competing products or services.

Positioning is therefore the process of designing an image and value so that consumers within the target segment understand what the company or brand stands for in relation to its competitors. In doing this, the organization is sending a message to consumers and trying to establish a competitive advantage that it hopes will appeal to customers in the target segment. In essence, therefore, the marketing mix can be seen as the tactical details of the organization's positioning strategy. Where, for example, the organization is pursuing a high-quality position, this needs to be reflected not just in the quality of the product or service, but in every element of the mix, including price, the pattern of distribution, the style of advertising and the after-sales service. Without this consistency, the level of

ability of the positioning strategy reduces dramatically.

Multidimensional scaling and correspondence analysis can be used to build perceptual maps. These procedures involve algorithms that start with measures of similarity between pairs of products and try to find a geometric representation of the brands in the product category. These techniques position products that are perceived as similar close to one another and locate dissimilar products far apart. Dimensions of perceptual maps are not named by the multidimensional scaling programmes. Researchers have to interpret the dimensions themselves based on the geometric representation. Additional information may be gathered from consumers to name the dimensions. The attributes that are the most important in consumers' perceptions of a product category can be determined from survey research.

In this way, positioning is not actually something that is done to the product, rather it



Source: Forster (1997).

Figure 10.8 Travel agencies: service needs

is something that marketers do to the minds of consumers. It relates to how consumers perceive the product in terms of image relative to competing offerings (Reis and Trout, 1986).

Figure 10.8 shows an example of positioning for travel agencies. This suggests that the segments of customers labelled 'specialist', 'price buster' and so on require differing degrees of (a) control over the travel/tour buying process and (b) with the degree of specialized or standardized 'package' the agency provides. Whether this approach would be adopted by travel agencies is debatable, but it could be a significant and worthwhile change in how different known customers are treated in store, perhaps even a good example of the one-to-one segmentation that this chapter has questioned?

Conclusions

It can be said that market segmentation is a real cornerstone of marketing. The very essence of the marketing concept itself leads to an inevitable consideration of market segmentation. If marketing is concerned with satisfying consumer needs and wants as a means to achieving the goals of the organization, it should be recognized that, whereas the human condition means we all have a similar need structure, the same needs will not be salient to every person at the same point in time. Also outlined in the chapter are the stages subsequent to segmentation, such as targeting and positioning.

The chapter has explored some of the traditional approaches to segmenting and targeting markets, and highlighted the value of the more affective ones, in terms of helping to identify salient needs and requirements.

However, the chapter has also submitted the view that data-driven segmentation and targeting is 'taking over' and facilitating greater accountability via the more effective identification of those segments likely to be more profitable. Rather than relying exclusively

on generalized characteristics such as age, social grade and gender, from which buying behaviour is often inferred, the trend is away from profiling and toward using transactional data for targeting. The resulting segmentation data lead to targeting those who are known to buy in that product category on the basis of data fusion to form biographic segmentation.

The new marketing is becoming increasingly reliant upon the metrics of RFM, LTVs, CHAID and data mining. The danger is, perhaps, that these are subverting the role and importance of more affective research that aims to explain why segments behave as they do rather than just whether and how they behave.

It is interesting to go back in time and remember a prediction from Shubik (1967):

The computer and modern data processing provide the refinement – the means to treat individuals as individuals rather than parts of a large aggregate . . . the treatment of an individual as an individual will not be an unmixed blessing. Problems concerning the protection of privacy will be large.

This is not a misprint – it was 1967.

The last point is another story – but one not to be ignored.

Review questions

- 1 If a market is segmented according to age, gender and social grade, what are the contributions of these variables to satisfying the various criteria for segmentation?
- 2 What are the implications of biographic segmentation for:
 - (a) markets
 - and
 - (b) marketing?
- 3 How do RFM, LTV and allowable cost metrics help in the segmentation and targeting process?

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An effective marketing mix is then one which offers a product that solves the customer's problem, that is of low cost to the customer, that effectively communicates the benefits, and that can be purchased with the utmost convenience.

The problem with this 'marketing' view of the marketing mix is that it ignores whether the mix makes economic sense for the company. While it maximizes value for customers it can easily minimize value for shareholders. For example, the product that gives the best customer solution is likely to be one individually tailored to a specific customer, incorporating all the features of value to that customer. But for the company, this would require a very broad product line with high manufacturing costs and substantial investment requirements. Unfortunately, what customers also want is low cost, which in most situations will mean offering them low prices. Similarly, the unconstrained pursuit of convenience and communication of the brand's benefits also involves higher costs and investment. The formula of low prices, high operating costs and high investment in promotion and distribution is not one that builds successful businesses.

A striking example of the problems of the marketing-led approach to the marketing mix has been the collapse of the Japanese economic miracle (Porter *et al.*, 2000). Until the early 1980s, the Japanese were held as the paragons of successful marketing (e.g. Ohmae, 1985; Hamel and Prahalad, 1994). Japanese companies such as Nissan, Matsushita, Mitsubishi, Komatsu and Canon appeared set to dominate their markets. Their formulas were similar: an overwhelming focus on investing in market share, and a marketing mix based on fully-featured products, low prices, aggressive promotion and an extensive network of dealers. The strategy did lead to gains in market shares as consumers appreciated the superior value that Japanese companies were offering. But the profit margins and return on investment earned by these companies were very poor. For a time, the support of the Japanese banks disguised

their inadequate economic performance. But in the 1980s the bubble burst, investors lost confidence in the ability of Japanese companies to earn an economic return on capital and Japan entered a two-decade recession.

The dot.com 'bust' of 2000 illustrated the same sort of weaknesses. These start-ups made market share their sole priority. Products and services were given away free or below cost. Huge sums were spent on advertising and promotion in the belief that if they achieved a dominant market position in the 'new economy' everything else would fall into place. The result was large number of visitors to their sites, but the companies generated no profit and eventually they ran out of cash. In 2002, Yahoo! counted its global users in millions, but it worked out the average spend per head amounted to less than a cup of coffee annually. It was hardly surprising that, despite its dominant market share and brand leadership, the value of the company collapsed by 90 per cent.

Successful businesses understand that building brands that satisfy consumers is necessary but not sufficient. Without generating an economic return to shareholders, a marketing mix is not sustainable.

The accounting approach to the marketing mix

Faced with poor returns, some companies, especially in the UK, adopted an accounting approach to marketing. The marketing mix was seen not as an instrument for gaining and retaining customers, but rather as a tool for directly increasing the return on investment. Return on investment can be increased in four ways – increasing sales, raising prices, reducing costs or cutting investment. The marketing mix is the central determinant of each of these levers.

For example, cutting back on the number of product variants offered to customers will reduce costs and investment. Raising prices

will usually increase profitability in the short term because higher margins will offset the volume loss. Cutting advertising and promotional budgets will also boost short-term profits. Finally, savings on distribution and service will normally have positive effects on profitability, even though customers may suffer some inconvenience.

As illustrated in Figure 11.2, the accounting approach leads to a completely opposite marketing mix to the marketing approach. While the marketing focus, which puts the customer first, normally leads to broader product ranges, lower prices and more spending on promotion and distribution, the accounting one leads to the opposite pressures. The cost of the marketing approach is lower profitability and cash flow, the cost of the accounting approach is the longer-term loss of market share resulting from the lack of customer focus.

Marketers need to be aware that there are other important problems in considering profits as the objective of the business.

- *Short- or long-term profits.* Most managers are conscious of the dangers of focusing on short-term profits. Cutting projects to boost this year's results can lead to permanent erosion of the firm's ability to compete. But emphasizing long-term profits does not help much because they are so ill-defined. Are long-term profits defined over 3, 5 or 20 years? How does one deal with the time value of money?
- *Maximum or acceptable profits.* Should managers be seeking to maximize (short- or long-term) profits or achieving an acceptable level, e.g. the average return in the industry? Each would give quite different recommendations when it comes to the marketing mix. How would shareholders respond to managers consciously accepting sub-optimal returns?
- *Ambiguity of profit measurement.* Unlike cash flow, profits are a matter of judgement. Different, but equally legally acceptable treatments of depreciation, stocks and the costs of restructuring lead to vastly different

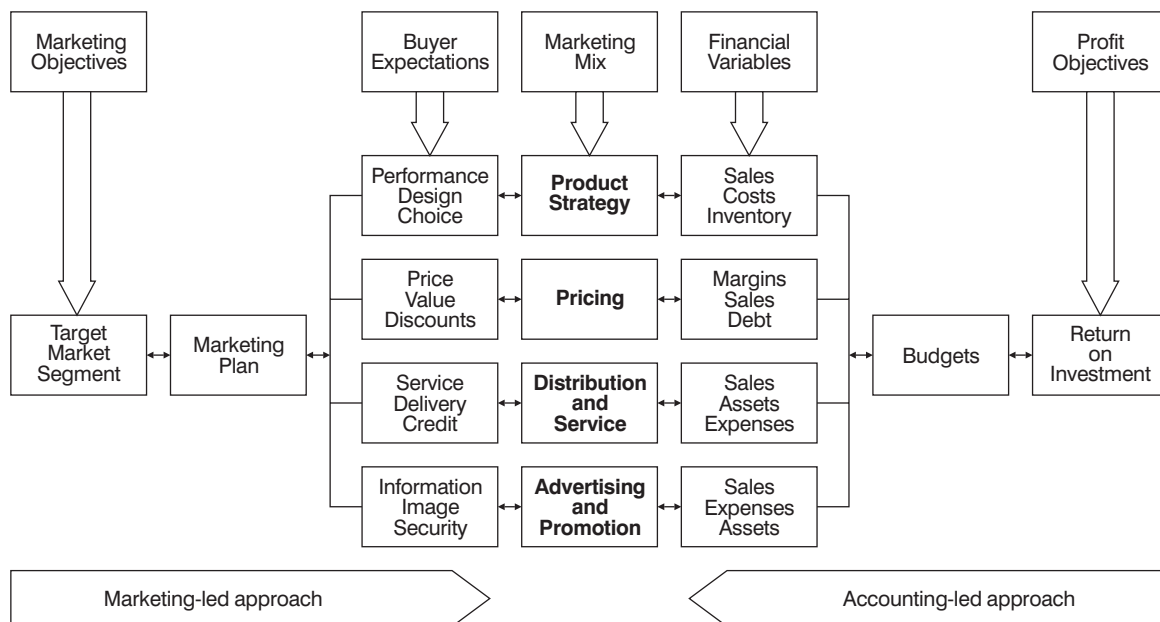


Figure 11.2 Alternative approaches to the marketing mix

marketing enables suppliers and customers to link their supply chains to make these economies (e.g. Anderson and Narus, 1996).

If investment requirements are reduced by 5 per cent – from 50 to 47.5 per cent of incremental sales – this would raise the shareholder value added from £5.6 million to £6.1 million. The effects on value creation of these 5 per cent changes can be summarized as follows:

	Shareholder Value Added (£ million)
5 per cent sales increase	5.6–34.4
5 per cent price increase	32.7
5 per cent cost reduction	31.5
5 per cent cut in investment requirements	6.1

Accelerating cash flows

The right marketing mix can accelerate cash flows. This is important because money has a time value: money today is worth more than money tomorrow. If the cost of capital is 10 per cent, £1 million in 5 years time is worth only £621 000, and in 10 years, £1 million is only worth £385 000. The faster acquisition of profitable market share and the consequent cash flows are important means of adding shareholder value.

Many marketing activities are geared to accelerating cash flows, even though marketers never conceptualize their strategies in these financial terms. For example, there is substantial evidence that when consumers have strong, positive attitudes to a brand they are quicker to respond to new products appearing under the brand umbrella. Again, marketers have studied the product life cycle and the characteristics of early adopters with the aim of developing promotional strategies to accelerate the launch and penetration of new products (Robertson, 1993).

Table 11.1 can be used to explore the effect of accelerating cash flow. For example, if year 3

sales were achieved in year 1, year 4 sales in year 2, etc., shareholder value would increase from £57.6 million to £58.4 million, even though final year sales and profits are unchanged. This extra £0.8 million is less than might be anticipated because, while profits are brought forward increasing their present value, so is the investment spending, increasing its real cost. Nevertheless, this may underestimate the effect of accelerated market penetration. Fast penetration can lead to first mover advantages. These include higher prices, greater customer loyalty, access to the best distribution channels and network effects that enable the innovator to become the specification standard. These feed back into both higher sales and higher operating margins.

Reducing business risk

The chief factor determining the value of the business is the opportunity cost of capital used to discount future cash flows. This discount rate depends upon market interest rates plus the special risks attached to the specific business unit. The risk attached to a business is determined by the volatility and vulnerability of its cash flows compared to the market average (Brearley and Myers, 1999). Investors expect a higher return to justify investment in risky businesses. Because investors discount risky cash flows with a higher cost of capital, their value is reduced.

Again, there is evidence that an important function of marketing assets is to reduce the risk attached to future cash flows. Strong brands operate by building layers of value that make them less vulnerable to competition. This is a key reason why leading investors rate companies with strong brand portfolios at a premium in their industries (Buffet, 1994). Reichheld (1996) and others have also demonstrated the dramatic effects on the company's net present value of increasing customer loyalty. A major focus of marketing today is on increasing loyalty; shareholder value analysis provides a powerful mechanism for demon-

Table 11.3 Valuing the brand (£ million)

	Base	Year				
		1	2	3	4	5
Sales	250.0	262.5	275.6	289.4	303.9	319.1
Operating profits (15%)	37.5	39.4	41.3	43.4	45.6	47.9
Tangible capital employed	125.0	131.3	137.8	144.7	151.9	159.5
Charge for capital @ 5%	6.3	6.6	6.9	7.2	7.6	8.0
Economic value added	31.3	32.8	34.5	36.2	38.0	39.9
Brand Value Added @ 70%	21.9	23.0	24.1	25.3	26.6	27.9
Tax (30%)	6.6	6.9	7.2	7.6	8.0	8.4
Post-tax brand earnings	15.3	16.1	16.9	17.7	18.6	19.5
Discount factor ($r = 15\%$)	1.00	0.87	0.76	0.66	0.57	0.50
Discounted cash flow	15.3	14.0	12.8	11.7	10.6	9.7
Cumulative present value						58.8
Present value of residual						64.8
Brand value						123.5

assets. Economic value added is the return on intangible assets. In this example, it is estimated that the brand name accounts for 70 per cent of these residual earnings (for a methodology for estimating this percentage, see Perrier, 1997). The discount factor is estimated at 15 per cent (Haigh, 1998, pp. 20–27). The brand is then valued at £123.5 million. This is the contribution of the brand name to the total value of the business. It demonstrated that past and continuing investments in the brand have created significant shareholder value.

Optimizing price decisions

In many ways price is the most important element of the marketing mix. Price is the only element of the mix that directly produces revenue: all the others produce costs. In addition, small changes in price have bigger effects on both sales and shareholder value than advertising or other marketing mix changes.

There are five key principles that underlie effective pricing:

- The optimum price is that which maximizes shareholder value, not short-term profits or market share.
- Pricing should be based on the value the brand offers customers, not on what it costs to produce.
- Since all customers are different in their needs and the values they attach to a solution, it pays to charge different prices to different customers.
- Pricing has to anticipate competitors' reactions and their objectives in the market.
- Good pricing strategies depend upon effective implementation for results.

Price, profits and value

Accountants frequently recommend price increases to boost short-term profits. The effects

profit or shareholder value goals. Volume, market share and customer satisfaction are always increased by lower prices, but this is often at the expense of profit and shareholder value.

Strategies to implement higher prices can be seen in terms of a trade-off between timing and feasibility (Figure 11.7). On the one hand, there are some techniques to improve prices that management can try immediately, but their feasibility is uncertain. On the other hand, there are some very straightforward ways of obtaining higher prices, but their deployment can take many years. The only sure way of achieving higher prices is by finding ways to deliver greater value to customers. This may be via operational excellence, customization, new

marketing concepts or innovative products. For example, if a company can develop a new battery that will enable electric cars to operate with the flexibility of petrol-engine ones, or if a pharmaceutical company can develop a cure for cancer, then there will be no problem about attaining a price premium. Superior performance and innovation are the only sustainable means of obtaining better prices. The techniques for implementing price increases are listed in order of their immediacy.

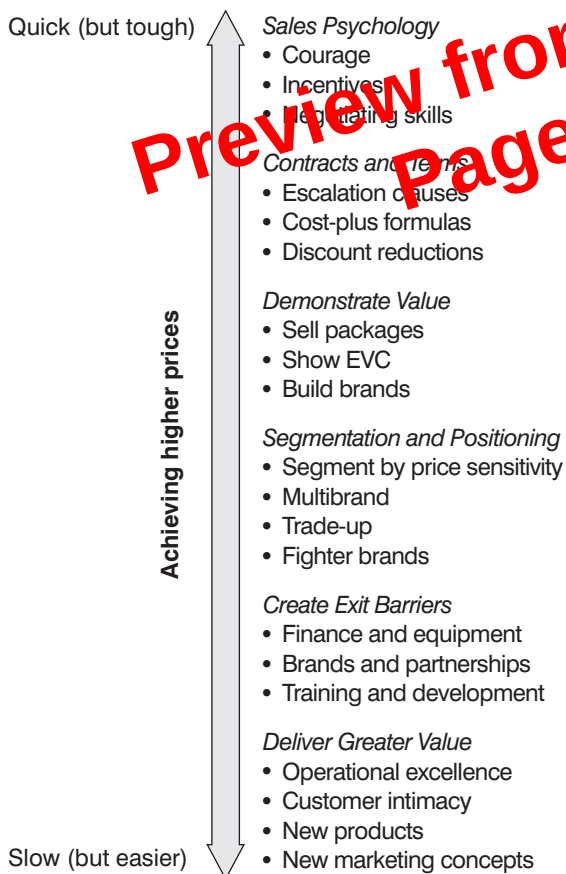


Figure 11.7 How to obtain higher prices

- **Sales psychology.** The reluctance of marketing and salespeople to push for better prices can be offset by clearer direction, shifting incentives away from a purely volume focus, and better training in price negotiations.
- **Contracts and terms.** Contracts can be reviewed to include cost escalation terms, cost-plus formulas and discount reductions.
- **Demonstrating value.** Salespeople often fail to optimize prices because they focus on the features of their product rather than demonstrating its value to the customer. They need to emphasize the added values of the brand, the full range of support services on offer, and the economic value to the customer.
- **Segmentation and positioning.** Key is the recognition that some customers are more price sensitive than others. Some customers will accept price increases, others will not – they need to be treated differently. Multibrands, such as American Express' blue, green, gold and platinum credit cards, and Mercedes A, C, E and S classes of cars, are one way of effectively discriminating on price. Over time, customers who start with cheaper options can often be traded up to premium variants. Fighter brands targeted at emerging price-sensitive segments are another way of holding market share without bringing down prices generally. For example, in 2002 BMI, the British airline, launched BMIBaby, a discount airline positioned at the growing economy segment.
- **Creating exit barriers.** Companies can create barriers to make it difficult to switch to cheap

Table 11.5 The effect of cutting the advertising budget

	Year				
	1	2	3	4	5
Shareholder value – maintaining budgets (£ million)					
Sales	20.000	20.000	21.000	21.210	21.422
Gross margin	8.000	8.000	8.400	8.484	8.569
Fixed costs	5.000	5.000	5.000	5.000	5.000
Advertising	2.000	2.000	2.000	2.000	2.000
Profit after tax	0.700	0.700	0.980	1.039	1.098
Investment	0	0	0.400	0.084	0.085
Cash flow	0.700	0.700	0.580	0.955	1.013
Present value	0.636	0.579	0.436	1.667	0.629
					PV of forecast cash flows
					3.948
					PV of continuing value
					6.819
					Corporate value
					10.767
Shareholder value – cutting budgets (£ million)					
Sales	17.000	17.100	18.670	16.649	16.639
Advertising	1.000	1.000	1.000	1.000	1.000
Profit after tax	0.840	0.588	0.468	0.462	0.459
Investment	0	-0.36	-0.172	-0.008	-0.004
Cash flow	0.840	0.948	0.640	0.470	0.463
					PV of forecast cash flows
					3.361
					PV of continuing value
					4.589
					Corporate value
					7.950
					Value loss
					2.817

pendent company, it would lead to the expectation of an equivalent fall in the share price.

As the example shows, even in a recession, effective communications are not just covering costs, but bolstering the share price in a clear and measurable way. They do this, not so much by increasing sales, but by reinforcing the ability of a strong brand to generate continuing, long-term cash flow.

Distribution strategies

Today, innovation in distribution is becoming one of the most significant ways firms can

create competitive advantage. The triggers have been the desire of consumers for greater convenience, global competition forcing companies to search for new ways to cut costs and capital employed, and facilitating technologies, notably information technology and the Internet. New distribution strategies are offering consumers greater benefits in terms of convenience, speed, accessibility and lower costs that are offering pioneering companies opportunities to leapfrog competitors. Besides market advantages, these companies can often significantly reduce their operating costs and investment.

CHAPTER 12

New product development

SUSAN HART

Introduction

The need to create customer-relevant business processes is a recurrent theme in marketing evidenced in the underlying themes of previous chapters – particularly those dealing with the nature of marketing, competitiveness and strategies. Today's successful firms learn and re-learn how to deal with the dynamics of consumers, competitors and technologies, all of which require companies to review and reconstitute the products and services they offer to the market. This, in turn, requires the development of new products and services to replace current ones, a notion inherent in the discussion of Levitt's (1960) 'Marketing Myopia'. A recent report into Best New Product Practice in the UK showed that, across a broad range of industry sectors, the average number of new products launched in the previous 5 years was 22, accounting for an average 36 per cent of sales and 37 per cent of profits (Tzokas, 2000). The most recent PDMA Best Practice Survey noted an average number of 38.5 new products in the previous 5 years, contributing to 32.4 per cent of sales and 30.6 per cent of profits (Griffin, 1997).

This chapter is concerned with what is required to bring new products and services to market, often encompassed by the framework known as the new product development (NPD) process.

Of the many factors associated with successful NPD, processes and structures which are customer-focused recur (Cooper, 1979; Maidique and Zirger, 1984; Craig and Hart, 1992). A customer focus may be manifested in NPD in numerous ways, spawning much research into the nature of new product activities: their nature, their sequence and their organization (Mahajan and Wind, 1992; Griffin, 1997). In this chapter, the activities, their sequence and organization required to develop new products are discussed in the light of an extensive body of research into what distinguishes successful from unsuccessful new products. The chapter starts with an overview of the commonly used NPD process model before going on to a general discussion of the usefulness of models in the NPD context. It then develops an integrating model of NPD and, finally, issues identified in current research regarding organizational structures for NPD are considered.

The process of developing new products

Considering some well-known successful innovations of the past 20 years, one might be tempted to think that they are all good ideas: the Walkman, laser printers, Automatic Teller

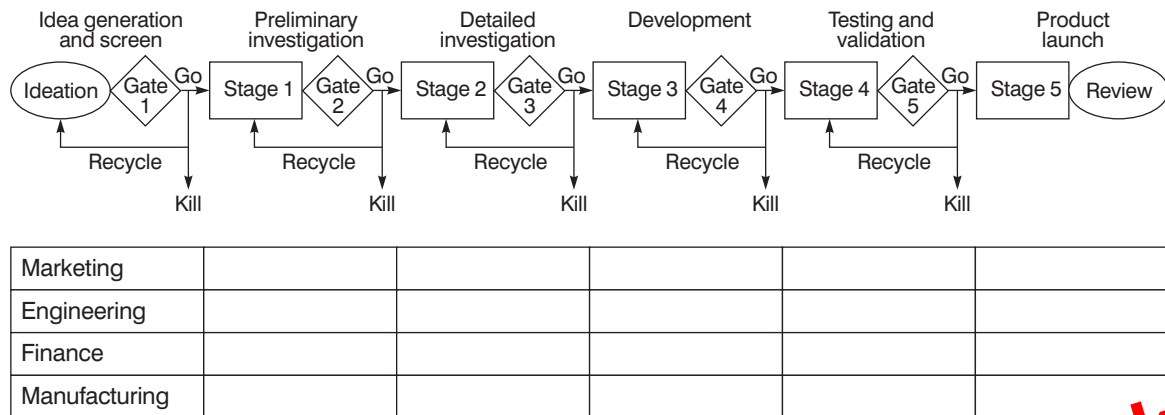


Figure 12.2 The Stage-Gate™ process

The stages of the new product development process

New product strategy

A specific new product strategy explicitly places NPD at the heart of an organization's priorities, sets out the competitive requirements of the company's new products and is effectively the first 'stage' of the development process. It comprises an explicit view of where a new programme of development sits in relation to the technologies that are employed by the company and the markets which these technologies will serve. In addition, this view must be communicated throughout the organization and the extent to which this happens is very much the responsibility of top management. In fact, much research attention has focused on the role of top management in the eventual success of NPD. While Maidique and Zirger (1984) found new product successes to be characterized by a high level of top management support, Cooper and Kleinschmidt (1987) found less proof of top management influence, discovering that many new product failures often have as much top management support. More recently, Dougherty and Hardy (1996) found that although lip-service was given to the importance of

innovation, it often takes a backseat compared to other initiatives such as cost-cutting and downsizing, especially where there is less of a history of success in developing new products. And yet, one of the most important roles which top management have to fill is that of incorporating NPD as a meaningful component of an organization's strategy and culture.

In some cases it is necessary for the firm to change its philosophy on NPD, in turn causing a change in the whole culture. Nike's NPD process has changed dramatically over the last 15 years. Previously, they believed that every new product started in the lab and the product was the most important thing. Now, they believe it is the consumer who leads innovation and the specific reason for innovation comes from the marketplace. The reason for this change is the fierce competition that has developed in recent years within the athletic shoe industry, so that product innovation no longer led to sustained competitive advantage and manufacturers could no longer presume that if Mike Jordan chooses a certain shoe everyone else in America will follow. More emphasis was then put on marketing research and targeting smaller groups of individual customers, with the emphasis changing from push to pull NPD. The distinction between technology push and market pull is covered a little later in this

Once the general direction for NPD has been set, the process of developing new ideas, discussed below, can become more focused.

Idea generation

This is a misleading term because, in many companies, ideas do not have to be 'generated'. They do, however, need to be managed. This involves identifying sources of ideas and developing means by which these sources can be activated to bring new ideas for products and services to the fore. The aim of this stage in the process is to develop a bank of ideas that fall within the parameters set by 'new product strategy'. Sources of new product ideas exist both within and outside the firm. Inside the company, technical departments such as research and development, design and engineering work on developing applications and technologies which will be translated into new product ideas. Equally, commercial functions such as sales and marketing will be exposed to ideas from customers and competitors. Otherwise, many company employees may have useful ideas: service mechanics, customer relations, manufacturing and warehouse employees are continually exposed to 'product problems' which can be translated into new product ideas. Outside the company, competitors, customers, distributors, inventors and universities are fertile repositories of information from which new product ideas come. Both sources, however, may have to be organized in such a way as to extract ideas. In short, the sources have to be *activated*. A myriad of techniques may be used to activate sources of new ideas, including brainstorming, morphological analysis, perceptual mapping and scenario planning.

Once a bank of ideas has been built, work can begin on selecting those that are most promising for further development.

Screening

The next stage in the product development process involves an initial assessment of the

extent of demand for the ideas generated and of the capability the company has to make the product. At this, the first of several evaluative stages, only a rough assessment can be made of an idea, which will not yet be expressed in terms of design, materials, features or price. Internal company opinion will be canvassed from R&D, sales, marketing, finance and production to assess whether the idea has potential, is practical, would fit a market demand, could be produced by existing plants, and to estimate the payback period. The net result of this stage is a body of ideas which are acceptable for further development. Checklists and forms have been devised to facilitate this process, requiring managers to make 'guesstimates' regarding potential market size, probable competition, and likely product costs, prices and revenues. However, as at this stage of the process managers are still dealing with ideas, it is unrealistic to imagine that these 'guesstimates' can be accurate. The 'newer' the new product, the more guesswork there will be in these screening checks. It is not until the idea is developed into a concept (see below) that more accurate data on market potential and makeability can be assembled.

Concept development and testing

Once screened, an idea is turned into a more clearly specified concept, and testing this concept begins for its fit with company capability and its fulfilment of customer expectations. Developing the concept from the idea requires that a decision be made on the content and form of the idea.

This, however, is easier said than done; the process of turning a new product idea into a fully worked out new product concept is not simply one of semantic labelling. Montoya-Weiss and O'Driscoll (2000) explain that 'an idea is defined as the initial, most embryonic form of new product or service idea – typically a one-line description accompanied by a high-level technical diagram. A concept, on the other hand, is defined as a form, technology plus a

in at an early stage. Similarly, Intel's development of Pentium departed from its traditional models of development and involved both major customers and software suppliers in the design of the new product.

These shortcomings emphasize that the management of the NPD process is more than simply the number and sequencing of its activities. The extent to which the activities can or cannot be effectively carried out demands attention to the *people, or functions*, within the process. It is to these issues that we now turn our attention.

People involved in the NPD process and the way in which these people are organized are critical factors in the outcome of new product developments. In order to combine technical and marketing expertise, a number of company functions have to be involved: R&D, manufacturing, engineering, marketing and sales. As the development of a new product may be the only purpose for which these people meet professionally, it is important that the NPD process adopted ensures that they work well and effectively together. Linked to this is also the need for the voice of the customer to be heard, as well as that of suppliers, where changes to supply may be required or advantageous.

The Stanford Innovation Project (Maidique and Zirger, 1984) identified functional co-ordination as a critical factor contributing to the development of *successful* new products. Support for the importance of functional co-ordination is to be found in numerous studies, including Pinto and Pinto (1990), who found that the higher the level of cross-functional co-operation, the more successful the outcome of NPD. The benefits of a close relationship between functional co-ordination and an integrated set of NPD activities have already been highlighted, including the reduction of the development cycle time, cost savings and closer communication, so that potential problems are detected very early on in the process (Larson, 1988). Although integration of all the relevant functional specialisms into the NPD process is necessary, one particular interface has been

given more attention in research studies: the R&D/marketing interface, due to the impact of this interface on the success with which a technological development can be made to match customer need.

Although a host of issues pertain to the integration of the R&D and marketing functions, one of the most powerful is that of how information is handled throughout the NPD process.

Information

The role which information can play in facilitating an efficient NPD *process* and achieving *functional co-ordination* is implicit in the literature on success in NPD. The notion of reducing uncertainty as the main objective of the product development activities is reiterated throughout the literature. Project activities '*can be considered as discrete information processing activities aimed at reducing uncertainty ...*' (Monaert and Souder, 1990, p. 92). These activities include gathering and disseminating information and making decisions based upon this information, which must include evaluations of *both the market and technical aspects* of the development project. Indeed, it is ultimately this information which is evaluated during the NPD process review through the 'gates'.

In order to reduce uncertainty, it is not sufficient that information be processed, it also has to be transferred between different functions (Monaert and Souder, 1990). In this way, the uncertainty perceived by particular functions can be reduced. At the same time, the efficient transfer of quality information between different functions encourages their co-ordination (Monaert and Souder, 1990).

As well as reducing uncertainty, the transfer of information between the two functions is perceived by both sides to be a key area for establishing *credibility* as a necessary input to the integration described in the previous section. The research by Workman (1993) showed, for example, that in Zytech, lack of credibility between functions inhibited integration.

and co-ordination, at the same time as preserving the efficiencies and expertise within functional speciality. A recent article by Olsen *et al.* (1995) identified seven types of new product structure, or co-ordination mechanisms, which they describe in terms of four structural attributes: complexity, distribution of authority, formalization and unit autonomy. These are shown in Table 12.5 and discussed briefly below.

- **Bureaucratic control.** This is the most formalized and centralized, and the least participative mechanism, where a high level general manager co-ordinates activities across functions and is the arbiter of conflicts among functions. Each functional development operates with relative
- autonomy within the constraints imposed by hierarchical directives, and therefore most information flows vertically within each department. In such a mechanism, the different functional activities work sequentially on the developing product.
- **Individual liaisons.** Individuals within one functional department have to communicate directly with their counterparts in other departments. Therefore, they supplement the vertical communication found in bureaucracies.
- **Integrating managers.** In this co-ordination structure, an additional manager is added to the functional structure, responsible for co-ordinating the efforts of the different functional departments, but without the authority to impose decisions on those

Table 12.5 Attributes of interfunctional co-ordination mechanisms

Types of co-ordination mechanisms							
Structural and process variables	Bureaucratic control	Individual liaisons	Temporary task forces	Integrating managers	Matrix structures	Design teams	Design centres
Structural attributes							
Complexity	Simple structures						Complex structures
Distribution of authority	Centralized						Decentralized
Formalization	High; more reliance on rules and standard procedures						Low: fewer rules and standard procedures
Unit autonomy	Low						High

Source: Olsen *et al.* (1995).

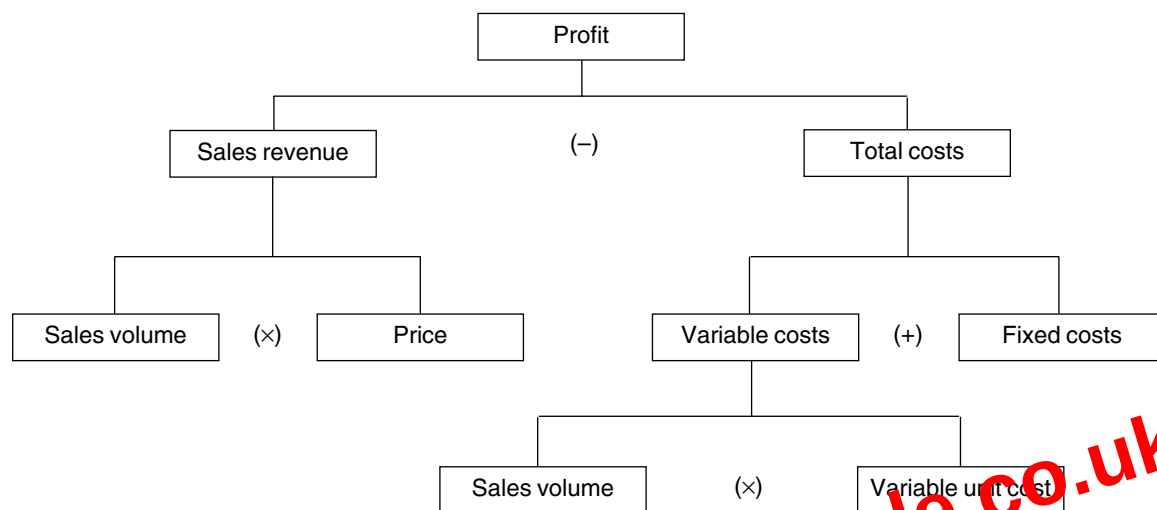


Figure 13.1 The determinants of profit

Given the four drivers of profit, an important question concerns their *relative* importance. In other words, assuming that all other factors remain constant, what is the effect on profit of 'improving' each driver by a certain amount? Clearly, the notion of 'improvement' is different for the revenue and cost sides, i.e. an improvement in price and sales volume refers to an *increase* from existing levels, while an improvement in variable and/or fixed cost refers to a *reduction* from current levels.

Table 13.1 shows the differential impact on profit of a 10 per cent improvement in each

profit driver; it is clear that by far the greatest 'leverage' effect on profit comes from improving price. This is not an accident reflecting either the specific improvement considered (i.e. 10 per cent) or the particular starting values in Table 13.1; experimentation with different figures will not fail to demonstrate that 'price drives profit like no other factor' (Dolan and Simon, 1996, p. 24).

At this stage, the reader may be getting a bit uncomfortable – and rightly so – with the simplifying assumption that 'all other factors remain constant' when the profit impact of a

Table 13.1 Effects on profit of a 10 per cent improvement

	Before	After	Profit (£)		Profit improvement (%)
			Before	After	
Price (£)	100	110	30 000	40 000	33.3
Sales Volume	1000	1100	30 000	35 000	16.7
Variable Unit Cost (£)	50	45	30 000	35 000	16.7
Fixed Cost (£)	20 000	18 000	30 000	32 000	6.7

- The conventional analysis of elasticity and the associated revenue implications shown in Table 13.2 are based on the assumption of an *inverse* price–volume relationship (i.e. price and volume move in opposite directions); however, ‘if buyers infer quality to the product or service on the basis of price and thereby perceive a higher priced item as more attractive, a positive price–quantity relationship ensues’ (Monroe, 1990, pp. 37–38).
- The price elasticity formula provides no clue as to *why* demand may be elastic or inelastic (i.e. the conditions under which buyers are likely to be more or less price sensitive). This is perhaps the greatest shortcoming of the economic analysis of price sensitivity, since it fails to provide the price decision maker with a framework within which the various factors that may influence the degree of price sensitivity can be considered. Indeed, it has been noted that even leading consumer goods companies are confused about the correct interpretation (and use) of the price elasticity concept (Davey *et al.*, 1998).
- *Awareness of available substitutes.* While the existence of many substitutes is a necessary condition for high price sensitivity, it is not a sufficient condition. Customers must be *aware* that such substitutes *do* in fact exist and it cannot be taken for granted that customers will be well informed about substitute availability (or even that they will always *try* to become informed). As Nagle (1987, p. 60) points out: ‘the existence of less expensive alternatives of which buyers are unaware cannot affect their purchase behavior’. However, the advent of the Internet has meant that prospective buyers now have much reduced search costs (Bakos, 1997) and are thus much better informed about the range of products available (Rosen and Ariely, 2000).
- *Transparency of prices.* This is a factor contributing to substitute awareness. If price features frequently in advertisements, brochures, etc. of the product in question, then buyers are likely to be more price aware. Moreover, if price comparisons are easy to undertake as a result of similar pricing conventions by different suppliers (e.g. petrol prices), the buyers will be able to determine the true price differences involved. Both these factors are likely to impact positively on the degree of price sensitivity. Again, the availability of online price comparison sites (e.g. ShopSmart, Pricerunner, Kelkoo, DealTime, easyValue, CheckaPrice) has resulted in both greater price transparency and lesser burden on consumers in terms of maintaining their price awareness.
- *Purchase frequency.* This is a factor affecting the amount of information possessed by buyers. For products that are frequently purchased, buyers are more likely to develop a good appreciation of the various product alternatives and range of prices available, and thus become more price sensitive than for infrequent purchases. The ease with which online shopping lists can be stored for future reference suggests that, particularly for grocery shopping (e.g. via sites such as Asda.co.uk and Tesco.com), price awareness and sensitivity are likely to increase.

Bearing the above in mind, what are the key factors that contribute to customers’ price sensitivity (or lack of)? Several – often inter-related – factors have been identified in the literature, as summarized below. For more details and illustrative examples, see Morris and Morris (1990), Simon (1992), and Nagle and Holden (1995).

- *Availability of acceptable substitutes.* This is probably the most obvious factor that affects price sensitivity and has long been pointed out as such by economic theory. The fewer the substitutes from which a customer can choose, the lower the price sensitivity for any particular alternative. Conversely, even if market (i.e. primary) demand is inelastic, brand elasticity may still be high because of the availability of alternative products and/or sources of supply.

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is then explained, showing how a more integrated approach to branding can be enacted.

Spectrum of brand interpretations

A review of the literature and interviews with leading-edge consultants advising clients about their brands showed a variety of interpretations about brands (de Chernatony and Dall'Omo Riley, 1998). Table 15.1 shows the variety of interpretations encountered which will be considered.

Brand as a logo

One of the more established definitions of a brand was proposed by the American Marketing Association (AMA) in 1960. This stresses the importance of the brand's logo and visual signifiers primarily as a basis for differentiation purposes, i.e.

A name, term sign, symbol or design, or a combination of them, intended to identify the

goods or services of one seller or group of sellers and to differentiate them from those of competitors.

The unique shape of Coca-Cola's bottle, the distinctive 'golden arch' of McDonald's, the blue and white roundel of BMW, and the spectrum coloured, part-eaten apple of the Apple Macintosh are notable examples of brands instantly identifiable through their logos.

While this interpretation represents an important ingredient of brand building, it should not be the primary emphasis. Brand differentiation is more than making a brand distinctive. At its most basic, it is finding an attribute important to customers then seeking to sustain this unique characteristic in a profitable manner. Developing the logo for the brand should be done strategically rather than tactically. In other words, the vision for what the brand is to become should drive ideas about the essence of the brand, which should then be used as the brief for designers. Whether the colour or the type of font is appropriate can then be judged against how these will help the brand on its journey.

Brand as legal instrument

One of the simpler interpretations of a brand is that of ensuring a legally enforceable statement of ownership. Branding represents an investment and thus organizations seek legal ownership of title, as protection against imitators. As part of its brand strategy, Absolut Vodka stresses the importance of continually monitoring competitors' brand activity, to quickly stop any firm adopting the name or bottle design. Effective trademark registration offers some legal protection (e.g. Blackett, 1998), but 'look-alike' own labels in retailing exemplify the problem of being over-reliant on legislation as a barrier against competitors (e.g. Lomax *et al.*, 1999). Kapferer (1995) devised an innovative procedure to help evaluate the extent to which a competitor had infringed a brand's equity. Consumers are invited to sit in front of a PC

Table 15.1 Different interpretations of 'Brand'

Logo
Legal instrument
Company
Shorthand
Risk reducer
Positioning
Personality
Cluster of values
Vision
Adding value
Identity
Image
Relationship

The nature of the brand metric will depend on the ideas that emerged from the model in Figure 15.8, as the nature of the brand emerged. By revisiting the decisions that were made by the brand team as they progressed through the planning process of Figure 15.8, a monitoring system can be developed which addresses issues such as:

Brand vision

- What progress is being made to bring about a welcomed envisioned future?
- To what extent is the brand making its market domain a better place?
- How much do stakeholders recognize and appreciate the brand's values?

Organizational culture

- How well do the artefacts, values and assumptions of the organizational culture support the brand vision?
- Are there any damaging internal sources or subcultures?
- How appropriate is the organizational culture for the environment?

Brand objectives

- How aware and committed are staff to achieving the brand's objectives?
- To what extent is the brand under- or over-achieving on its objectives?

Brand essence

- How aware are staff of the elements of the brand pyramid and how committed are they to delivering the inherent brand promise?
- How well do consumers' perceptions of the brand pyramid match the planned pyramid?

Implementation and brand resourcing

- How appropriate is the value delivery system for the brand?

- How aware are stakeholders of the brand?
- What degree of commitment do stakeholders have for the brand?
- Do stakeholders perceive any conflicts between the brand's promise and their experiences with the brand?

Through undertaking regular monitors of a brand's health, the brand's team is better equipped to refine their thinking as they continue the cyclical process around the brand building model shown in Figure 15.8.

Summary

This chapter has sought to provide the reader with knowledge about two critical topics in brand management, i.e. characterizing interpretations about the concept of brands and providing a model which encourages a more integrated approach to brand building. Brands are valuable intangible assets. It is their intangible nature that necessitates all members of the brand's team to be clear about what they understand as being the defining characteristics of their brand. Time spent surfacing individual views about the nature of a team's brand is time well spent, since it enables everyone to not only understand the brand, but also helps them to appreciate how they can better contribute to the success of the brand.

The brand planning model shows how a logical, iterative process can be employed to focus thinking about brand building. Brand management is about understanding consumers and staff. Brand promises are delivered by staff, and unless they understand and are committed to delivering brand benefits, they are unlikely to give the brand the support it demands. Brand building is a pan-company activity and the model enables a greater likelihood of a more coherent brand. By deliberately encouraging managers to adopt a visionary approach, not only do the resulting brands represent a clear sense of direction, but they also can more

The strategic role that marketing communications can play is increasingly evidenced by the impact of specific campaigns. These not only affect the way in which consumers think about the particular products and services which are offered to them, but the very way in which they consider the categories in which those products and services exist.

The integration of marketing communications

A major contemporary issue in the field of marketing communications is the drive towards integrated activity. There are a number of reasons for this fundamental change of thinking which need to be examined.

The marketing methods businesses used in the 1980s are no longer working and have lost their value as competitive weapons, such as the constant focus on new products, generic competitive strategies, promotional pricing tactics, and so on. Today's marketing environment has been described as an age of 'hyper-competition' in which there exists a vast array of products and services, both new and variations on existing themes. A casual look in the supermarket will confirm this view. Take, for example, the 'cook-in-sauce' sector. The variety available to the consumer is little short of mind blowing, whole fitments devoted to ethnic and other varieties, with each product replicated by several different brands.

Many of the fastest growing markets are rapidly becoming saturated with large numbers of competitors. And each competitor has similar technology. The consequence is that, as Schultz *et al.* (1995) put it, sustainable competitive advantage has been eroded away. In many categories, new products and services are copied in days or weeks rather than years. And, significantly, anything a company can do, someone else can do it cheaper.

Consumers are searching for more than a single element in any transaction. Instead, they

seek to buy into the array of relevant experiences which surround the brand. Successful marketing in the 1990s required total consumer orientation. This means communication with the individual, creating long-term relationships, quality driven, and the aim is customer satisfaction, not just volume and share.

Many writers on the subject, most notably Schultz (1999), argue that integrated marketing communications (IMC) is the natural evolution of mass market media advertising towards targeted direct marketing. Schultz sees IMC as a logical and natural progression within the field of marketing communications. As he describes 'it appears to be the natural evolution of traditional mass-media advertising, which has been changed, adjusted and refined as a result of new technology'. This author concurs with those who believe that IMC is significantly more than 'merely a management fashion' as attested by Corneliussen *et al.* (2000). Many companies strive to achieve total integration of their marketing communications efforts, recognizing the undeniable benefits which derive from the practice, not least of which is the ability to deliver consistency in their messages to their target audiences.

Integration, however, is not a new phenomenon, as the following quote from J. Walter Thompson in 1899 illustrates:

We make it our business as advertising agents to advise on the best methods of advertising, in whatever form ... as the best combination of work, such as we give, is the cheapest, as it brings the best results.

Defining integrated marketing communications

Much debate surrounds the very nature of integrated marketing communications (IMC), with the consequence that several alternative definitions have been proposed. Corneliussen *et al.* (2000) argue that one of the problems with the interpretation of IMC is the lack of a consensus decision as to what the phrase

actually means in practice. They point to the fact that various writers have argued about the move away from the traditional distinction between 'above-the-line' and 'below-the-line' to 'through-the-line' and 'zero-based' communications. What they fail to recognize is that the practitioners within the field operate as brands and seek to provide a distinctive offering to their clients. Hence the adoption of a variety of nomenclatures for the practice of IMC.

They argue that the theoretical concept of IMC is ambiguous and 'provides the basis for researchers to adopt whichever interpretation of the term best fits their research agendas at any given time'.

According to Schultz and Kitchen (1997), prior to the study by Caywood *et al.* (1991), there was no formal discussion or even description of what is now called integrated marketing communications. There appears to be a discordancy between academic thinking and practice in the marketplace. They argue that most marketing communications activities in the past have focused on breaking down concepts and activities into even more finite specialisms. Few marketing communications approaches have involved integration or holistic thinking. Whilst it is acknowledged that the pace of change towards the adoption of a holistic approach has been relatively slow, nonetheless many practitioners and clients have moved progressively towards a focus on IMC.

Schultz (in Jones, 1999) defines IMC as 'a planning approach that attempts to co-ordinate, consolidate and bring together all the communications messages, programmes and vehicles that affect customers or prospects for a manufacturer or service organization's brands'.

Jeans (1998) provides greater clarity by proposing that 'IMC is the implementation of all marketing communications in such a way that each project, as well as meeting its specific project objects also

- conforms with the brand platform;
- is synergistic with all other projects related to the brand;

- actively reinforces the agreed brand values in any dialogue with the market;
- and is measured by short- and long-term effects on consumer behaviour.'

However, perhaps the clearest definition of integrated marketing communications is that of the American Association of Advertising Agencies (1993):

A concept of marketing communications planning that recognizes the added value of a comprehensive plan that evaluates the strategic roles of a variety of communications disciplines and combines them to provide clarity, consistency and maximum communications impact through the seamless integration of discrete messages.

The important dimension of this definition is the recognition of the need for a *comprehensive* plan that considers the strategic aspects of each of the tools of marketing communications in a holistic manner, rather than the development of them as separate elements. This approach represents a substantial shift in the underlying planning process, since it aims to ensure cohesion and the delivery of a single-minded message to the target audience.

Paul Smith (writing in *Admap*, 1996) states:

Integrated marketing communications is a simple concept. It brings together all forms of communication into a seamless solution. At its most basic level, IMC integrates all promotional tools so that they work together in harmony.

Key to the issue is the fact that the consumer does not see advertising, public relations, sales promotion and other marketing communications techniques as separate and divisible components. As the receivers of a variety of messages from an equally wide range of sources, they build up an image of a company, its brands and its services – both favourable and unfavourable. As far as they are concerned, the source of the message is unimportant. What

a more precise means of targeting consumers. The move away from traditional mass marketing towards closely focused communications techniques is a reflection of the increasing cost of traditional advertising techniques.

- *Power shift towards retailers.* In most consumer markets, comparatively small numbers of retailers have come to dominate their respective categories. In the grocery field, for example, the major supermarket chains – Tesco, Sainsbury, ASDA and Safeway – account for a substantial part of the retail business. Together, these four companies account for around 40 per cent of retail sales. Inevitably, this has resulted in their taking the initiative in terms of the marketing to consumers. To a large degree, even major manufacturers have to bow to the demands of the retailers or face the prospect of their products being de-listed from their shelves.
- *Escalating price competition.* As brands increasingly converge in what they offer to consumers, companies are striving to overcome the debilitating impact of the downward price spiral. The recognition that marketing communication is often the only differentiating factor between competing brands has led to an increased focus on how the tools can be used to achieve brand distinction.
- *Environmental factors.* Consumers are becoming increasingly concerned with the way in which products impact on the general environment. In turn, companies have been forced to adopt a more environmentally friendly approach or risk consumers rejecting their products in favour of those which they consider to be more responsive to these broader concerns.
- *Emergence of a variety of compensation methods.* Where once agencies were bound by a compensation based on commission (a fixed percentage of the monies spent on advertising), today's marketing communications companies are rewarded in many different ways. The most important impact of this change has been to free them (and the

perception of their income) as being tied to recommendations to increase their clients' spend.

- *Agency mergers and acquisitions.* Responding to the needs of the marketplace and, in particular, to pressures from their clients, agencies are increasingly merging to form larger groups. Partly, this has been driven by the need to provide client services across a variety of territories. However, a further dimension has been the desire to provide a comprehensive service to clients across the variety of areas encompassed by marketing communications. The large agency groups exist as holding companies controlling operational companies in all of the relevant communications fields.
- *Increased global competition.* The drive towards globalisation has increased the necessity to achieve synergy between all forms of marketing communications. Where once a brand might be sold in a single country, today's mega-brands are available across the globe. Significant savings can be achieved through the implementation of a constant communications campaign across all of the territories in which the product is sold.

The impact on marketing communications

We have already seen that marketing communications need to focus on the end-user rather than on the nature of the product or service provided. But, it is suggested, marketing communications need to respond more rapidly to these underlying changes in the social and environmental framework.

In their important work on IMC, Schultz *et al.* (1992) propose that it is time to abandon the principles of the four Ps for the four Cs:

Forget Product. Study Consumer wants and needs. You can no longer sell whatever you make. You can only sell something that someone specifically wants to buy.

appealing for many. The attraction of using several different agencies is the possibility of selecting the best people in each field.

Moreover, there is a general lack of experienced people within the field of marketing communications, who exhibit expertise in the variety of fields which make up the total communications process. The need for individuals with a 'broad perspective' and an understanding of the contribution which each of the marketing communications disciplines can provide is underlined by a study by Cleland (1995).

The study by Kitchen and Schultz (1999) identified a number of barriers, real or perceived, to achieving IMC:

- Requires staff to be more generalist.
- Integrated agencies do not have talent across all marcom areas.
- IMC means staff have to develop new skills.
- IMC gives a few individuals too much control.
- Client staff lack expertise to undertake IMC programmes.
- Client centralization difficulties.
- Client organizational structures constrain IMC.

Lannon (1994) asserts that most company communications policies are rooted in an outmoded past, when competition was less intense and the retailer wasn't anything like the powerful force it is today:

- The discontinuities of the 1980s and into the 1990s have fractured and fragmented not only the conventional media scene, but also the corporate structures and cultures of a more stable past.
- Differing agendas of clients and agencies have eroded productive and trusting relationships between clients and their agencies.

Perhaps the most significant barrier to integration is the approach to communications budgeting. In most cases, budgets are substantially determined on an 'historic' basis – considering what has been spent in the past – rather than against an evaluation of specific objectives.

Often, individual departments are required to argue for budget tenure, or an increase if the situation demands it. In the majority of cases, budgets are considered on a line-by-line basis, rather than holistically.

Despite this, some market sectors are more advanced than others in the adoption of an integrated approach. Two, in particular, stand out as having made significant progress in the integration of their campaigns – the financial sector and retailers. In both cases, there has been a more widespread recognition of the benefits of integration. Campaigns by many of the commercial banks, together with high street retailers such as Safeway, underpin the advantages of integration. Certainly, most companies agree that the process of integration will increase appeal, since because of the need to deal with substantial communications budgets in a more positive manner, as from the drive towards global considerations, where the desire for a common communications policy and the obvious financial benefits are of major importance.

The consumer and integrated marketing communications

At the heart of the debate is the undeniable need to ensure the clear and effective communication of brand messages to consumers and others. The process demands a change of focus from share and volume to a detailed understanding of the extent to which the manufacturer can satisfy the needs and wants of consumers. The essential focus has to be on customers, relationships, retention levels and satisfaction.

Several authors have suggested that IMC, as well as benefiting the manufacturers of products and services, also works for the consumer. David Iddiols (2000) suggests that IMC works on three levels for the consumer:

- I It provides short cuts to understanding what a brand stands for.

television, radio and cinema, and to extend the concept 'media owner' to embrace any organization with selling rights to time and space in those new media. Then, a banner advertisement encountered while visiting a website can be thought of as in many ways the cyber-equivalent of a poster glimpsed among the visual clutter of a modern urban environment. They are simply different manifestations of a single ingredient of the mix, in the same way as a telesales call or a 'junk' e-mail message are no more than modern variations on the traditional mail shot as vehicles for direct marketing initiatives.

Percy (2001) concurs that the impact of the Internet is 'unlikely to be as revolutionary as the current climate of excitement would suggest' and expects that 'people will process marketing communication on the Internet much as they process all marketing communications'. The definitive price list for advertising space and time in the UK, *British Rate and Data*, simply lists 'new media' alongside eight other media categories, such as national newspapers and cinema.

Furthermore, because readers of *The Marketing Book* are likely to have more or less unlimited free access to the Internet by virtue of its rapid proliferation in the business and academic communities, they will tend to overestimate the extent of its penetration into several important audiences for promotional messages – for example, the inveterate package-holiday consumers in the 'grey market' or those 'housewives' who fill the supermarket trolley with branded goods. In fact, uptake of the Internet in the UK and the rest of Europe has not yet been as great or as fast as generally predicted in general society, beyond the innovators ('anoraks', 'geeks', 'nerds' and their kin) and early adopters (those working in IT-rich environments). The *NOP Internet User Profile 2000* shows that just over 19 million individuals in the UK had 'tried the Internet' over an unspecified 12-month period, a figure that corresponds to just under a third of the total population (31.9 per cent) and rather less than half of all households (40.9 per cent). The same

survey found that almost 16 million people over the age of 15 had 'used the WorldWide Web' during the four weeks before December 2000. The apparent discrepancy is explained by the fact that dominant use of the Internet is to access e-mail services, not to browse the web. According to the UK government's *Social Trends* survey for 2001, that accounts for a third of all traffic.

The prevailing belief that Internet users are dominantly young and male also requires some qualification. The NOP survey found that the male–female split was 58:42, that 25- to 44-year-olds accounted for roughly half of all usage, and that the number of users aged 45 or over outnumbered those under 25 by the significant margin of 20 per cent to only 23.

Though this combination of innovators and early adopters, whoever they may be, will soon be joined by the early majority, it may take another decade or more for technophobes and traditionalists to become the minority.

Meanwhile, access is by no means the same thing as exposure to the promotional message. Internet-linked computers are often used as nothing more than word processors or record keepers, and the exchange of personal or business e-mail messages accounts for well over half all Internet traffic. Users have to elect to browse the Net before they become part of an advertiser's actual audience. To find and read a marketer's website requires a positive search, among a great deal of competing non-commercial material. Therefore, sensible advertisers seek to counteract the random nature of exposure by including a web address in their media advertising. From the potential customer's point of view, this offers the benefit that pre-purchase information can be obtained anonymously, rather than by requesting literature or being subjected to a sales pitch at the point of sale.

However, there is a counter-productive tendency among many advertisers seeking to harness the potential of the Internet to create over-designed websites which take so long to download on the average PC, or are so difficult to navigate around, that 'visitors' depart

In fact, a budget is not an *amount* of money, as in colloquial usage, but a *plan* for spending it, as in the annual 'budget speech' by the UK Chancellor of the Exchequer. It describes sources and uses of funds over a given future period, normally a year. By demanding forward planning, providing an integrated framework for operational decisions, and establishing quantifiable standards of cost-effective performance, it formalizes *control* over expenditure. If a statement of the promotional appropriation is not accompanied by such a plan for spending it, there is far too much scope for profligate waste of scarce funds in a business that is notoriously image conscious and fashion led. As a noted author from within the business remarks in a book significantly titled *Accountable Advertising*:

It is no longer enough for the marketing director to determine how much it is right to spend on advertising. The [board] still has to make this decision, but must now do more to justify it.

(Broadbent, 1997, p. xv)

The most crucial control mechanism in a promotional budget will be the *cost-effectiveness* criteria it specifies. The tedious but straightforward process of recording all the many costs attributable to a campaign presents no practical difficulties. However, reliable measures of its effectiveness are rarely encountered in practice beyond the direct marketing and advertising disciplines. Even in those two cases, criteria are severely limited. The success or failure of a direct marketing initiative is normally reported in terms of coupon returns, enquiries or off-the-page orders; its communicative efficacy is seldom tested in any way. Advertising effectiveness is typically measured by criteria such as awareness, recall, attitude change and sales movements. Yet there has never been convincing proof that the first three actually increase the probability that the audience will subsequently take appropriate action, while the fourth makes dubious assumptions about

short-term cause and effect. Those arguments will be taken up later in this chapter. Meanwhile, we have to conclude that promotional expenditure may be scrutinized and constrained, but is not controlled in any meaningful sense of the word. Readers interested in pursuing the issue of *budgeting* further should consult Broadbent's excellent 'handbook for managers', cited earlier, mentally converting from advertising to the rest of the promotional mix as necessary. The rest of this section will concern itself with *appropriation setting*.

Almost 30 years ago, Rees (1977) and Dhalla (1977) independently found that in the UK and the USA respectively, advertising managers and brand managers typically made an initial bid for an adequate appropriation in competition with other claimants on total funds set aside for marketing, but that the ensuing decision process was notably hierarchical. Heads of each major marketing function having negotiated for their slice of the pie, the board of directors would debate the merits of their cases. Vested interests could then result in further bargaining. Almost invariably, the chief executive retained sole authority for final approval, and those decisions were duly transmitted back down the organization to those answerable for using the various appropriations productively.

The generally political nature of this process was confirmed a decade later in Britain by Piercy (1987), and there is no reason to suspect any significant change since then. Nevertheless, textbooks typically imply that the advertising appropriation (the only one they generally consider within 'promotion') is indeed set by those responsible for spending it. The neglected reality that they have no such authority to set their own budget has a crucial impact on strategic planning: a ceiling is imposed on spending which may bear little relationship to promotional objectives or the firm's situation relative to the competition.

Whoever actually decides the amount to be spent on advertising is likely to use one or more of a set of well-known standard methods. Non-standard nomenclature disguises the

fact that they can be grouped into the four categories in Table 17.2. The descriptions under each group heading are examples of the general method in question, using the terminology in common use.

The application of *executive judgement* may seem an unacceptably vague and risky approach to such an important decision. However, we shall see that the other methods available to decision makers are themselves illogical, inflexible, based on large assumptions, or all three. Therefore, though the everyday descriptions of this approach to the task hardly inspire confidence, the accumulated wisdom and intuition of experienced practitioners should not be undervalued.

The best known *internal ratio* is advertising-to-sales, which sets the appropriation at a given percentage of either the previous year's figure or the forecast for the coming year. It has the respectability of being an arithmetic formula, but suffers the serious logical flaw that the ratio itself must be decided before the method can be used. In practice, that is normally done by the application of executive judgement or by reference to industry norms, which may not be

appropriate to the particular circumstances. Furthermore, it is potentially disastrous to apply this method when sales have been falling. If the purpose of advertising is to help generate sales, then spending a constant ratio of a decreasing amount is a curious way to go about rectifying the situation.

The most familiar *external ratio* is competitive parity, which matches the appropriation to the estimated expenditure of a significant competitor or to the prevailing norm, with the aim of buying a fair share of voice in the general advertising hubbub. The more everyone follows everyone else, the more logical it is to believe that competitors are behaving rationally or that collective wisdom is correct. Furthermore, the method takes no account of the need for a new entrant to a market to take the risk of disproportionately heavy expenditure to gain a foothold.

The reliability of the many proprietary *modelling and experimentation* procedures depends upon the assumptions made and formulae used, and the average practitioner lacks the mathematical sophistication to evaluate those. Using them is in that case rather like

Table 17.2 Methods for determining the promotional appropriation

<i>Executive judgement</i>	<i>Internal ratios</i>	<i>External ratios</i>	<i>Modelling and experimentation</i>
AYCA = all you can afford	A/S ratio = advertising-to-sales ratio	Competitive parity	Adstock
Affordable approach	Case rate	Dynamic difference	AMTES = area marketing test evaluation systems
Arbitrary method	Historical parity	Market share method	Econometrics
Notional sum	Inertia method	Share of voice	Prescriptive models
	Marginal costing approach		Simulation
	Per-unit allowance		What-if models
	Same as last year		

buying a pig in a poke from a magician. For a dispassionate review of what is available, see Chapter 8 of Broadbent (1997).

Objective-and-task is widely treated as the best option on the grounds that it is more 'logical': starting with objectives and calculating the cost of the tasks required to achieve them, instead of starting with a sum of money and then deciding what to do with it. However, it does not follow that the means of achieving the objectives will be obvious and the costs unequivocal. Practical guides are apt to conclude with the exhortation to 'estimate the required expenditures', a nasty sting in the tail. Nevertheless, this procedure does force decision makers to be more rigorous in their approach to an absolutely crucial task.

A collective weakness of all five methods is their tendency to focus on short-term profit maximization at the expense of long-term goals. Indeed, the very convention of annual budgeting can in practice encourage strategically questionable revision of existing promotional campaigns. The admirable (and evidently effective) thematic continuity of BMW advertising in Britain over a 25-year period, for example, is the exception rather than the rule.

The practical usefulness of this worryingly vague technology can be improved by treating the contents of Table 17.2 as an à la carte menu, rather than table d'hôte. Any and all feasible options can be chosen from it, a variety of 'answers' obtained, and executive judgement applied to the task of deriving the best solution from them. Survey evidence suggests that, on average, two options are combined to arrive at the amount to be spent on advertising. It appears that no equivalent studies relating to other ingredients of the promotional mix have so far been published.

Three of the available appropriation-setting methods have dominated practice over the years. Data from a series of surveys over a 30-year period show that they are executive judgement, the advertising-to-sales ratio and the objective-and-task approach. Until the mid-1980s, that was the rank order of popularity, to

judge by the average of all responses across the surveyed samples. Since then, it has exactly reversed, as a comprehensive transnational survey first found (Synodinos *et al.*, 1989). That might be taken as an improvement, but for the comments made earlier about the pitfalls of applying the objective-and-task method in practice.

It is lastly far from reassuring to report that, in Britain, neither the second edition of a handbook on 'how to plan advertising' (Cooper, 1997) nor a 'guide to best practice' from the Institute of Practitioners in Advertising (Butterfield, 1997) makes any mention at all of appropriation-setting procedures, admirable though both of them otherwise are. Furthermore, there seems to be no readily available published discussion of available approaches to the task in the context of the other elements of the promotional mix.

Deploying the promotional mix

Those responsible for the execution of promotional strategy, faced by the choice of eight broad means to achieve promotional objectives, need a formal framework for deciding which to use and which not, and how much weight to give to each one chosen. An overall constraint on choice will of course be imposed by the funds appropriated for the purpose, the subject of the previous section, and an influence inevitably exerted by the industry-wide trends reported in the one before. Decision makers will furthermore monitor the tactics of their competitors, debating the relative merits of head-to-head assaults versus outflanking manoeuvres. Taking those factors as given, Table 17.3 proposes seven other variables, in the form of a checklist for cost-effective deployment of the promotional mix. To illustrate how this template might be used in practice to include or exclude available options, consider its application to the case of advertising a new cinema complex via large

Table 17.3 A promotional mix checklist

Target:	Can this option reach the right audience?
Message:	Can it deliver this kind of message?
Price:	What will we be charged to use it?
Cost:	What will it cost us produce the material?
Receptivity:	Will the audience accept the message?
Modulation:	Will the vehicle affect their 'reading' of it?
Measurability:	Can we reliably assess effectiveness?

posters in urban locations (what common usage calls 'billboards').

'Outdoor' media of this kind are seen by anybody and everybody: pedestrians, motorists, users of public transport. The proposed campaign therefore could reach the required *target* audience of 18- to 35-year-olds, but with a great deal of wastage in the process unless particular sites could be identified on the basis of audience profiles provided by an industry-wide programme of continuous research, and bought individually.

The *message* a poster can deliver is self-evidently limited to what can be encapsulated in a short statement in large letters, or conveyed non-verbally. In this case, that is not a disadvantage, for the fact that a brand new, purpose-built, conveniently located multiplex has opened will be enough to encourage trial among potential visitors.

Poster campaigns are normally bought as package deals, at *prices* which are middling in advertising terms but high by comparison with most other ingredients of the promotional mix. For instance, a campaign running on 700 large poster sites around the UK would cost up to £400 000 per month. Buying local sites individually, which this advertiser needs to do, is significantly more expensive than the *pro rata* fraction: perhaps more than half a million for the same coverage of the target audience. The *cost* of producing such a large item of high-quality full-colour print work, in sufficient quantity to allow for periodic

renewal at each site as the weather took its toll, would also be high.

The *receptivity* of typical audiences is much less of a problem than critics of advertising would have us believe. For example, a series of surveys of public attitudes in the UK has consistently found that fewer than one in ten of large and representative samples of the general population 'disliked' or 'did not really like' the posters they encountered in their daily lives (Advertising Association, 2000). Because posters are seen as a rather brash medium, audiences may add subjective interpretations to the objective content of the message. This *modulation* is not as strong as that due to the 'tone of voice' of most newspapers, for example, and could in any case suit the brand image of a cinema complex.

Measurability is a complicated matter. The industry-wide research mentioned earlier can produce likelihood-to-see values for 73 000 poster sites around the country, but that is only a start. There is no easy way to find out how many members of a target audience did see a given site, notice the poster on it, take in the message, or act accordingly. The choice of this option would thus be something of an act of faith. Other promotional options are significantly more measurable, but the assessment of effectiveness is a general problem, and is something that will be taken up later in this chapter.

On balance, poster advertising seems an expensive but potentially effective option for

As in any other kind of service organization, the quality of after-sales customer service is a critical factor in the winning of repeat business, and it is the account handler's job to deliver it. In particular, his or (very often) her role is to minimize the potential for *culture clash* between agency and client. This is crucial because the atmosphere and ethos of typical examples of the former and latter could hardly be more different. Agency creative types do not sit opposite client R&D people at briefing meetings; instead, brand managers report client priorities to account executives, and account executives propose agency solutions to brand managers.

It follows that two skills in particular are essential attributes of effective account executives: *negotiation* and *co-ordination*. The latter is vital because one person is dealing on behalf of a whole organization. Without it, advertising campaigns will suffer the fate of the camel, to be a horse designed by a committee, deadlines will be missed, opportunities lost and much more besides. They also need to be effective co-ordinators and organizers.

Negotiation is not simply a matter of standing between the two parties keeping their respective specialists apart. An essential aspect of the job is to be the *advocate* for the point of view of each side when with the other. Although clearly employed by the agency, account executives have to live in no man's land between agency and client. Certainly, if the relationship is to endure, they must be as conscientious in explaining the client's needs and attitudes to the agency people as they are in advocating the agency's solutions and attitudes to the client – however irritating and petty their colleagues in the agency may find the client's tinkering with creative treatments or media plans. Divided loyalty is part of the *modus operandi* – and a positive one, given that the job remit is in effect after-sales service.

Not all exponents of account handling are conscientious diplomats, negotiators, facilitators, co-ordinators and organizers, however. As a former board director of a large London

agency puts it: 'The best account executives are shrewd business operators and perceptive judges of advertising and human nature. The worst are glorified bag carriers, ferrying messages back and forth between agency and client with all the interpretational skills of a yo-yo' (Mayle, 1990).

However effectively or ineffectively client service is delivered in practice, this particular working relationship tends to be shorter lived than the norm in other professions. Several surveys over the years have found that, in the advertising business, the majority last less than 10 years (e.g. Briggs, 1993). The notably consistent and effective advertising for BMW in Britain that emanated over 25 years from a single agency, WTC, is the exception that proves the rule. Ghosh and Taylor (1990) found that there were five main causes of failed working relationships in New Zealand and Singapore, consistent with those suggested by the earlier studies in the UK and the USA. Those were: poor agency performance (a notably open-ended judgement); changes in agency policy; changes in client policy; changes in agency management; changes in client management. They remark that a few respondents had experienced all five at once.

It is thus clear that not only does the very fact of delegation to an intermediary mean a loss of control over strategy, but also that there is an inherent tendency to instability in such working relationships. In that case, one might justifiably wonder why marketers do not in fact execute their promotional campaigns in-house. There are three key reasons.

First, they often cannot afford to pay the very considerable salaries needed to recruit their own experts in the particular disciplines. Second, because promotional campaigns normally consist of discrete initiatives rather than continuously evolving programmes, originators cannot keep such specialists fully occupied throughout the year. They find themselves paying for substantial periods of 'downtime', to borrow an engineering concept. Lastly, few marketing departments, if any, can offer the

brought with it more businesslike practices. Advertisers and agencies entering a working relationship today can reduce the likelihood of arguments later by adopting *Some Suggested Provisions for Use in Agency/Client Agreements*, published by the IPA.

Remunerating the working partner

Unless it happens to be an advertising agency, the chosen working partner will be paid for its services by the combination of fees and expenses that is the norm in the professions. In the unique case of advertising, fees paid by clients make the smallest contribution to agencies' total income. The rest is provided by a paradoxical and complicated system of remuneration (American usage prefers 'compensation'), which has its roots in the history of the advertising business. Outsiders have no reason to understand it, and insiders often half-understand it, and commentators usually misunderstand it.

A chapter dealing with the whole of the promotional mix is not the place for a detailed explanation of the 'media commission system of advertising agency remuneration' in detail, and the rest of this section will deal only with the essentials. Readers who want to follow up on the details will find them in Crosier (1998b).

In brief, the historical background that explains the idiosyncrasies of the system is as follows. As early as the beginning of the nineteenth century, the proliferation of newspapers, magazines and poster sites was making it very difficult for British advertisers to keep track of the options available, deal efficiently with the profusion of media owners, monitor that their advertisements appeared as booked, and check that they were charged at the correct rates. This situation was fertile ground for entrepreneurial initiatives. Duly, the first *advertising agents* appeared, charging advertisers for expert advice and assistance. They were soon followed by what history has dubbed *space*

brokers, who bought advertising space speculatively and resold it to advertisers at a *mark-up*, accompanied by 'free' advice on campaign planning. By mid-century, the media owners had realized that these intermediaries were in fact the primary customers for their commodity, and were allowing them a routine discount on the price. They were thus transformed into *commission* earning sales agents, whereas the other group remained *fee* earning agents to their clients, the advertisers.

During the second half of the nineteenth century, the whole system became transparent when one space broker in the USA negotiated a fixed-percentage commission discount, and another published a directory of every media owner's pre-discount list prices for space. Brokers took to charging advertisers the list price, and advertisers could check that they were paying exactly what they would if they had booked the space direct. It took nearly a century for the rate of media commission discount to settle to an almost universal 15 per cent, worldwide.

In 1917, English law established that the firms which were by now calling themselves advertising agencies were neither brokers nor agents, but *principals*, making the contract with the media owners in their own right. The result is that present-day advertising agencies must pay for all space and time ordered, even if their client is unwilling or unable to reimburse them. The risk of suffering from bad debts is therefore a constant threat. For this whole system to work properly, media owners must deny the commission discount to advertisers placing orders direct. Outsiders typically find it hard to believe that a media owner could in practice resist a demand for commission from an advertiser with the buying muscle of BT (British Telecom), for example, who spent more than £107 million on advertising in 2000. But advertisers of that type and size invariably use advertising agencies or media independents anyway, so they might as well buy media by that route and benefit from the associated subsidized services and volume discounts. That

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Table 18.2 Recent trends and expenditure in US sales promotions

Promotion type	2000 expenditure (\$ billions)	Comments
Premium incentives	26.9	Split between incentives for the salesforce (33%), dealers (31%), customers (23%) and non-sales employees (13%). Key trends are towards greater use of the Internet, and more distinctive incentives such as adventure trips or Quaker's 102 Dalmatians battery operated 'barking' spoons.
Point of purchase	17	Growth of 18%, much of it from use away from traditional FMCG markets. Fastest growth was in financial services. POP displays linking to a brand's sporting, movie or charity were highly successful, boosting sales by 65% on average.
Ad specialties	16.3	Refers to promotional items (laptop bags, T-shirts, pens, mousemats). Key users are financial services, information technology and healthcare.
Sponsorship	8.7	Crew 14.5%, dominated by major sporting events and major brands such as Anheuser-Busch, GM and Coca-Cola. Music tours and minority sports also attracted sponsorship growth.
Couponing	6.9	Coupon spending in the US dropped around 1% and redemption rates declined by more than 4%. Economic gloom may lift redemption rates. On-line and in-store coupons continue to grow.
Games, competitions and specialty printing	7.6	Competitions saw 9% market growth. Trends towards fewer but larger promotions, and 'cool' and unique prizes such as concert tickets, private parties and celebrity dates. Other promotional printing declined slightly due to growth in Internet promotions.
Promotional licensing	5.8	Continues to grow steadily each year. Dominated by tie-ups between a handful of 'blockbuster' movies and fast food, soft drinks and toys.
Product sampling	1.2	Sampling is increasingly event orientated and active. One million scoops of Ben & Jerry's 'Homemade' were served in 'guerrilla' visits to offices in 13 cities.
Interactive	1.8	Despite the bursting of the dot-com bubble, Internet-based promotion spending rose 40% during 2000. Key trends were greater integration of on-line promotions with overall communications strategy.
In-store services	0.9	32% of US retail market operates a loyalty card scheme and 70% of shoppers belong to at least one. Increasing use of smart cards and purchase kiosks.

take one example, there are now more than 200 promotional magazines published and distributed by companies in the UK; around 20 have a circulation of over a million readers. Many would classify this as public relations activity rather than a sales promotion, and the issue is complicated further by the likes of the Sainsbury's magazine, which is unusual in being sold rather than distributed free.

The entangling of promotions with the rest of the mix account for the problems that occur when people attempt to define or measure sales promotion activity. Quelch (1989) also suggests that, in practice, it is a failure to integrate promotions effectively into the mix that leads to problems and to much of the criticism of promotions. On the positive side, this lack of clear boundaries can be viewed as providing an unrivalled opportunity for marketing managers to find innovative and creative ways of reaching customers. Robinson and Shultz (1982) suggest that the interrel boundary spanning nature of promotions make them an ideal 'bridge', providing opportunities to integrate the communications efforts of advertising, selling and PR, which may each be the responsibility of different managers.

Sales promotions – the most manageable P?

Sales promotions appeal to marketing managers because they are flexible and fast acting. They are also more directly controllable than other elements of the marketing mix, because generally speaking:

- Developing new products is a slow process, which often relies on technical specialists.
- Permanent price changes depend on financial management's co-operation internally and customer acceptance or rivals' reactions externally.
- Channel changes involve lengthy negotiations with third parties.

- Advertising campaigns are planned slowly and carefully to nurture the image of the brand.

For the marketer looking to make a mark in a new job, under pressure to respond to competitors or struggling to meet tough sales targets, promotions can offer a speedy solution. Promotions' origins as tactical weapons make them very responsive and manoeuvrable, and well suited to just-in-time approaches to the management of inventories and businesses. This has been taken to extremes by companies such as Mrs Fields' Cookies, with outlets being linked directly to the central information system, so that sales patterns can be analysed and any necessary point-of-sale promotional offers suggested in 'real time'.

There is a wealth of common sense advice available to marketers on how to successfully and strategically manage promotions, mostly covering points such as:

- Look to add value rather than cut prices wherever possible.
- Link the promotion closely to the brand values.
- Theme promotions to reinforce advertising campaigns.
- Develop synergies with sales and PR campaigns.
- Search out cross-promotional opportunities.
- Reward loyal users and encourage repeat purchases.
- Ensure that the promotion is carefully targeted with quantified objectives and overseen by a sufficiently senior executive.
- Constantly monitor and re-evaluate progress.

Sales promotions mismanagement

Sales promotions can achieve many marketing objectives, but they have definite limitations (Shimp, 2000). They will not compensate for fundamental weaknesses in the rest of the

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something to be managed as efficiently as possible. Today, the emphasis has shifted. The way in which a business satisfies demand and services its customers has become a fundamental basis for successful and enduring relationships.

This process is commonly termed the 'supply chain', but logically the label 'demand chain' describes its central role in demand satisfaction. Whatever the terminology, however, the important principle is that it should be managed as a horizontal business process that connects customers with the organization, extending upstream into the supplier basis. Ideally, we should seek to manage the business as an 'extended enterprise' from the customer's customer back through the internal operations of the firm to the supplier's supplier.

In a sense, these three critical business processes are all subsidiary to, and form the basis of, the fourth key process – the customer relationship management process.

The customer relationship management process

CRM unites the potential of IT and relationship marketing strategies to deliver profitable, long-term relationships. Importantly, CRM provides enhanced opportunities to use data and information both to understand customers and implement relationship marketing strategies better. Customer relationship management, we suggest, builds upon the philosophy of relationship marketing (Christopher *et al.*, 2002) by utilizing information technology to enable a much closer 'fit' to be achieved between the needs and characteristics of the customer and the organization's 'offer'.

The management of customer relationships where those customers are other organizations (i.e. business-to-business) has been the subject of much attention over recent years. It has long been acknowledged that marketing to other organizations requires a deep understanding of those customers' business processes and indeed of their value creation processes.

A major feature of the four high-level processes outlined above is that by definition they are cross-functional and hence they must be managed cross-functionally. This has led to the notion of the 'horizontal organization' (Ostroff and Smith, 1992), which is market facing and market driven – as distinct from the conventional business, which is 'vertical', focused around functions, and is inward looking and budget-driven.

Companies as diverse as Xerox and Unilever are now transforming their organizations to become market-driven and to shift the locus of power from functions to core processes, in effect turning the organization chart through 90°. Figure 19.3 highlights the fundamental change in orientation that a new strategy requires.

The achievement of this transformation must begin with a recognition of the interlinking roles of the CRM and SCM processes. We will shortly examine the CRM process in more detail. However, it is appropriate to first explain why the supply chain is so important in the context of CRM.

The SCM process entails the linking of production plans with materials requirements plans in one direction and distribution requirements plans in the other. The aim of any organization should be to ensure that production produces only what the market requires whilst purchasing supplies production with what it needs to meet its immediate requirements. But how can this fairly obvious idea be converted into reality?

The key lies in the recognition that the *order and its associated information flows* should be at the heart of the business. It may be a truism but the only rationale for any commercial organization is to generate orders and to fulfil those orders. Everything the company does should be directly linked to facilitating this process, and the process must itself be reflected in the organizational design and in its planning and control systems.

Figure 19.4 shows the interlinking roles between CRM and SCM. In the literature on CRM, most of the discussion often focuses on

can be difficult to achieve without a systematic approach and it needs to be broken down into processes or sub-processes.

The *strategic framework for CRM* presented in Figure 19.5 is based on the interaction of five cross-functional business processes that deal with strategy development, value creation, multichannel integration, information management and performance assessment (Payne, 2002).

These processes, which are discussed below, make a greater contribution to organizational prosperity collectively than they can individually, and must therefore be treated as an integrated set of activities.

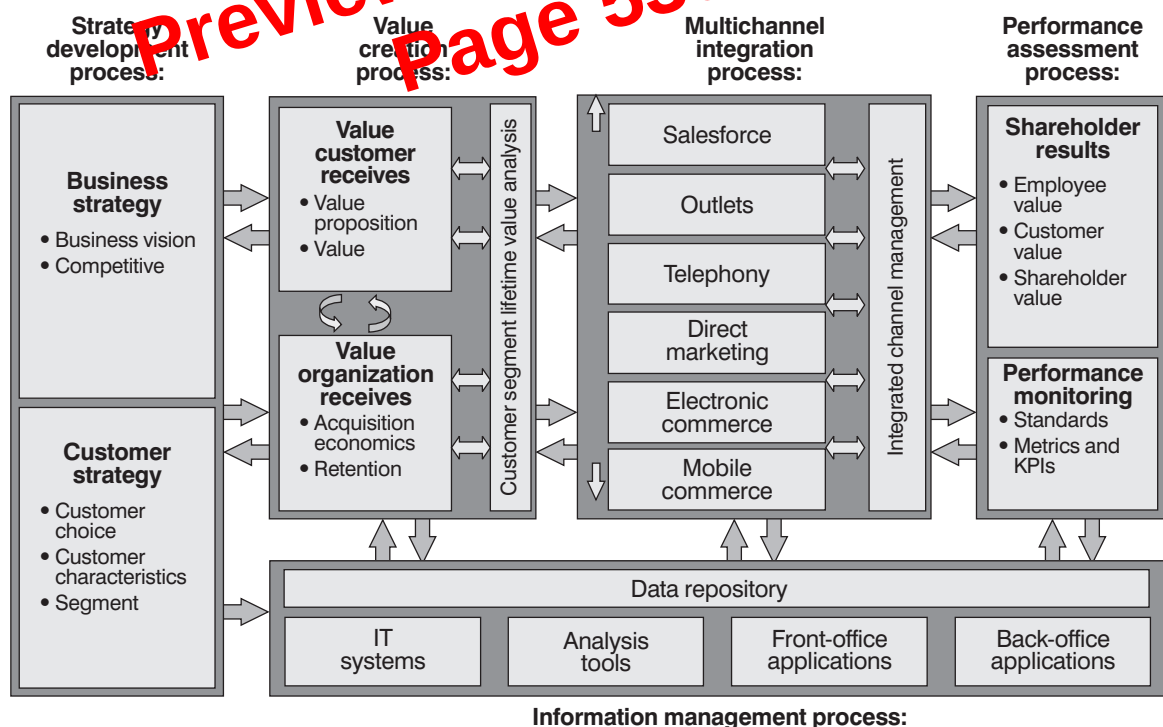
The strategy development process

Most companies today recognize that their future depends on the strength of their business

relationships, and most crucially, their relationships with customers. Before turning immediately to a technology solution, managers need to first consider CRM in the context of overall business strategy. CRM must actively reflect and reinforce the wider goals of the business if it is to be successful. The strategy development process therefore demands a dual focus on the organization's business strategy and its customer strategy.

Business strategy

A comprehensive review of the business strategy will provide a realistic platform on which to construct the CRM strategy, as well as generate recommendations for general improvement. The organization needs to fully understand its own competencies within a competitive context in order to be able to



Source: Payne (2002). Used with permission.

Figure 19.5 Strategic framework for CRM

However, the importance of time extends beyond this; simply put, the shorter the time it takes to do things, the more flexible we can be in our response.

One of the main reasons why companies rely on forecasting and hence on inventory is because they have long lead-times to source, manufacture and deliver. The longer the response time, the greater the reliance upon the forecast, hence the more inventory that is required. Conversely, the shorter the response time, the less the reliance on the forecast and the less the need to cover uncertainty with inventory. At the same time, shorter lead-times mean we can offer greater variety. If in one factory it takes several hours to change from making one product to another (set-up time) but a competitor's factory can make the same change in seconds, then very clearly the competitor can offer greater variety to customers.

When we talk about lead-times we mean not only the time it takes to make something, but also the time it takes to gather material from suppliers, to process customer orders and to deliver the product to the customer. By focusing upon lead-time reduction the firm can achieve a substantial improvement in customer service.

Benetton, the Italian fashion manufacturer, has achieved its strong position worldwide not just through its innovative styles and its strong brand, but through the speed with which it can respond to changes in the market. Even though trends in styles and colours will differ from one corner of the globe to another and even though fashion life cycles are short and fickle, Benetton can usually match the market requirement through its advanced logistics systems. By capturing information at the point of sale and swiftly transferring details of what is selling back to the point of production, whole weeks are taken out of the total response time.

Combined with the flexibility in manufacturing for which Benetton are renowned and with state-of-the-art, computerized, global distribution systems, this gives Benetton the ability to get a product into the retail store within

weeks of the order being placed. Traditionally, in that industry, it will take months to meet a replenishment order, if indeed it can be achieved at all.

Focusing on time reduction also has the benefit of making the company less reliant upon forecasts. If the lead-time for response to customer requirements is, say, 10 weeks, then clearly we have to forecast 10 weeks ahead and carry 10 weeks of inventory. If that lead-time can be reduced to five weeks, then the forecast horizon is halved, reducing the forecast error, and the need for inventory is also substantially reduced. The closer lead-times of response get towards zero, then the greater the ability of the organization to meet CRM requirements at less cost, yet paradoxically, with the ability to be much more flexible in meeting the demands of the marketplace.

Developing market-driven CRM and SCM strategies

It is a fundamental tenet of market-oriented companies that they seek to focus all their actions towards the goal of customer satisfaction. To support this goal, it is imperative that the CRM and SCM strategies of the organization be designed to support its marketing strategy.

The successful creation of market-driven strategies must inevitably begin with a clear understanding of the service needs of the market. To be more precise, it requires a definition of the *value preferences* that discriminate one market segment from another. A superior value proposition, a key component of the value creation process shown earlier in Figure 19.5, aims to tailor as closely as possible appropriate value packages to all the key value segments.

The starting point, as always, is the market understanding process referred to earlier. Research into customers' service and value preferences is an essential foundation for developing innovative and competitive logistics

strategies. Because customer needs and value preferences differ, there is a requirement to engineer flexibility into the organization's CRM and SCM processes.

To highlight this principle, the case of Dell Computers is worth studying.

For a company that only began life in 1984, Dell has achieved amazing success, to the point where it is one of the most profitable companies in the personal computer (PC) market. Its success is not so much due to its products – they embody the same technology as their competitors – but rather the way in which they have developed a supply chain to support an innovative channel management and CRM strategy.

To quote Michael Dell, the founder:

Our net income grew faster than sales as we continue to improve costs and to capture economies of scale. They stem from a decade of developing and implementing strategies designed to maximize the different strengths of the Dell direct business model. We believe our business model will remain the engine of our growth because it provides us with a number of competitive advantages:

- First, we bypass computer dealers and avoid related price mark-ups. This became a dramatic advantage as competition in the indirect channel drove up the cost of dealer incentives.
- Second, we build each system to a specific customer order, which eliminates inventories of finished goods to resellers and enables us to move new technologies and lower-cost components into our product lines faster.
- Third, our direct contacts with thousands of customers every day enable us to tailor our support offerings to target markets and to control the consistency of customer service around the world.
- Fourth, we leverage our relationships with key technology partners and with our customers to incorporate the most relevant new technologies into our products rapidly.
- Finally, our low inventory and low fixed-asset model gives us one of the highest returns on invested capital in our industry.

(Dell Annual Report, 1998)

By following a strategy of direct distribution, Dell is able to achieve a higher level of customization than many of its competitors whilst operating a low cost supply chain. The results have been impressive. Within a relatively short time, the company had overtaken IBM to become the world's number one manufacturer of PCs and the most profitable.

Dell has recognized that it can gain a significant competitive advantage through its exploitation of a non-traditional distribution channel. Dell also has impressive CRM systems that make great use of its direct customer contact to research needs and to gain feedback. Its pioneering use of the Internet has further strengthened its ability to provide tailored solutions to individual customers' specific needs through a sophisticated software-driven SCM process.

In many respects the way in which Dell has combined a direct distribution strategy with the technology of the Internet presents a possible model for the future. The trend towards direct distribution can only be accelerated by the widespread use of the Internet and electronic commerce generally. The role of the traditional intermediary in the distribution channel is under threat. Unless such intermediaries can find new ways to add value for customers, then their future may be limited.

The challenge increasingly will be to seek out new ways in which customer demand can be captured and satisfied more cost-effectively. At the same time, customers in every market are seeking tailored solutions to their buying needs, calling for radically different channel strategies and operations capabilities. As we enter the era of 'mass customization' (Pine, 1993), the focus on integrated CRM and SCM strategies will inevitably increase.

Figure 19.9 highlights the fundamental change that is taking place in the marketplace as CRM and supply chain capabilities enable radically different channel strategies to be implemented and supported.

Being in the top left-hand quadrant of the model shown in Figure 19.9 can bring many

is not a single company concept, it requires the closest connections upstream with customers and downstream with suppliers, particularly through the sharing of information on demand.

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expenditures are well directed and effectively controlled. Such effective control can only be exercised if the marketing and finance areas work together in an integrated partnership. A significant challenge facing the finance function in many businesses, therefore, involves changing their perceived involvement in marketing activities from that of a cost-adding constraint to that of a value-adding, enabling, participative role. The organizational structure implications of this change are considered towards the end of this chapter, but 'controlling marketing' requires involvement in two closely related but distinct aspects of marketing activities.

Prior to the actual *commitment* by the organization to spend money, a rigorous financial evaluation should be carried out. This is because true financial control can only be exercised in advance of any legally binding financial commitment; once committed, the business will incur cancellation charges, or even still have to pay the full cost, if it changes its mind. This financial evaluation compares the proposed expenditure against the potential benefits, taking into account the risks involved in the particular activity. This evaluation should include any other potential ways of achieving the same benefits.

The financial evaluation process should also indicate how the success/failure of the expenditure can be assessed and how quickly this assessment can be made. It may also be possible to improve the overall probability of success before committing the majority of the expenditure; this may be achieved by marketing research activity. This risk-reducing type of marketing expenditure should itself be evaluated financially and any early warning indicators of success/failure should be identified. Any marketing activities where such early indicators can be identified are significantly lower risk than those where 'success' can only be assessed after all the expenditure has been incurred. If the initial expenditure has clearly failed, then the business can avoid incurring the rest of the expenditure if early and effective financial controls have been identified.

'Controlling marketing' can therefore be regarded as two interrelated processes of financial evaluation and financial control. As discussed in depth during this chapter, much of the challenge relates to putting financial values to marketing activities and objectives. Within the marketing area, many specific control measures have been developed to evaluate and control a wide range of marketing activities. Indeed, as discussed in other areas of the book, different marketing objectives are achieved by very specifically aimed marketing techniques. Unfortunately, far too often these very different marketing approaches are financially controlled using a single financial measure which is consequently often inappropriate. This is exacerbated because the most common financial control measures consider the efficiency with which the activity has been carried out, rather than the effectiveness with which it has achieved its predetermined objectives.

An example using advertising expenditure may make this clearer. The 'efficiency' of purchasing media advertising (whether TV airtime or newspaper space, etc.) can be measured in terms of the cost per thousand customers reached by the campaign. However, such an efficiency-based measure says very little about how 'effective' the advertising expenditure was in terms of achieving its predetermined objectives. These marketing objectives could range from creating brand awareness, through changing the attitudes of potential customers or stimulating trial by new customers, to increasing the rate of usage by existing customers – each of which would probably use a different style of advertisement.

In marketing terms, the achievement of these objectives should be measurable, e.g. any increase in brand awareness can be measured by testing what brand awareness there was before the advertising campaign and re-testing afterwards. Thus, marketing can normally 'prove' whether it has achieved its marketing objective, but the key financial *evaluation* question is whether achieving this objective was financially worthwhile. The company may plan to spend £5

million on a national advertising campaign which is designed to increase brand awareness from 30 to 40 per cent within the target market group of consumers. The brand awareness both before and after the campaign could be tested in order to see if the marketing objective was achieved and the efficiency with which the £5 million expenditure was spent could be monitored. However, the money has not necessarily been effectively spent, unless the benefit of increasing awareness by 10 per cent has been financially evaluated as being significantly greater than the £5 million cost which is to be incurred. Clearly, to be of any value as a financial control, this financial evaluation must be undertaken prior to the expenditure being committed, i.e. the advertising being booked. Even more clearly, such an evaluation, which relies on estimates of the increased future sales revenues which are expected to result ultimately from increased brand awareness, cannot be conducted by the finance function in isolation. It requires an integrated approach from both marketing and finance, as does the ongoing control as the expenditure is committed. This is necessary as it may be possible to reduce the related risk by phasing the advertising expenditure in order to check that it is generating the increased awareness required (e.g. by doing a regional test first).

Against this backdrop of an integrated, co-ordinated approach to trying to control marketing effectiveness rather than just efficiency, this chapter considers a range of marketing strategies and the consequences for the required financial control system.

A market-focused mission

The most common financial objective of commercially oriented organizations is to create shareholder value. Consequently, the differentiating elements within mission statements and long-term corporate objectives relate to the ways (i.e. the 'hows') in which this shareholder

value is to be created on a sustainable basis.

Shareholder value is only created when shareholders achieve a total return (which can only be generated by dividend yield and/or an increase in the value of their investment) which is greater than the return which they require from that investment. This definition emphasizes that shareholder value is not automatically created when a company makes a profit. The level of this profit must be placed in the context of the rate of return required by the shareholders, and this required rate of return is determined by the level of risk perceived by the shareholders with regard to this investment.

As shown in Figure 20.1, shareholders naturally dislike risk and they demand increasing rates of return for increasing risk perceptions. However, what is often forgotten, even by finance professionals, is that the upward sloping 'risk-adjusted required rate of return line' in Figure 20.1 is, in reality, the shareholders' indifference line. In other words, moving from one point on the line to any other point on the line merely compensates the investor for a change in their risk perception; it does not create shareholder value.

Shareholder value is only created when total returns are greater than required returns, and this relationship should be used by the company to assess any investment proposal. Investment decisions will only create real shareholder value when the expected return from the investment is greater than the shareholders' required rate of return. This is encapsulated in Table 20.1 and should be applied to all marketing investments, as is discussed in the next sections of this chapter.

This relationship can also be explained by reference to our risk/return graph (Figure 20.2). As previously stated, moving along the shareholders' risk/return line neither creates nor destroys shareholder value. Shareholder value is only created by implementing a strategy which enables the business to move 'above the line', as shown in Figure 20.2.

As can be seen from the diagram, the company can move in one of three possible

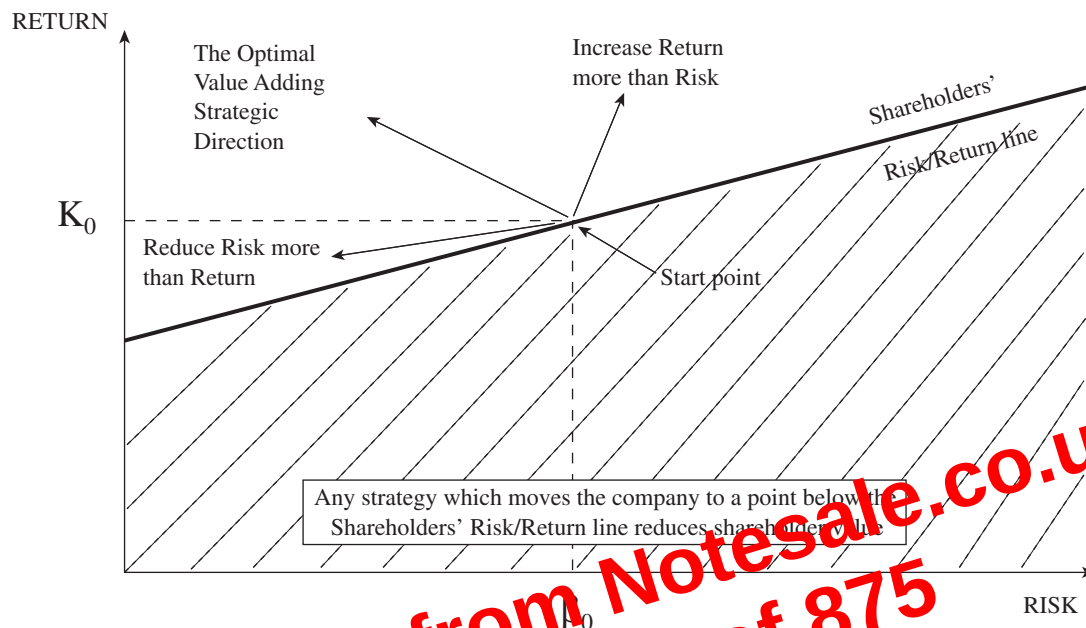


Figure 20.2 Economic value-adding strategies – utilizing a strong sustainable competitive advantage

value-creating gap between expected and required rates of return can be substantial. Not surprisingly, because it is the attractive strategic direction to take, it is also the most difficult to achieve. In order to generate increased future rates of return with reduced levels of risk, the business must have developed a strong 'sustainable competitive advantage', which is, of course, the main objective of modern corporate and competitive strategies. A strong sustainable competitive advantage should enable a company to increase its future rates of return to levels well above both its required rate of return and the rates of return of its competitors.

However, its sustainable competitive advantage could also mean that, even in the event of a downturn in the market, its rates of return are less volatile in the future than those of its competitors. If this is the case, the company's risk profile will be lower than its competition, which could result in a lower required rate of return.

This introduces the key concept, which will be utilized through the chapter, of a '*super profit*', which is the excess return achieved by a business due to the development and maintenance of a *sustainable* competitive advantage. The 'excess' return represents the surplus expected or actual return over the rate of return required by investors.

A sustainable competitive advantage

A key aspect of a competitive advantage in terms of its ability to create shareholder value is its sustainability. If competitors can match the competitive advantage immediately, or even relatively quickly, the company will be unable to exploit it to achieve a super profit. This actually highlights an important but simple way of considering any sustainable competitive advantage; it should act as an effective *entry*

been done by certain brands, such as Coca-Cola and Marlboro), but this will normally require additional expenditure on maintaining the entry barrier. Alternatively, the business may decide to reinvest part of its initial super profits in developing a replacement sustainable competitive advantage for when the initial advantage ceases to be effective. Examples of this are pharmaceutical companies which often invest heavily in branding their patented drugs during the patent period. This actually reduces the level of super profit during this period, as they are then effectively a monopoly supplier, but it can create strong customer loyalty, which can work as a very effective competitive advantage once the patent has expired.

These development, maintenance and reinvestment activities must be subjected to the rigorous financial evaluation already discussed and this is considered in detail below. However, these entry barriers are the really important sources of shareholder value creation and should therefore be managed as the key assets of the business. Unfortunately, apparently because many of them are intangible and somewhat nebulous to most finance managers, many companies still regard their fixed assets (factories, offices, plant and machinery, etc.) as the only real assets of the business. Without any intangible marketing assets to exploit, these tangible assets would probably generate, at most, the shareholders' required rate of return.

All of these sustainable competitive advantages are, by definition, really relative statements in that they refer to things which the business does better, cheaper, faster, etc., than anyone else. They also need to be considered in the context of the customers who are willing to continue to pay a price for the good or service which enables the supplier to generate a super profit. In other words, the customers must still perceive themselves as getting good value for money, even in the absence of direct, effective viable competition. This means that the financial evaluation and control process must also have an external focus in that it must include an analysis of competitors and customers. This

competitor analysis must not be limited only to obvious existing competitors, as new potential competitors may be attracted to any industry or sector which is generating significant super profits. Indeed, existing customers and even suppliers may be tempted to become competitors through vertical integration if the potential returns are high enough. It is essential that the company's current position is protected as far as possible by investing in creating strong entry barriers to deter all the identified potential competitors. Once again, finance managers are most unlikely to identify, on their own, all the potential novel marketing strategies which competitors may initiate to try to break through an existing entry barrier. Competitor analysis therefore needs to be done as a co-ordinated effort utilising all the knowledge and skills available within the business.

Investing in developing a sustainable competitive advantage

As stated above, many marketing activities should be evaluated and controlled as strategic investment decisions, irrespective of how they are treated for financial accounting purposes. Any financial investment involves spending money now in the expectation that, in the future, returns will be generated to more than recover the initial expenditure. Where the period over which these expected returns will be received is likely to be much longer than the current financial year, it is important that a proper financial evaluation is carried out. This is particularly vital where these investment expenditures are regarded as high risk, due to the volatility associated with the potential outcomes. If the success of these investments is also critical to the achievement of the organization's long-term objectives and overall mission, the need for a sound financial evaluation and control process is absolutely paramount.

marketing asset by improving specific attributes of the asset, while maintenance expenditure aims to keep these attributes at their existing levels.

It has already been stated that really valuable assets (i.e. those that represent a sustainable competitive advantage) have a finite economic life and this is equally true for marketing assets. Thus, the mix of development and maintenance marketing expenditure will change over the life cycle. During the initial launch period all the marketing expenditure will be development activity, as it is aimed at building the value of the asset; also, there are no attributes to be maintained. Once the asset starts to be established, the existing attributes need some level of maintenance expenditure, but the majority of marketing effort still goes to developing the asset to its optimum level. Once this is reached there is no longer a financial justification for more development expenditure, and all the current marketing activity (which may be considerably lower than during the development phase) should be targeted at maintaining the asset's current position and strengths.

Eventually the marketing asset will approach the end of its economic life and, at this time, the business may reduce the marketing expenditure below the full level required properly to maintain the asset. In other words, the decline stage is managed so as to maximize the cash flows received by the business. Indeed, this is the critical financial performance measure for any marketing asset; the objective is to maximize the super profits earned over the economic life of the asset. Due to the long life cycle of many of these assets, this has to be expressed in terms of the net present values of the cash flows expected to be generated over this economic life.

Also, because the economic life can, in certain cases, be extended, some marketing expenditure may be targeted at extending the economic life of the asset. An alternative strategy may be to transfer the existing strong asset attributes (such as from a brand) from a

declining product to a new growing product. Even though doing so will accelerate the decline of the current product, it may extend the economic life of the 'brand' asset by associating it with another appropriate product.

This distinction between development and maintenance expenditure is very important because the timing of the returns from each type is very different. Development expenditure represents a long-term investment and the returns may not be received until several years later. Thus, the expenditure is incurred now but the financial benefit is not felt this year. The impact of maintenance expenditure is likely to be much quicker because, as the attributes decline, there is likely to be a corresponding fall of sales revenues and profits. This timing difference means that different financial evaluation and control processes must be used for each type of expenditure.

In many companies, the marketing budget represents a very significant proportion of total expenditure. When the company comes under short-term profit pressure it is therefore very common for the financial director to look to marketing to make a substantial contribution to any required reduction. Under the traditional classification system, it is easy to predict where most of these cuts in marketing expenditure are likely to fall: on the long-term development expenditures. This is because reducing these development activities will have no negative impacts on sales revenues in the short term, whereas cutting maintenance activities would probably reduce sales this year.

Unfortunately, the impact of reducing development marketing expenditure will be felt in the future because the asset will not be as fully developed. At least by segmenting marketing expenditure the consequences of this short-term action will be more clearly highlighted and the future expectations for the business can be appropriately modified. However, the best way of really focusing on these issues is through a well-designed financial planning and control process.

analysis for such strategies is a soundly based, decision-focused, long-term direct product profitability (DPP) analysis. As with the customer profitability analysis, the objective of DPP is to indicate the relative profit contributions from the different product groups. Therefore, apportioning indirect costs in an attempt to arrive at a 'net profit' for each product can destroy the validity of the analysis and lead to disastrous decisions being taken.

As shown in Figure 20.11, the allocation of product-specific costs to appropriately grouped products can highlight significant differences in the relative profit contributions from these differing products. Once again, if this analysis is to be used to support long-term strategic decisions (such as to identify those products

which should be launched internationally), the analysis must consider the long-term sustainable profitability of the products.

In some industries this can be done by using product life cycle costing techniques which have been developed over many years. It is now well established that the costs of producing many products (both goods and services) decline, in real terms, over time due to a number of factors. These include learning by employees which makes them more efficient, the introduction of new technologies and economies of scale and scope. These are combined together in the 'experience curve' concept, which enables businesses to predict the rate of decline of their real production costs per unit as cumulative volume increases.

Gross Sales by Product		£
Less Product-Specific Discounts & Rebates		<u>X</u>
Net Sales by Product		X
Less Direct Costs of Product		<u>X</u>
Gross Product Contribution		X
Less Product-Based Marketing Expenses	X	
Product-Specific Direct Sales Support Costs	<u>X</u>	<u>X</u>
		X
Less Product-Specific Direct Transaction Costs		
Sourcing Costs	X	
Operations Support	X	
Fixed Assets Financing	X	
Warehousing & Distribution	X	
Inventory Financing	X	
Order, Invoice & Collection Processing	<u>X</u>	<u>X</u>
		X
Less Product Attributable Overheads		<u>X</u>
Direct Profit Profitability		<u>X</u>

Figure 20.11 Direct product profitability analyses: illustrative example of a manufacturing company's DPP analysis

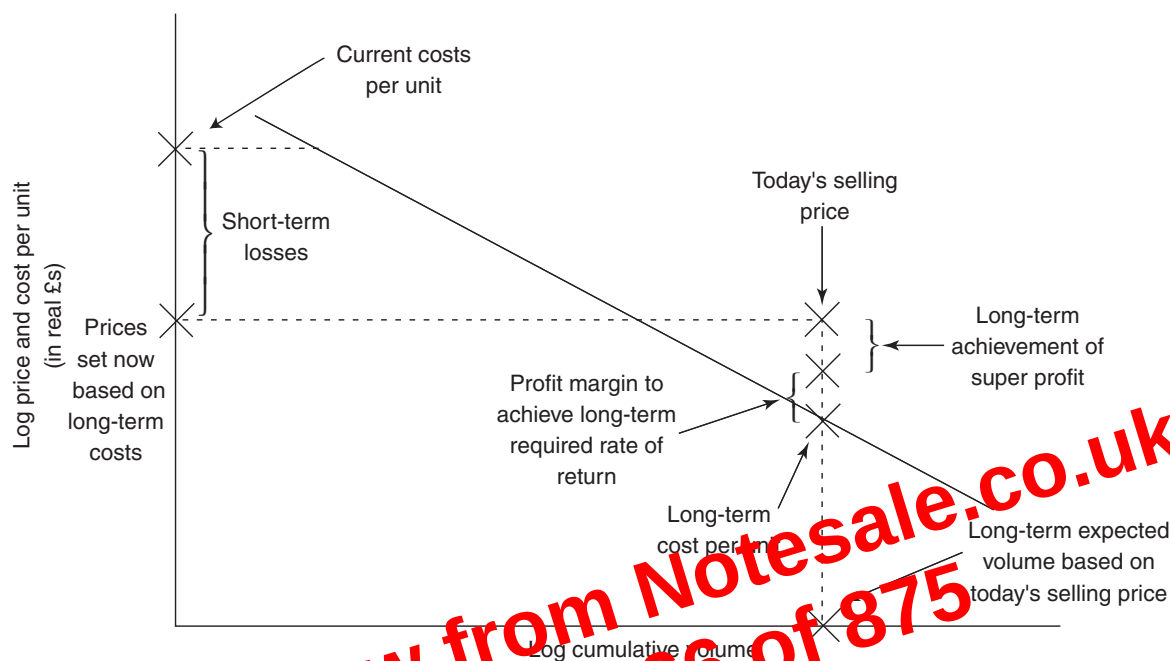


Figure 20.12 Life cycle costing techniques: strategic use of experience curves in setting prices. The short-term loss per unit, if successful, is really an investment in developing a long-term sustainable cost advantage

This predictive knowledge can be used in the marketing strategy because the business could set its prices today based on its long-term costs rather than its current costs; this is diagrammatically illustrated in Figure 20.12.

This pricing strategy would probably result in the business making a loss on its current sales, but these sales should increase rapidly as the low prices stimulated demand. These increasing sales volumes should propel the business rapidly down its experience curve – towards its long-term cost level, at which it should achieve a super profit. If it can gain a sustainable long-term cost advantage over its competitors by this strategy, it should regard the initial losses as an investment in creating a sustainable competitive advantage.

The idea of having a sustainable cost advantage also indicates another important aspect of product-based strategies. The management accounting needs of a low-cost-based strategy are fundamentally different to those of

product-based strategies built on differentiated or value-added products. As was discussed early in the chapter, any sustainable competitive advantage is a relative concept which must be evaluated and controlled by reference to an appropriate set of competitors.

Thus, the required competitor analysis focuses on the source of relative competitive advantage or disadvantage. Where the main basis of competition is on price, because there is no customer-perceived difference among competing products, the relevant competitor analysis should concentrate on cost benchmarking. In this commodity-based, price-conscious environment, the lowest-cost supplier will normally win and relatively small cost differences can be critical.

However, if the basis of competition is differentiation rather than price, an excessive emphasis on external cost comparisons or even internal cost reductions can be very counter-productive. A cost difference no longer neces-

integrate marketing competencies around customers and markets.

- Strategies and organizational arrangements will be linked by customer-driven value-delivery processes that are flexible and evolve in response to market change.
- The most serious competitive threats will be from competitors who fundamentally redesign their marketing organizations and systems for going to market, not just their products, because customers will increasingly buy the firm's value-delivery system, not just products.
- Successful marketing organizations will have the skills necessary to manage multiple strategic marketing processes, many of which have not traditionally been seen as in the domain of marketing (e.g. supply chain management, customer linking, product offering development).

To this, add the growing evidence that many companies will go to market through networks held together by a variety of contracts, alliances, partnerships, joint ventures and other links – i.e. as virtual or hollow organizations (e.g. see Cravens *et al.*, 1996). It is unsurprising that commentators point to the 'reinvented organization' needed to compete on capabilities, offer superior customer value and implement complex relationship strategies (Cravens *et al.*, 1997).

However, what remains hidden within these new organizational forms and networks is the question of how organizations can establish, maintain and sustain strategy implementation capabilities. For example, in the airline industry, as companies move towards hollow structures (the airline as brand and booking system employing only core service and operational staff), it is becoming apparent that in devolved network organizations, partner organizations may not be committed to the service quality and excellence needed to sustain the airline's brand. This suggests that new organizational forms will bring a whole new agenda of problems associated with implementation capabilities.

Turning from this scenario of future revolution to the present status quo of the marketing organization also indicates more immediate issues of implementation capabilities. It is almost two decades since it was suggested that the formal organizational positioning and structuring of the marketing function appeared to be subject to an underlying life cycle (Piercy, 1985). Since then, it has been shown, for example, that the organization of marketing in British companies has frequently fallen very short of the integrated models familiar in the prescriptive literature (Piercy, 1986). We found, for example, stereotypical marketing organizations in British manufacturing firms to include limited/staff role forms, responsible for limited areas like market research and some sales promotion; strategy/services forms, with planning responsibilities and little line responsibility; and selling-oriented forms, involved almost wholly in field sales operations. The significance of these observations lies primarily in the symbolism of structure rather than the administrative substance. Tokenism in formal organizational arrangements for marketing was taken as indicative of a lack of resource control and strategic influence for marketing in British companies (Piercy, 1986).

More recently, the organization of marketing in Britain has been characterized by the downsizing and closure of conventional marketing departments, reinforced by the impact of category management and trade marketing strategies, and the resurgence of the power of sales departments and key account management structures in managing customer relationships in business-to-business markets (Piercy, 2002).

Correspondingly, many popular approaches address marketing as an issue of process not function – for example, as the 'process of going to market', which cuts across traditional functional and organizational boundaries (see Figure 21.2). The implications of such marketing process models for the redundancy of traditional functional structures may be extreme, with the unintended side-effect of further weakening the marketing paradigm in organizations.

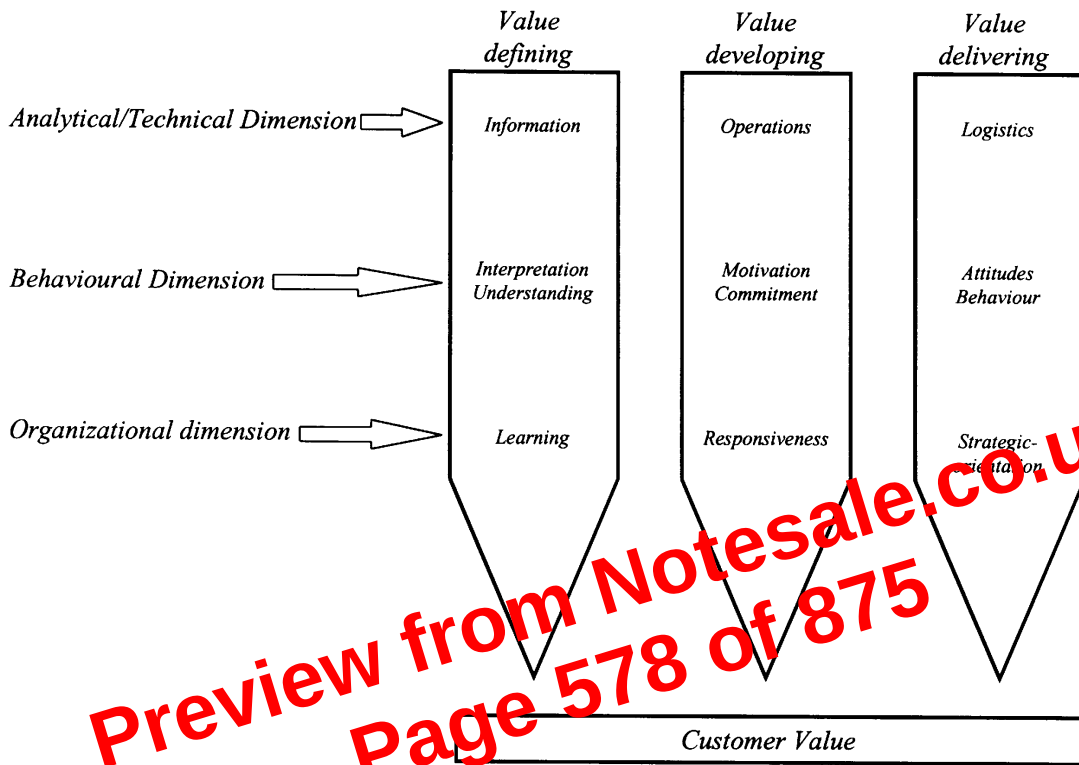


Figure 21.3 Value processes in marketing replacing marketing departments

between the analytic, behavioural and organizational dimensions of process, although this is frequently covert. Consistency between the dimensions of a process is likely to have a substantial impact on implementation capabilities.

For example, while value defining may be driven by the abilities of the organization to collect and disseminate information, 'market sensing' that leads to effective implementation of value-based strategy is likely also to be a function of the interpretative abilities and inclinations of individuals, and the organization's learning capabilities.

While value developing relies on operations capabilities, it is also shaped by the organization's responsiveness to market-based change, the motivation and commitment of individuals to implementing change, and the

motivation and commitment of individuals to implementing change. Value delivering involves supply chain capabilities and logistics, but also the attitudes and behaviours of service personnel, salespeople, distributors and other participants, as well as the priorities communicated by the strategic orientation of management. The danger lies in equating capabilities in the analytic/technical dimension of process with corresponding capabilities in the behavioural and organizational dimensions. The challenge is to evaluate and manage for consistency in the process, even if this means adapting and reshaping marketing strategy to fit better with the organization's implementation capabilities.

While this model is no more than illustrative, it serves to underline the point that if implementation is viewed in process terms,

- Is the problem one of reformulating the strategy (i.e. moving the intent closer to the reality) or an issue for managerial action (i.e. attempting to bring the reality closer to the intent)?

Figure 21.5 shows an example of how this approach was adopted with one organization – a computer manufacturer – in which top management had difficulty in understanding why their marketing strategy for recovering market share

Company: XYZ Computers Ltd

Market: Financial departmental systems

Strategy: Regain lost market share (get back to 20% from present 10%) by positioning as a specialist, high-quality systems supplier marketing total business solutions

Operational marketing policies	Strategic intent	Strategic reality	Strategic gap
Products and services	• Technical superiority • Maximum service content • Specialist supplier	• The product is difficult to use • We are seen as a computer specialist	Systems/solutions versus computers
Pricing and value	• High price but high value • Flexibility	• Expensive and overpriced • Intractable	• Value/quality perception problem • Real flexibility?
Communications • Selling • Advertising • Promotion	• Advertising to reinforce positioning • Regular sales coverage of all accounts • Industry/sector based promotion and training events	• Our advertising is computers, not customer 'business solutions' • We have less sales coverage than the competition • We are seen as computer trainers not hardware suppliers	• Positioning problem? • Market coverage
Distribution: • Channels • Logistics • Service	• Use direct channels • Offer rapid installation • Provides 7-day servicing • Provide technical consultancy • Emphasize personal relationships	• Customers go to traders, not direct • We ignore advisers and recommenders • We talk to users not decision makers • Customers do not trust us	• Understanding of the customer decision-making units? • The real service needs? • Demand for hardware versus demand for services
Strategic positioning • Product/market life cycle • Strategic position • Competitive differentiation • Customer satisfaction	• Rapid market growth for next 5 years • We take a dominant position through technological superiority • Focus on customer visits, social events, etc.	• The market is already mature • We can take a tenable position at best • Our position is likely to weaken • Everyone visits and entertains – mostly better than we do	• Market assumptions? • Customer perceptions? • Real competitive strengths?

Conclusions, implications, actions

- The major product/value issue is 'technical' (our company) versus 'customer-oriented' (the competitors)
- We urgently need to reassess the market in terms of the important customer decision-making units and priorities/needs to different players
- We need to investigate further our real position in the market
- We need to study the growth prospects here (if any)

Figure 21.5 Analysing strategic gaps

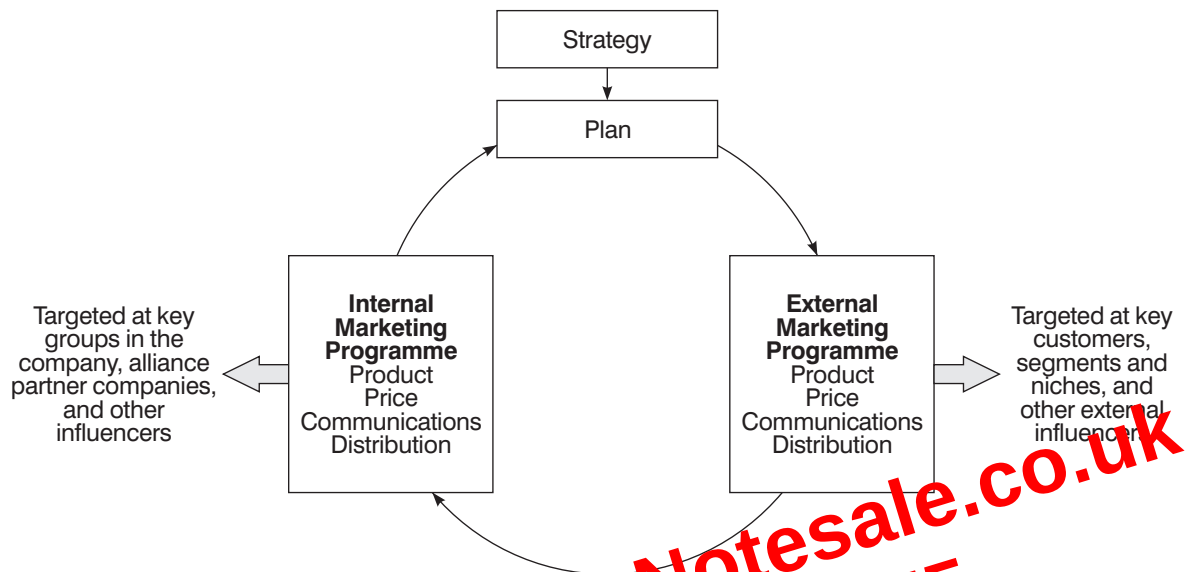


Figure 21.7 Internal and external marketing strategy

should be considered in building external marketing strategies (this is one way of coping with the strategy formulation–implementation dichotomy we considered earlier).

The structure of the internal marketing programme can be put into exactly the same terms as the conventional external marketing programme:

- *The market.* These are the individuals and groups inside the organization who are our internal customers, because without their acceptance and commitment to the external marketing strategy, it will not work.
- *The product.* At its simplest level, the 'product' is the external marketing plan and strategy. However, at a deeper level the product for the internal market is all the changes and innovations that are needed to make the external strategy work, including changes in peoples' attitudes and behaviour.
- *The price.* This is not our costs, but what we are asking our internal customers to give up in order for our external strategy to be effectively implemented. The price may be the opportunity cost of other projects given up, or the costs to people of adjusting to change.
- *The marketing communications.* The most tangible aspect of internal marketing is the communications media and messages used to inform and persuade the internal customers. This may start with written communications and presentations, but may end up as being more about listening to the problems people perceive with the new strategy, and adapting is necessary. Ultimately, communication is a two-way process – we know this in our external marketing, and should not forget it in our internal marketing.
- *Distribution.* This is concerned with all the ways we have to deliver the 'product' and the 'message' to the internal customer. It may start with meetings, workshops, committees, internal communications vehicles and the like, but may end up as far more concerned with the internal processes of the organization. For example, Ulrich (1989) has described the practices of major US organizations like General Electric, Marriott, DEC, the Ford Motor Company, Honeywell and others in

None of these are complete or universal approaches to the implementation issue, but all are capable of generating insights and a better understanding of what is necessary for marketing strategies to be effectively implemented.

This leads finally to the consideration of internal marketing strategy as a framework for building and applying a marketing implementation strategy. The attraction of this framework is that it mirrors and parallels the conventional external marketing strategy, and allows us to use the same terms and analytical methods with the critical internal customers that we are accustomed to use with the conventional external customers. However, we noted that the source of the internal marketing model is in the services field, where internal marketing is largely concerned with improving the performance of operational employees at the point of sale. In this present context, internal marketing is a different and strategic issue, which is concerned with identifying and acting on those things and people which have to change inside the company for the external strategy to be effectively implemented. We examined some cases of internal marketing strategy in companies to make the further point that there are different organizational levels at which internal marketing may operate. While it may be easiest to see internal marketing operating at the formal level – where the product is the plan or strategy, the price is the cost of change, and communication and distribution are about formal communications – it is perhaps even more important to see internal marketing operating at the deeper level of the decision-making processes and cultural attributes of the organization. It is only in this way that we can get beyond the production of simple action plans and directives, and confront the underlying pressures towards maintaining the status quo, organizational inertia and 'defensive routines' to avoid change – i.e. the real implementation issues in our organizations.

There are no simple and easy-to-apply methods to deal with the implementation issue in marketing. It is hoped that the approaches suggested here may be useful at the operational

level. Nonetheless, the implementation issue remains one of the greatest practical and theoretical challenges for the marketing analyst, consultant, teacher and practitioner for the future.

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CHAPTER 22

What are direct marketing and interactive marketing?

GRAEME McCORKELL

Introduction

More than 30 years after Lester Wunderman first called it 'direct marketing', experienced marketing people still argue about what direct marketing is... and even prefer to give it another name, such as 'relationship marketing'.

In this chapter, we attempt to set the record straight and discuss the essential similarities and differences between direct and interactive marketing.

We look at the origins of direct marketing as a method of distribution, its adoption by multichannel users and how its disciplines underpin interactive marketing. We discuss the four basic principles of direct marketing: *targeting, interaction, control* and *continuity*.

Finally, we introduce the direct and interactive marketer's information system, establishing its context within the company-wide information system.

Selling direct to the end customer

From its humble beginnings in the mail order business, computer power helped direct marketing to become a sophisticated method of

distribution, exploiting economies of scale with an ability to track the purchase and payment behaviour of customers on a one-to-one basis. As recently as the 1980s Stan Rapp, the US pioneer, defined direct marketing as a *method of distribution*, although it is now defined more broadly.

Direct marketing is a method of distribution ... in which the transactions are completed between buyer and seller ... without the intervention of a sales person or retail outlet.

Stan Rapp, when CEO of Rapp & Collins

The term 'direct marketing' was first used in 1961. It was the brainchild of another American pioneer, Lester Wunderman. This term caught on because it was more inclusive than 'mail order'. It included a new method of ordering – by telephone – and marketing methods, such as magazine subscription and continuity publishing (book and music series), that did not readily come to mind under the heading of mail order.

Many would agree that direct distribution remains direct marketing's most important function. However, the lessons learned from direct distribution experience have enabled the principles of direct marketing to be applied to every kind of business.

To understand direct marketing, it is crucial to recognize that its beginnings were in mail order, not in direct mail.

Lands' End – the cyber model

A home shopping company for nearly 30 years and the world's most experienced Internet clothing retailer, Lands' End has found another way to make its US website more like a shop. You can have your own personal cyber model try on the garments that interest you to ensure they will fit.

Lands' End will mail you its catalogue even if you buy from their website. Some people prefer to browse in a printed catalogue and shop on-line, others enjoy the interactive website but order by phone. See point 10 under 'Ten ways in which interactive marketing is different'.

A last word about jargon

Viral marketing is the turbocharged Internet version of the direct marketers' referral programme or MAM (member-get-member) scheme. As customers congregate in newsgroups or chat by e-mail, recommendations can spread like a forest fire.

Personalization has a similar meaning in both direct and interactive marketing, but the possibilities are more exciting in a dynamic environment than in print.

Cookies are the small text files stored on your computer to enable the website to recognize it when you call again and record your clickstream. This enables personalization. However, unless you register separately, the website will think that all users of your computer are the same person.

Permission marketing is what direct marketers refer to as an 'opt-in' or positive option programme as opposed to an 'opt-out' or negative option programme.

The interactive success formula

At the Institute of Direct Marketing Symposium 2000, two case history presentations – both

success stories – appeared to point to opposite ways to make money from the web.

Dell showed success following from superior customer service and complete personalization, allowing customers to 'design' their own computers. The Internet and supporting extranets enabled superior customer service, making it unnecessary to compete on a pure price basis.

easyJet used the Internet's low transaction costs to offer a completely standardized product (low cost flights) at a lower than ever cost. Surely Dell and easyJet could not both be right? Yet each was highly successful.

The two companies, both successful direct marketers before trading on the Internet, are past masters of finding out costs that do not add value. Dell has cut stockholdings to nearly zero by releasing sales data through the extranet to suppliers in real time, so that they can produce parts to order. Meanwhile, customers do all the work of specifying the computer and tracking its progress from assembly to delivery.

easyJet, using its own yield management system to maximize income from each flight, has eliminated wastage by promoting and releasing its schedule on-line only. easyJet has spun-off synergistic businesses, such as easyRentacar, at low marketing expense. Even the aircraft, bearing the website address, are travelling direct response ads. Compare and contrast with British Airways' disastrous £60 million adventure in 'masterbrand repositioning'.

Both Dell and easyJet are lean and mean marketers, a direct marketing characteristic.

The direct and interactive marketer's information system

It is essential that the direct and interactive marketing information system includes customer history data. The minimum history

How much?

- the price of each item;
- gross order value;
- less out-of-stocks;
- less returns.

When?

- when last instruction/order received;
- when last instruction/order fulfilled.

Why?

- response/non-response to last promotion;
- identifying code of promotion causing response.

Not every system will contain transactional data because they won't always be available. For example, Lever Brothers would not have full transaction data for every Pampil buyer, but would have promotional responses recorded on their database.

Business-to-business customer marketing data are often more extensive and complex. A company may have a number of identities (branches, departments, divisions) and a good many individual buyers or decision makers. A business customer may also use multichannels to secure supplies of different items. Purchases are increasingly likely to be automated, using EDI, Internet exchanges or an extranet.

Real time data

Websites and contact centres can, with the right software, respond to purchase data in real time. When a customer puts a Manchester United Annual in the shopping basket this may trigger the offer of a David Beckham biography.

Opportunistic marketing of this sort will be used in combination with offers or other special treatment that are driven by previously captured data.

Advantages of the database

A database exploiting transactional information tells the marketer everything about customers' purchases updated with each new response (and non-response).

For example, the transactional database:

- includes all customers, not just a sample or cross-section;
- gives customer value data: Recency, Frequency, Monetary value (RFM) of purchases culminating in the lifetime value (LTV) of each customer;
- tells us about new customers: what they responded to and, perhaps, which creative treatment appealed to them;
- tells us about lost, lapsed and inactive customers;
- tells us about who buys which products and/or responds to which types of incentive or message;
- gives continuous information which is automatically updated with each new transaction;
- reports upon, and analyses, marketing campaigns and tactics;
- facilitates controlled tests of alternatives, e.g. product and price comparisons;
- provides back data (historical data) which help the process of predicting the future behaviour of each and every customer.

Correctly used, a transactional customer database gives a running commentary on the marketer's ability to serve the needs of customers, highlighting opportunities to increase efficiency.

At one time car rental advertising was almost untargeted. But the direct marketer differentiates between customers and non-customers, then between casual customers and regular customers, and finally between regular customers and frequent customers. The example of the American car rental market shows why.

The top 25 per cent of customers are those who rent a car more than once. But within this

Summary data

The transactional database needs historical data. Otherwise there can be no record of a customer's business relationship with the company. Usually, the data used to portray a customer history (or the results of a promotion) are summarized, so that they don't occupy too much space (memory) in the system.

While this is very sensible, because it saves costs, the problem is that essential details are sometimes lost. Generally speaking, the number, value and dates of a customer's transactions will be retained but the merchandise categories and, certainly, the actual products purchased will often be lost for all except the most recent transaction. Furthermore, companies are usually bad at keeping customer service records. A marketing analyst can waste hours or days looking at customer profiles seeking an explanation for why some customers are disloyal. The true explanation may lie elsewhere. Perhaps the disloyal customer's ordered goods that were out of stock or had to return defective items.

Meanwhile, the sharp reduction in data storage and retrieval costs has encouraged firms to keep more raw data for analysis instead of summarizing them and archiving old data. This is a major benefit of data warehousing.

CRM and database marketing

Although enterprise-wide CRM systems may have grown out of database marketing (some would say call centre operations), they have become distanced from the marketing function.

- CRM systems are essentially operational whereas marketing database systems can exploit data that are downloaded from operational systems without disturbing them. Marketing database needs may be supplied by a data mart within a CRM system.
- The CRM system is generally seen as the software that automates the 'front office'. The

front office includes the call or contact centre, the website and any other point of interaction between the company and its customers. Front office functions include service as well as sales.

- The impetus for the adoption of CRM has not necessarily been increased customer knowledge but cost cutting. Cost cutting is achieved by increasing productivity of customer-facing staff and by diverting transactions down completely automated routes.
- The CRM system may work in tandem with an ERP (enterprise resource planning) system that handles the back office functions. The emphasis is on operational efficiency.

CRM and relationship marketing

The very name 'customer relationship management' implies that customers are a resource that can be managed, like the supply chain and sales staff. Although CRM feeds off customer data, it is essentially neutral. It may be customer-focused in a marketing sense or it may be enterprise-focused, being employed to seek ways to save on customer service. It depends who is extracting actionable data and for what purpose. However, the fact that a common information system is being used throughout the organization is clearly advantageous.

The customer as relationship manager

Two features that are apparent in interactive marketing are transparency and customer empowerment. The US software producer, MicroMarketing, has devised software that enables customers to pull information out of data warehouses in order to complete transactions by web or phone. This looks like the way of the future.

CRM should not be confused with *Relationship Marketing*, which is the title of an influential

service being provided. A person buying a ticket for a concert by Madonna may derive no benefit at all from the concert if it is subsequently produced by Britney Spears instead.

Variability

Most manufactured goods can now be produced with high standards of consistency. However, when asked about the consistency of services such as railway journeys, restaurant meals or legal advice, most people would probably have come across cases of great variability in the standard of service that was delivered. For services, variability impacts upon customers not just in terms of outcomes, but also in terms of processes of production. It is the latter point that causes variability to pose a much greater problem for services, compared to goods. Because the customer is usually involved in the production process for a service at the same time as they consume it, it can be difficult to carry out monitoring and control to ensure consistent standards. The opportunity for pre-delivery inspection and rejection which is open to the goods manufacturer is not normally possible with services. The service must normally be produced in the presence of the customer without the possibility of intervening quality control checks.

Variability in production standards is of greatest concern to services organizations, where customers are highly involved in the production process, especially where production methods make it impractical to monitor service production. This is true of many labour intensive personal services provided in a one-to-one situation, such as personal health care. Some services allow greater scope for quality control checks to be undertaken during the production process, allowing an organization to provide a consistently high level of service. This is especially true of machine-based services; for example, telecommunication services can typically operate with very low failure rates (British Telecom claims that in over 99 per cent of all attempts to obtain service, customers are

able to make a connection to their dialled number at the first attempt).

The tendency today is for equipment-based services to be regarded as less variable than those which involve a high degree of personal intervention in the production process. Many services organizations have sought to reduce variability – and hence to build strong brands – by adopting equipment-based production methods. Replacing human telephone operators with computerized voice systems and the automation of many banking services are typical of this trend. Sometimes reduced personnel variability has been achieved by passing on part of the production process to consumers, in the way that self-service petrol filling stations are no longer dependent on the variability of forecourt serving staff.

Variability can also be considered in terms of the extent to which a service can be deliberately customized to meet the specific needs of individual customers. Because services are created as they are consumed, and because consumers are often a part of the production process, the potential for customization of services is generally greater than for manufactured goods. The extent to which a service can be customized is dependent upon production methods employed. Services that are produced for large numbers of customers simultaneously may offer little scope for individual customization. The production methods of a theatre do not allow individual customers' needs to be met in the way that the simpler production methods of a counsellor may be able to.

The extent to which services can be customized is partly a function of management decisions on the level of authority to be delegated to front-line service personnel. While some service operations seek to give more authority to front-line staff, the tendency is for service firms to 'industrialize' their encounter with customers. This implies following clearly specified standardized procedures in each encounter. While industrialization often reduces the flexibility of producers to meet

customers' needs, it also has the effect of reducing variability of processes and outcomes.

The variability of service output can pose problems for brand building in services compared to tangible goods. For the latter it is usually relatively easy to incorporate monitoring and quality control procedures into production processes in order to ensure that a brand stands for a consistency of output. The service sector's attempts to reduce variability concentrate on methods used to select, train, motivate and control personnel. In some cases, service offers have been simplified, jobs have been 'de-skilled' and personnel replaced with machines in order to reduce human variability.

Perishability

Services differ from goods in that they cannot be stored. Producers of most manufactured goods who are unable to sell all of their output in the current period can carry forward stocks to sell in a subsequent period. The only significant costs are storage costs, financing costs and the possibility of loss through wastage or obsolescence. By contrast, the producer of a service which cannot sell all of its output produced in the current period gets no chance to carry it forward for sale in a subsequent period. A bus company which offers seats on a bus leaving Manchester for Bury cannot sell any empty seats once the bus has completed its journey. The service offer disappears and spare seats cannot be stored to meet a surge in demand, which may occur at a later time.

Very few services face a constant pattern of demand through time. Many show considerable variation, which could follow a daily pattern (e.g. city centre sandwich bars at lunch time), weekly (the Friday evening peak in demand for railway travel), seasonal (hotels, stores at Christmas time), cyclical (mortgages) or an unpredictable pattern of demand (emergency building repair services following heavy storms).

The perishability of services results in greater attention having to be paid to the

management of demand by evening out peaks and troughs in demand and in scheduling service production to follow this pattern as far as possible. It is not good enough to ensure that supply and demand are matched overall in the long term. They must match for each minute and for each place that service is offered. Pricing and promotion are two of the tools commonly adopted to resolve demand and supply imbalances.

Inability to own services

The inability to own a service is related to the characteristics of intangibility and perishability. In purchasing goods, buyers generally acquire title to the goods in question and can subsequently do as they wish with them. On the other hand, when a service is performed, no ownership is transferred from the seller to the buyer. The rule is merely buying the right to a service process such as the use of a car park or an accountant's time. A distinction should be drawn between the inability to own the service act and the rights which a buyer may acquire to have a service carried out at some time in the future (a theatre gift voucher, for example).

The inability to own a service has implications for the design of distribution channels, so a wholesaler or retailer cannot take title, as is the case with goods. Instead, direct distribution methods are more common and, where intermediaries are used, they generally act as a co-producer with the service provider.

Classification of services

It was noted earlier that the services sector has come to dominate the economies of most western countries. But this dominance has come about through a diverse range of services, so diverse that many have questioned whether the term services is too general to be of any use to marketers.

Many have pointed out that services and goods are very closely intertwined. Theodore

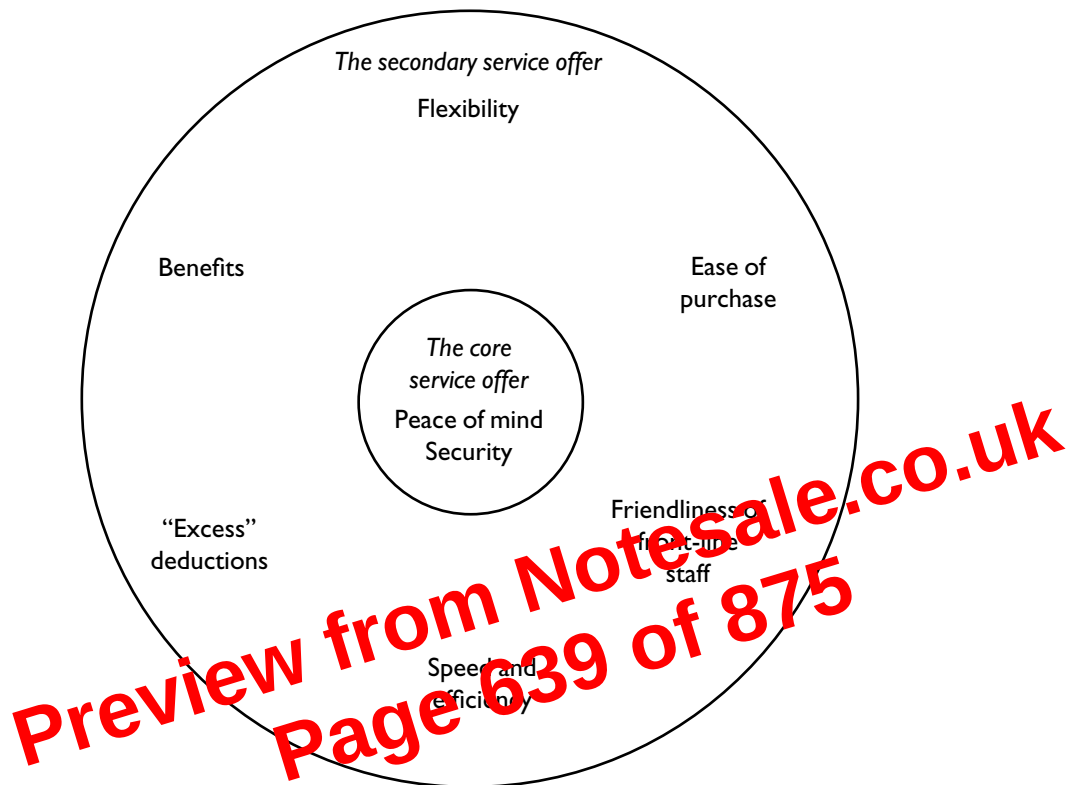


Figure 23.4 An analysis of the product offer of an insurance policy, comprising core and secondary levels of service offer

Services tend to be relatively easy to copy and cannot generally benefit from patent protection, as is often the case with goods. New product development often occurs in an incremental fashion, with many variants of a basic service. The proliferation of mortgage products by a building society, all with slightly differing terms and conditions, but basically similar in their function, is an example of this.

Pricing

Within the services sector, the term price often passes under a number of names, sometimes reflecting the nature of the relationship between customer and provider in which exchanges take place. Professional services

companies therefore talk about fees, while other organizations use terms such as fares, tolls, rates, charges and subscriptions. The art of successful pricing is to establish a price level which is sufficiently low that an exchange represents good value to buyers, yet is high enough to allow a service provider to achieve its financial objectives.

In principle, setting prices for services is fundamentally similar to the processes involved in respect of goods. At a strategic level, a price position needs to be established and implemented with respect to the strength of customer demand, the costs of production and the prices that competitors are charging. A number of points of difference with respect to services pricing are noted here: the effects of inseparability; the effects on pricing of cost

whom to offload production also means that the company does not have to resort to discounting for established customers, thereby protecting its price structure and avoiding the setting of precedents for future price negotiations.

- 4 Geographical diversification arises where companies find it preferable to remain with the product line which they know and are successful with rather than diversifying into new product lines or product technologies. This is a strategy of finding new markets for existing products.
- 5 Market potential as assessed by the population and their purchasing power. There are few untapped markets left. Cuba is certainly one, but various economic and political US sanctions are in place to discourage foreign companies considering moving there, although some countries are now doing so, most notably Canada. China is the most populous of the developing countries, but it is not untapped. Our competition is aware of what China has to offer. The capacity to consume or to absorb the product has to be matched with the capacity to pay for it. High levels of indebtedness in the Third World have created financial innovations in the variants of countertrade now available, much to the displeasure of the World Bank and IMF (Paun and Shoham, 1996).
- 6 Market 'spoiling'. The purpose here is less actively to pursue a market than to register a presence with a competitor, particularly where this also concerns market entry into a rival's domestic market. Timing is on the side of the existing market player who draws revenue from sales while his competitors plan their response. In world markets, it is the case that multinationals scan market segments for the presence of their multinational rivals. Narrowly defined segments in which there is little competition add to their total corporate power structure. A small but significant base in one part of the world may enable a multinational to access other markets in the same region and, at the same time, discourage

competitors. Market entry can also be viewed as an offensive strategy, showing that by entering a rival's home market the company is capable of taking occasionally retaliatory action. Entry can then be seen as a warning against a multinational rival of its presence in the rival's home market, and its ability therefore to undercut the rival's home base and therefore the market for its main product.

Marketing arguments: the California-ization of consumers

The world is changing. Developed markets have affluent, knowledgeable consumers who share similar tastes and needs; hence, this growing phenomenon of an international marketplace for goods and services, which knows no frontiers. The term was first coined by Kenich Ohmae, and refers to the increasing product standardization found across markets and the consequent supposed homogenization of consumers. Ohmae drew two important conclusions from this phenomenon:

- 1 That this therefore reaches beyond taste to worldview, mindset and thought processes in a mental programming as first described by Hofstede.
- 2 Teenagers around the world have in common that they have been subjected to a multimedia-rich instant response electronic environment.

Risk can be classified

International marketing differs from domestic marketing in that when the company is dealing with its own domestic market, key variables can be taken as known, such as:

- Political risk.
- Economic/financial risk.
- Commercial risk.
- Taxes and legislation relating to company incorporation.

To a marketer in his or her own country, these are background factors which influence the business climate, but in the international context become unknown factors which could assume important proportions, particularly when combined with historical, cultural and linguistic differences.

Political risk

To illustrate this, the Middle East may perhaps be popularly perceived as an area of political uncertainty, yet many British companies can claim punctual payment for supplies and that expropriation has not taken place in recent years. Instead, the various oil states who were previously only oil producers have engaged in forward vertical integration to control refining, shipping and, to some degree, retail distribution within Europe. On the other hand, a quite different form of political risk emerged in a calm politically stable France, when a socialist government under Mitterrand started to create widespread uncertainty when it embarked on a nationalization policy. The greatest risks may not arise from within the most unstable economies.

International trade sanctions and embargoes may be found in place against specific countries. Important also to consider are the Voluntary Export Restraints (VERs) whereby exporting nations, most notably Japan, agree to curb exports to importing nations beyond a certain amount on pain of unspecified sanctions. Another quite different form of government intervention is through a countervailing duty. By introducing a countervailing duty, a government increases the selling price of the cheapest imported good to the level of the cheapest domestic competitor by means of a specific tax. In this way, governments may discriminate against cheap imports and effectively price them out of the market by instantly removing their price competitiveness.

The World Trade Organization (WTO) has now taken over the role of arbiter of free trade from GATT, the General Agreement on Tariffs and Trade, that was created to facilitate free

trade in the aftermath of the Second World War. GATT had been created in different times when sovereign nations existed. Today, the move is towards the formation of economic trading blocs and so a new organization had to be created. China is the one major trading country that is not yet a member, but China will have to meet some rather stringent demands relating to freeing controls on its foreign trade before being able to join this organization.

Economic/financial risk

Similarly, there are economic risks where there are difficulties in repatriating capital due to host government exchange controls, high taxation or a rapidly devaluing currency. However, this may be surmounted by resorting to devices such as management fees, royalties and repayments on loans and/or interest, leasing, or intra-company transfers, known also as 'transfer pricing'. As it is entirely the responsibility of the individual company to price final goods, intermediate goods, such as assemblies and components, that are transferred within the company also provide an opportunity to move money out of one country into another where levels of taxation may also be lower.

Transfer pricing then may become a political issue when foreign subsidiaries are seen to be exporting but are recording losses. The price at which goods are to be transferred remains at all times a company issue over which the national customs services have no control.

Given a situation where multinational corporations control more than two-thirds of world trade, transfer pricing is viewed by politicians as an ever-constant threat to the nation state. To counter this, many large companies such as Exxon take the trouble to produce a code of ethics in which they publish the basis on which they transfer goods between company subsidiaries. Most commonly, this is found to be 'arms length' pricing, which means setting a market price as though to an outsider. However, the basis of this pricing has never been fully defined to the satisfaction of all.

Other possibilities include 'cost plus' pricing, which means including a proportion such as 10 per cent for overheads, including administration. Transfer pricing could therefore provide a means for a company to close down a plant abroad by showing how unprofitable it was by simply sending imports with a high transfer price. Alternatively, a plant in a low labour cost country with a very favourable tax regime could be seen as even more profitable if benefiting from low transfer prices from the parent company organization. Taxation and politics are important factors in this highly sensitive area of operations.

Commercial risk

The critical factor here is the uncertainty as to whether the company's goods will prove ultimately acceptable to the foreign consumer. However, even small companies are aware today of prevailing international industrial standards for technical equipment as there are few national markets left. In the pursuit of critical mass and the need for economies of scale in production, domestic markets are rarely large enough to satisfy customers. Consequently, producers have sought every opportunity to standardize their products and make them available to an ever-larger number of markets. The BSI scheme Technical Help for Exporters was created to provide British manufacturers with information on national product standards worldwide. However, even if manufactured to acceptable national standards, there is still the risk that the goods may yet be found to be unacceptable to consumers in the target market, perhaps because of price, design, lack of state-of-the-art technology, inappropriate brand name or inability to provide the package of benefits, including service which customers, particularly in Western developed markets, have come to expect.

The risks of transportation, transshipment, pilferage, damage and loss are risks against which the supplier may obtain insurance, but increasingly this is only available at a high price

and against demands that the exporter gives the insurance company all its export business and not just the risky part of the export portfolio or, alternatively, accept perhaps only 30 per cent cover. Insurers are providing less of a service nowadays and are dictating terms, pointing to the bad debt provisions of the major clearing banks and state export insurance agencies. To some degree, improved export packing and product packaging have reduced some of this risk, but certain regions of the world are more risky in this sense than others.

There is an important aspect often overlooked as to the ability of the buyer to pay for the goods ordered. Frequently, the creditworthiness of the nation is confused with the creditworthiness of an individual buyer. This is reflected in insurance practice, where there is often found to be a mistaken assumption that it is less important to have insurance cover for an importer in North America as opposed to South America. This confuses the solvency of the nation with the solvency of an industrial buyer, to say nothing about actual intent to pay. Financial status reports on a buyer should always be obtained whenever there is a shadow of doubt. Insurance is available to an exporter, but the cost increases with the exposure to risk and so the exporter should decide whether to proceed knowing fully the risk and whether he or the buyer is to accept the costs of insurance cover.

Agents are the most common form of going international, but here there may be a conflict of interest where an agent is sharing his time over a portfolio of products for which he receives differential rates of commission. Each supplier is just one of many and there may well be loss of central focus for the brand or product in question. There is an important experiential factor at play here. In a study of marketing know-how transfer, Simonin (1999) found that the effects of cultural distance, asset specificity and prior experience were moderated respectively by the firm's level of collaborative experience, the duration of the alliance and the firm's size.

decision makers will adopt a strategy of inferential, assumption-based reasoning.

The need to identify good potential markets

- Companies want sure-fire winners not theories!
- Measures used for analysis? Usually, per capita GNP or PPP (Purchasing Power Parity)? Just two measures of personal disposable income, both flawed. See a current issue of *The Economist* for a discussion on PPP and international comparisons on this measure, or Paliwoda and Thomas (1998) for a discussion of both GNP and PPP (further explanation of per capita GNP is found below).
- The number of psychologically close countries is increasing for West European markets, with a large number of pending EU membership applications!
- The Internet has changed forever the way in which we access information, which has now become a global commodity.

As an activity, international market research attracts only a small percentage of a company's total market research budget. Many companies do not spend money on foreign market research or entrust an on-the-spot appraisal to one of the most junior members of the firm, often entering into a particular target market for the first time and without any proper briefing or linguistic skills. What results is a 'go/no go' decision based on a poor understanding of the specific market characteristics. This activity should be approached as part of the company's ongoing strategic planning and development. A decision to enter a market should only be taken with proper understanding and appreciation of what is currently happening in the target market, and what is likely to happen.

Market research is possible but less reliable in those markets where market research data are scarce or the data available are not directly comparable due to the different statis-

tical bases being used. Source credibility and comparability of results are the major headaches experienced. Another increasingly important factor is that we approach foreign markets with a self-reference criterion, meaning that we seek to understand foreign markets by comparing them with our own market. While that may be helpful, it is also important to underline that models created for Western markets may not be as effective outside Western markets. Consumer behaviour intention models may not be as effective in the Pacific Basin as they are in North America (Malhotra and McCort, 2001).

To research country markets effectively, governmental sources should be used where they exist. Where these are deficient, there are a number of agencies, including the US Central Intelligence Agency and many specialist companies such as Business International SA and others, which offer best estimates as to probable production and consumption figures. A company that thinks it knows its market should then assess its state of preparation against the Industrial Marketer's Checklist provided free by the Department of Trade and Industry. Identification of national personal disposable income levels may well be meaningless, and one should seek to identify important affluent target segments within a national market with data on lifestyles, educational background, location and spending patterns, all of which are useful indicators for any company seriously considering market entry.

What is important to remember is that GNP per capita as a measure of national wealth is an arithmetic mean, which gives a value for national wealth when calculated on a per capita basis. It does not equate with disposable income actually available to citizens to spend, nor their willingness to spend it. This statistic is fairly meaningless, as it offers no guidance as to the dispersion of wealth across the population or the possible identification of important affluent segments across a nation. Segmentation remains the key

- 10 *Precedents* – learned from market scanning. Through environmental scanning at home and abroad, it is possible to discover strategies that may be borrowed from other companies in other industries or in other countries and applied to your own situation.

Effects of culture

Culture is a composite of many interrelated components – as we shall see shortly – although it is generally accepted that language is the embodiment of a culture. Certain of these other components have been investigated by Manrai *et al.* (2001), who studied style (meaning fashion consciousness and dress conformity) across three East European emerging markets, and these findings indicate chiefly demographic age, income and gender differences. However, let us focus for the moment on language. Language is important to conduct business successfully and there is a net advantage to the English-speaking countries. Overall, English (with 427 million speakers) is second to Mandarin Chinese (726 million speakers) in terms of the number of people who speak the language. However, in many countries, English is a second language and the first or second language for business. Foreign investors such as the Japanese and South Koreans have established themselves in Britain because they feel comfortable with the language. A further advantage is that foreign students wishing to learn English bring £500 million each year into the British economy. In countries and within multinational corporations, the business language is often just English, and not just internally; English language will be prominent on all products and communications as well. This has an important value that must not be overlooked. Taking this further, the possible expansion of the European Union, whether or not it reaches 27 or 28 member states or even more, augurs well for the increased usage of the English language. Telecommunications have developed in English-speaking countries. This was the case with

the telegraph, radio, telephone and now Internet. Countries such as France – and the province of Quebec in Canada – have actively resisted this English invasion and sought to place curbs on the use of certain words so as to outlaw ‘franglais’, but now even in Russia, the same cry is being heard of the widespread use of the English language on billboards and in general advertising. There will always be resistance to what is seen as foreign encroachment upon the national identity, but an inability to speak English today means an inability to be heard. English will continue to be prominent as it is being learned by the wealthy and well educated in all parts of the world. The question also must arise as to whether, with different levels of fluency and regional variations, not just in dialect but word usage and meaning, people actually mean what they say?

International marketing and the interface with local culture

To understand culture, we have to realize that it is behavioural attitudes, which we as members of a society learn and pass on to others. Whereas exporting is about sending products and services blindly into foreign markets for others to distribute, promote and sell to final customers, the intelligent international marketer recognizes the importance of maintaining control over branded products at the point of sale. Culture for the international marketer is seen to operate at three levels:

- 1 *Habits and conventions.* Where we may be able to most effectively change behaviour by influencing potential users, possibly by demonstration of a better, more modern, more intelligent way of doing a certain frequently repeated daily task or chore. With habits which rely on automatic responses, if we are able to demonstrate a better way of doing something and that product concept does not ask us to challenge our own value system, then we can usually rely on that idea being successfully adopted. For example,

The introduction of the Euro in 2002 will be the first time that direct comparisons can be made for the same branded product across markets and in exactly the same currency.

Product

Market research answers the question as to what sort of product or brand is required in terms of:

- 1 The acceptability of the company's product or service offering at the price which it expects to command (Zou *et al.*, 1997; Palmer, 1997; Ozsomer and Prussia, 2000).
- 2 Acceptability of country of origin (Clarke *et al.*, 2000).
- 3 Branding and the degree of local protection.
- 4 Patent and trademark issues, and again the degree of protection for those intellectual and industrial property rights.
- 5 Conflicting pressures to standardize or modify for local markets.
- 6 Packaging for various export markets.
- 7 Certification of origin, which allows imports right of access.

There may well be some compelling reasons for product modification in view of lower disposable incomes, poor infrastructure, traditional shopping habits etc. Frozen foods will only sell if consumers have freezers and will only sell in bulk if consumers have large chest freezers and the means of transportation to carry these goods home. Entering a market first may well bring 'first mover' advantage, but the cost may well include investing in the infrastructure so as to make your product concept workable. 'Late mover' advantage also needs to be considered. The advantages of first mover or late mover are contextually and industry specific.

International product policy management comprises many key strategic decisions, as discussed in Harrell and Kiefer (1995), so as to arrive at a successful market portfolio. The strategic alternatives facing the multinational have been delineated by Keegan (1969, 1995) and

developed by Saxena (1995), but more recent considerations have arisen out of the ISO standards, which are becoming increasingly important in setting internationally agreed threshold standards where company and brand names are not well established. Quality is important and should be seen as setting minimal acceptable standards for all products and services, not the commonly considered luxury products (Nakhai and Neves, 1995; Orsini, 1994).

Place of sale (or channels of distribution to be employed)

If proof were required that the concept of the 4Ps described only passive markets, then this is a good example. More is required than simply to make a product or service available and much is required of the producer by intermediaries within the channel to measure commercial success. Katsikeas *et al.* (2000) found that an overseas distributor's use of reward is positively related to its informational, referent, legitimate and expert power sources, and that there was a negative relationship between an importer's use of coercion and its informational base of power over the exporter. Christopher, who is also to be found in this book, writes not of distribution but of customer service and logistics strategy. Cooper (1995) discusses logistics strategies for multinational corporations. Elsewhere, some of the issues arising may be seen to include:

- 1 Length of distribution channel may be less a function of economic activity than of history, e.g. the Japanese have the longest distribution channels in the world, from producer to consumer. Long channels mean added costs and loss of control over product and intermediary. Learn how to work with local distributors, selection is important, then support for those you have appointed (Merrilees and Tiessen, 1999; Arnold, 2000).
- 2 Black markets are illegal but exist because of consumer demand for products, which are forbidden or else rationed, or simply in short

& Trade Practices, gopher: UMSLVMA.UM-SL.EDU:70/00/library/gophers/CRPT0023
 US Trademark Library: www.micropat.com
 US WEST features 50 000 suppliers from USA, Mexico, Canada: <http://export.uswest.com>
 US WEST Export Yellow Pages: <http://yp.uswest.com>
 USA – Economic Bulletin Board, gopher: /una.hh.lib.umich.edu/11/ebb
 US National Trade Databank: www.stat-usa.gov/BEN/Services/nidbhome.html
 UT-LANIC – University of Texas Latin American Network Information Center: <http://lanic.utexas.edu/la/region.html>
 UT-MENIC – University of Texas Middle East Studies: <http://menic.utexas.edu/mes.html>
 Virtual Reference Desk: <http://thorplus.lib.purdue.edu/reference/index.html>
 Wall Street Journal Interactive Edition: www.update.wsj.com/
 Wall Street Net: www.netresource.com/wsn/
 Web Page for Global Business: www.seattleu.edu/~jankov/homepage.html
 Websites for International Information: <http://www.ustr.gov/>
<http://www.i-trade.com/>
<http://www.stat-usa.gov/BEN/subject/trade.html>

<http://www.itaiep.doc.gov/>
 Western European geography software: <http://ourworld.compuserve.com/homepages/torpedo>
 White House – welcome to the White House: www.whitehouse.gov
 World Bank: www.worldbank.gov/
 World Health Organization, gopher: gopher.gsfc.nasa.gov
 World History Chart: www.hyperhistory.com
 World Population Clock: www.census.gov/cgi-bin/ipc/popclockw
 WorldWide Web Virtual Library: <http://W3.org>
 World Trade Analyzer – Trade Compass: www.tradecompass.com/trade_analyzer
 WTCA On-Line – World Trade Centers Association On-Line: www.wtca.org/etindex.htm
 WTO (World Trade Organization) – Agreement Establishing the WTO: www.soton.ac.uk/~ukop/data/fullrecs/1660.htm
 WTO: www.unicc.org/wto/Welcome.html
 WWW Yellow Pages: www.cba.uh.edu/ylowpages/ylowpages.html
 A list of further websites is available at: <http://business.bham.ac.uk/business/page868.htm>

patterns (seeing what's selling and what's not, recorded in the web log, which reveals insights into interests determined by pages visited). On-line surveys ask how to improve the site or products. Finally, there is a proliferation of on-line secondary sources of research, many of which provide free in-depth insights into customer needs.

- **Anticipate** customer needs by asking customers questions and engaging them in a dynamic dialogue built on the trust of opt-in e-mail. Collaborative filtering, as used by Amazon, helps to identify and anticipate what customers might like given that buyers of similar books have similar interests. Profiling techniques allow many companies to perform data mining to discover and anticipate buyer's needs. Cookie-based profiling allows companies to analyse a visitor's interests without even knowing your name – courtesy of a piece of code sent to the visitor's PC. It recognizes your PC and records which types of sites (interests) you have and can serve adverts and offers based on predicted interests.
- **Satisfy** needs with prompt responses, punctual deliveries, order status updates, helpful reminders, after-sales services and added value services, combined with the dynamic dialogue. The dialogue maintains permission to continue communicating and then adds value by delivering useful content in the right context (right time and right amount).
- **Efficiently** means in an automated way (or partially automated) ... an efficient, yet hopefully not impersonal, way (i.e. it allows tailor-made technology to improve service quality and increase the marketer's memory to help maintain the customer relationship through time).

It is apparent from these applications that e-marketing extends beyond the website to include all use of digital technology to manage the customer relationship. Databases are increasingly used to manage and record all interactions with customers, whether sales transactions, inbound enquiries via phone or

e-mail and outbound communications such as a mail shot or e-mail shot.

An alternative perspective on e-marketing is provided by the term 'Internet marketing', which has been described simply as '*the application of the Internet and related digital technologies to achieve marketing objectives*' (Chaffey et al., 2003). In practice, Internet-based marketing is a subset of e-marketing that will include the use of a company website in conjunction with promotional techniques such as banner advertising, direct e-mail and links or services from other websites to acquire new customers and provide services to existing customers that help develop the customer relationship.

Participants in e-marketing

The options for digital communications between a business and its customers are summarized in Figure 25.1. The bulk of Internet business both now and in the foreseeable future comes from industrial and commercial markets known as business-to-business (B2B), and not consumer markets known as business-to-consumer (B2C) markets. Most estimates suggest that B2B companies will reap 10 times more revenue than their B2C counterparts. In 2000, Gartner estimated that worldwide B2B transactions will rise from \$145 billion in 1999 to \$7.3 trillion in the year 2004. These increases are driven by the desire of large organizations to reduce costs and increase supply chain efficiency. For example, in the late 1990s, General Electric made the decision to procure \$1 billion worth of purchases on-line in year 1, followed by \$3 billion in year 2, followed by total procurement on-line. More recently, Cisco Systems announced that they will no longer do business with suppliers who can't take orders via the web. Ford and General Motors have combined forces through the *B2B marketplace* Covisint (www.covisint.net) and moved their \$300 and \$500 billion dollar supply chains on-line. Already large-scale trading is occurring. It was reported in May 2001 that the largest auction

now part of Yahoo! (www.yahoo.com) services.

- 7 *Third-party marketplaces.* Marketplaces are described in the 'Focus on' section of Chapter 9.
- 8 *Value-chain integrators.* Offer a range of services across the value chain.
- 9 *Value-chain service providers.* Specialize in providing functions for a specific part of the value chain, such as the logistics company UPS (www.ups.com).
- 10 *Information brokerage.* Providing information for consumers and businesses, often to assist in making the buying decision or for business operations or leisure.
- 11 *Trust and other services.* Examples of trust services include Which Web Trader (www.which.net/webtrader) or Truste (www.truste.org), which authenticate the quality of service provided by companies trading on the web.

Evaluating new models is important, since if companies do not innovate then competitors and new entrants will and companies will find it difficult to regain the initiative. Equally, if inappropriate business or distribution models are chosen, then companies may make substantial losses.

One example of how companies can review and revise their business model is provided by Dell Computers. Dell gained early mover advantage in the mid-1990s when it became one of the first companies to offer PCs for sale on-line. Its sales of PCs and peripherals grew from the mid-1990s with on-line sales of \$1 million per day to 2000 sales of \$50 million per day. Based on this success, it has looked at new business models it can use in combination with its powerful brand to provide new services to its existing customer base and also to generate revenue through new customers. In September 2000, Dell announced plans to become a supplier of IT consulting services through linking with enterprise resource planning specialists such as software suppliers, systems integrators and business consulting

firms. This venture will enable the facility of Dell's Premier Pages to be integrated into the procurement component of ERP systems such as SAP and Baan, thus avoiding the need for rekeying and reducing costs.

In a separate initiative, Dell launched a B2B marketplace aimed at discounted office goods and services procurements, including PCs, peripherals, software, stationery and travel (www.dellmarketplace.com).

Chaffey (2002) describes three different perspectives for considering business and revenue models, shown in Figure 25.7. Yahoo! (marked with Y in the figure) has been one of the more successful Internet pure plays, since it has developed a range of revenue sources through growth and acquisition.

- 1 *Marketplace position perspective.* Here Yahoo! is both a retailer and a marketplace intermediary.
- 2 *Revenue model perspective.* Yahoo! has commission-based sales through Yahoo! shopping and also has advertising as a revenue model.

1 Marketplace position	2 Revenue model	3 Commercial model
B Manufacturer or primary service provider	B Direct product sales of product or service	Y Fixed-price sale A B
Y Reseller/retailer (intermediary) A	B Subscription or rental of service	Y Brokered or negotiated deal
Y Marketplace/exchange (intermediary)	Y Commission-based sales (affiliate, auction, marketplace) A	Y Auction or spot
Supply chain provider or integrator	Y Advertising (banner ads, sponsorship)	
Not for profit organization		

Key:
Y Yahoo!
A Amazon
B Book publisher

Figure 25.7 Alternative perspectives on business and revenue models.

Source: Chaffey (2002).

- 3 *Commercial arrangement perspective.* Yahoo! is involved in all three types of commercial arrangement shown.

Michael Porter (2001) urges caution against overemphasis on new business or revenue models, and attacks those who have suggested that the Internet invalidates his well-known strategy models. He says:

Many have assumed that the Internet changes everything, rendering all the old rules about companies and competition obsolete. That may be a natural reaction, but it is a dangerous one . . . decisions that have eroded the attractiveness of their industries and undermined their own competitive advantages.

He gives the example of some industries using the Internet to change the basis of competition away from quality, features and service and towards price, making it harder for anyone in their industries to turn a profit. In reviewing industry structure, he reinterprets the well-known five forces model, concluding that many of the effects of the Internet, such as commoditization, are damaging to industry. He also reiterates the importance of six fundamental principles of strategic positioning:

- 1 The right goal: superior long-term return on investment.
- 2 A value proposition distinct from those of the competition.
- 3 A distinctive value chain to achieve competitive advantage.
- 4 Trade-offs in products or services may be required to achieve distinction.
- 5 Strategy defines how all elements of what a company does fit together.
- 6 Strategy involves continuity of direction.

Decision 4. Marketplace restructuring

A related issue to reviewing new business and revenue models is to consider the options created through disintermediation and reintermediation within a marketplace, as discussed

in the section on situation analysis. Options can be summarized as:

- Disintermediation (sell direct).
- Create new on-line intermediary (countermediation).
- Partner with new on-line or existing intermediaries.
- Do-nothing!

Prioritizing strategic partnerships as part of the move from a value chain to a value network should also occur as part of this decision.

Decision 5. Market and product development strategies

A further e-marketing strategy decision is whether to use new technologies to expand the scope of the business into new markets and products. As for decision 1 the decision is a balance between fear of the do-nothing option and fear of poor return on investment for strategies that fail. The model of Ansoff (1957) is still useful as a means for marketing managers to discuss market and product development using electronic technologies. Options to be considered in an e-marketing context are:

- 1 *Market penetration.* Digital channels can be used to sell more existing products into existing markets. On-line channels can help consolidate or increase market share by providing additional promotion and customer service facilities amongst customers in an existing market. The Internet can also be used for customer retention management. This is a relatively conservative use of the Internet.
- 2 *Market development.* Here on-line channels are used to sell into new markets, taking advantage of the low cost of advertising internationally without the necessity for a supporting sales infrastructure in the customers' country. This is a relatively

- Media coverage.
- Effect on reputation, image and/or awareness.
- Effect on usage and/or attitude/favourability.
- Customer satisfaction.
- Employee satisfaction.
- Other stakeholder satisfaction.
- Impact on society.

Without measuring these aspects of the cause-related marketing partnership, some of the intrinsic elements of the programme can be overlooked.

What is beyond doubt is that cause-related marketing is becoming too much a part of the marketing armoury to be left to its own devices. It will not be enough to be seen broadly as a 'good thing', and there will be increasing pressure to measure this effectiveness well.

Case studies

Case studies have been provided to illustrate the motivation, mechanics and results of some award-winning examples, each of which have won or been a finalist in the Business in the Community Awards for Excellence in Cause Related Marketing (for further information, please see www.bitc.org.uk).

Tesco Computers for Schools

This cause-related marketing programme is probably the most successful in the UK from both the business and the cause point of view.

Essentially, it was developed as a one-off 10-week loyalty-based sales promotion programme, based on a mechanic seen in the USA. This was refined and developed by the Tesco team and became what is today known as Tesco Computers for Schools. So successful was it when it first launched that it became a core part of Tesco's marketing strategy and has been in the marketplace since about 1991, when Tesco was a very different business than it is today.

Following research, schools were identified as a key cause of concern for parents and

communities and, within that broad category, it was evident that IT equipment was a much needed resource. The mechanic is straightforward, has been refined over the years but has remained essentially the same and has been the inspiration for many other schools-based programmes.

During the spring term, for an eight to ten week period, consumers are encouraged to shop at Tesco and to spend £10. For every £10 spent, customers receive a voucher. Customers donate these vouchers to their chosen school. Schools have to register with Tesco and collect the vouchers, which can then be redeemed against IT and related equipment chosen from an extensive catalogue.

The critical factor throughout the programme is choice. Consumers and schools choose whether or not to participate. Should they decide to participate, then the consumer chooses the school they want to support, and the school chooses the equipment to suit children of all ages and for schools with varying budgets. Special needs equipment is also included.

The objective for the programme from the business point of view has been to build customer loyalty, drive traffic into stores, increase spend and reinforce Tesco's proposition of 'Every Little Helps'.

From the cause point of view, Tesco has been committed to making a real impact on IT literacy in schools. Since 1991, when the programme first began, Tesco has provided £70 million worth of IT-related equipment to schools.

The programme has been thoroughly supported since it began, with TV, press and radio advertising, as well as significant communications in-store and on-pack. Over the years, Tesco suppliers have participated too, by offering special promotional packs, and Tesco has extended the offer to include petrol.

Importantly, this Tesco Computers for Schools programme is very clearly a national strategy, but it is delivered locally. Local stores are the 'face' of Tesco in the community and

internal communications. Most importantly it has directly benefited our community and our customers, the women in Northern Ireland who buy our tea.

Brian Davis, Managing Director,
Nambarrie Tea Company Ltd.

A more detailed case study is provided in Adkins (1999a, Chapter 16).

Walkers and News International 'Free Books for Schools'

Now in its fourth year, this cause-related marketing partnership, launched in 1998, created a national collecting frenzy amongst consumers, through a promotion that reached 80 per cent of the population. Free Books for Schools tokens were distributed free to consumers via Walkers crisps packets, and in *The Sun*, *The News of the World*, *The Times* and *The Sunday Times*. Consumers were encouraged to collect these tokens and donate them to schools. Schools in turn redeemed the tokens for books, from a catalogue supplied by Walkers and News International, that was compiled with advice from the DfEE (Department for Education and Employment, now called the Department for Education and Skills).

Walkers' market share of the snacks category grew over the promotional period, and *The Sun* saw an increase in sales in an overall declining market, as a result of this partnership. Whilst achieving these business benefits, the partnership is making a tangible positive impact on society. These companies are using the power of their brands to address the very real problem of low literacy levels in schools across the UK, where one in four children aged 11 fail to reach their appropriate level in reading.

Six million free books, worth £30 million, were distributed to schools through Walkers and News International's 'Free Books for Schools' cause-related marketing partnership, with 85 per cent of UK schools taking part. Each school on average received over 174 free books.

As well as providing all the books, 'Free Books for Schools' actively supported the Government's national literacy strategy, providing large-scale leverage to the Government-run National Year of Reading. A brilliant cause-related marketing 'win-win-win' (for more details, please refer to Adkins, 1999a, Chapter 16).

Literacy is fundamental to News International's business. 'Free Books for Schools' is one way that we have been able to support the Government's literacy targets, tangibly, whilst adding value to our business and giving something back to our readers.

Andy Agar, Promotions Director,
News Group Newspapers

We wanted to make a real contribution to the Government's literacy initiative by supporting the National Year of Reading and joining together two everyday brands, Walkers crisps and *The Sun*, to support the cause. Free Books for Schools has proved to be a phenomenal success for News International, Walkers and society.

Martin Glenn, President,
Walkers Snacks Ltd

Avon Crusade Against Breast Cancer

Avon is a company which reaches around a billion women through 3 million independent sales representatives in 136 countries, and is committed to its mission 'to be the company that best understands and satisfies the product, service and self-fulfilment needs of women globally'. The Crusade Against Breast Cancer is a wonderful demonstration of this commitment. It enables Avon to meet business marketing and communications objectives at the same time as supporting a cause of real concern to their target market.

Breast cancer is the biggest single health concern for women in the UK as one in 11 women will get breast cancer at some point in their life. The Avon Crusade has raised over £8

with social marketing often being equated with social advertising. Correcting these misapprehensions is a key challenge for the 1990s, and the instigation of two annual conferences, one targeting academics and the other practitioners, and the founding of a peer reviewed journal – *Social Marketing Quarterly* – will help meet it.

Defining social marketing

Kotler and Zaltman's (1971) early definition of social marketing emphasized the marketing mix and the marketing planning process. The authors observed the tendency for 'campaigners' to focus solely on the role of advertising and the mass media. They argued that the role of the mass media had been overestimated, and that more attention should be given to developing the social product, price and distribution, as well as to the role of market research. The authors' emphasis on the 'design, implementation and control of programs' (p. 7) illustrated their belief that social marketing should take the form of long-term programmes rather than short-term campaigns, and that strategic planning was required to manage this.

As social marketing developed, this early conceptualization was criticized for its imprecision (Andreasen, 1994). In particular, Rangun and Karim (1991) noted the potential for the operationalization of this definition to confuse social marketing with societal marketing and socially responsible marketing. *Societal marketing* is concerned with the ethical or societal implications of commercial activity. So, the 'societal marketing concept' encourages firms to 'market goods and services that will satisfy consumers under circumstances that are fair to consumers and that enable them to make intelligent purchase decisions, and counsels firms to avoid marketing practices which have dubious consequences for society' (Schwartz, 1971, p. 32). In short, societal marketing is concerned with ensuring that commercial marketers go about their business properly, without

prejudicing either their customers or society as a whole.

Socially responsible marketing harnesses desirable social causes, such as the environment and consumerism, to advance the interests of a commercial organization (Kotler *et al.*, 1996). Public concern about the environment or the social implications of commercial activity can lead to bad publicity for the organization. Some organizations have chosen to act proactively and position themselves as socially responsible or ethical organizations – the Body Shop or ice-cream producers Ben & Jerry's are typical examples. However, this does not constitute social marketing because, as with other for-profit organizations, the success of the Body Shop or Ben & Jerry's is measured by shareholder value and profitability and not, for example, by improvements to the environment. Similarly, commercial organizations which market ethically sound products such as condoms, are not engaged in social marketing because their success is measured in terms of commercial goals rather than reductions in the prevalence of sexually transmitted diseases.

To confuse things further, however, it is possible for commercial marketers to do social marketing. Procter & Gamble, for example, have contributed to a major social marketing drugs prevention initiative in the north-east of England (Home Office, 1998). Nonetheless, such activities will always remain marginal compared with the company's main concern of commercial success. Engaging in it does not make them social marketers any more than corporate donations to good causes would make them a charity.

Social marketing should also be differentiated from *non-profit marketing* (Fox and Kotler, 1980), of which it is sometimes considered a subset (Blois, 1994). Non-profit marketers are concerned with the marketing management of institutions or organizations in the non-profit arena: hospitals, cancer charities or educational institutions. As with socially responsible marketing, the difference lies in the

marketing does not occur unless there are two or more parties, each with something to exchange, and both able to carry out communications and distribution.

(p 4)

Exchange is defined as an exchange of resources or values between two or more parties with the expectation of some benefits. The motivation to become involved in an exchange is to satisfy needs (Houston and Gassenheimer, 1987). Exchange is easily understood as the exchange of goods for money, but can also be conceived in a variety of other ways: further education in return for fees; a vote in return for lower taxes; or immunization in return for the peace of mind that one's child is protected from rubella.

Exchange in social marketing puts a key emphasis on *voluntary behaviour*. To facilitate voluntary exchanges, social marketers have to offer people something that they really want. For example, suppose that during the development of a programme to reduce teenage prevalence of sexually transmitted diseases (STDs) by encouraging condom use, research with the target finds that they are more concerned with pregnancy than STDs. The social marketer should consider highlighting the contraceptive benefits of condoms, rather than, or at least as well as, the disease prevention ones. In this way, consumer research can identify the benefits which are associated with a particular behaviour change, thereby facilitating the voluntary exchange process.

Long-term planning approach

Like generic marketing, social marketing should have a long-term outlook based on continuing programmes rather than one-off campaigns. It should be strategic rather than tactical. This is why the marketing planning function has been a consistent theme in social marketing definitions, from Kotler in 1971 to Andreasen in 1995.

The social marketing planning process is the same as in generic marketing. It starts and

finishes with research, and research is conducted throughout to inform the development of the strategy. A situational analysis of the internal and external environment and of the consumer is conducted first. This assists in the segmentation of the market and the targeting strategy. Further research is needed to define the problem, to set objectives for the programme and to inform the formulation of the marketing strategy. The elements of the social marketing mix are then developed and pre-tested, before being implemented. Finally, the relative success of the plan is monitored and the outcome evaluated.

Figure 27.2 shows a social marketing plan produced for a road safety initiative. With minimal change, it could just as easily be applied to baked beans.

Moving beyond the individual consumer

Social marketing is not only concerned with influencing the behaviour of the individual consumer, but also the broader social, cultural, structural and policy influences on health and social behaviour (e.g. Hastings *et al.*, 1994b, 2000; Lawther and Lowry, 1995; Lawther *et al.*, 1997; Murray and Douglas, 1988; Smith, 1998). Defining the role and scope of social marketing in this broader way is important, as the discipline's detractors often misperceive 'marketing' as little more than advertising and persuasion (e.g. Buchanan *et al.*, 1994; Vanden Heede and Pelican, 1995; Wallack *et al.*, 1993). For example, Wallack *et al.* (1993) have criticized social marketing for its inability to intervene at the level of 'the social and political environment in which decisions that affect health are made', and for the assumption that 'power over health status evolves from gaining greater control over individual health behaviours' (Wallack *et al.*, 1993, p. 24). However, when it first emerged, social marketing was conceived to constitute a much broader remit than individual behaviour change. Levy and

benefits of the product, thereby adding value and encouraging consumption and loyalty (see Chapter 15).

Similar thinking can be applied in social marketing. For example, Lefebvre (1996) argues that all health communications have an emotional dimension – a ‘personality’ or ‘tonality’ – whether the health promoter intends it or not. The message, channel and execution all contribute to this. He cautions that health communicators – just like their commercial counterparts – must use research, design and careful targeting to ensure that the tonality matches the needs of their target audience.

Leathar (1980) and Monahan (1995) endorse the notion that health communicators should actively promote positive images about health. For example, Monahan concludes her paper:

Positive affect can be used to stress the benefit of healthy behaviour, to give individuals a sense of control, and to reduce anxiety or fear. All of these factors are likely to enhance the success of a communication campaign.

On a more specific level, qualitative research conducted with pregnant women (Bolling and Owen, 1997) also emphasizes the importance of emotional communication, concluding that messages have to be sympathetic, supportive and non-judgemental. The primary need, the research suggested, is to establish a sense of trust.

Taking things a step further, social marketers have also adopted the idea of branding. Case 7 describes an attempt to brand positive health in Scotland during the 1980s. The brand was called ‘Be All You Can Be’.

Media advocacy

Another channel by which social marketers seek to influence public opinion and policy making is via unpaid publicity in the mass media (Wallack *et al.*, 1993; Chapman and Lupton, 1994). This involves negotiating with and satisfying *media gatekeepers*: newspaper editors and journalists, television and radio producers, advertising regulation authorities.

Case 7 Branding in social marketing

During the 1980s, SHEG, the government body responsible for health education in Scotland, were facing three problems with their use of the media. Their campaigns tended to be fragmented, topic based rather than whole person oriented and authoritarian rather than empathetic. Material seemed to be telling people how to run their lives, rather than enabling and encouraging them to make their own informed health decisions.

These problems could not be solved within individual campaigns, however carefully pretested or creatively developed. It was therefore decided to develop an overview or ‘umbrella’ campaign that could communicate a general lifestyle message of empowerment. In addition, the campaign needed to link the positive imagery to clear solutions to real health problems – that is, provide branded health products. The result was ‘Be All You Can Be’, a communication campaign which ran in broadcast and print media, promoting a theme of empowerment and positive health. An extensive communication and awareness monitor showed that it became familiar to, and was strongly endorsed by, the Scottish population.

However, there were problems with the campaign. First, the general Be All You Can Be messages left people uncertain as to what they should do next. People needed specific guidance to work out a response. Second, the campaign was restricted to the media, with few links to other delivery modes, again making it appear insubstantial. In essence, the campaign was succeeding in promoting a corporate identity for health, but not offering the branded products that enabled people to buy into it.

Sources: Hastings and Leathar (1987); Leathar (1988).

cipline. However, other arenas, such as crime prevention, Third World development and the alleviation of poverty, could also benefit from social marketing. There is a need to produce and publish reliable case studies in these areas.

Finally, we need to provide more educational opportunities in social marketing. Only when well-trained social marketers, who can live and breathe the discipline, join the major agencies of social change will its full potential be realized.

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practice away from the economic hyperspace it has evolved in, and bring it back down to earth and reality.

Reconceptualizing the marketing environment

Companies benefit from a marketing orientation in many ways, and one of the most important is the external focus on the marketing environment it encourages. However, marketing theory has followed the tradition of mechanistic economic models, which dismiss the ecological contexts in which economic

activity occurs (Capra, 1983). So entire books discussing the marketing environment dedicate chapters to the social, cultural, technological, economic and political environments, without discussing the physical environment which underpins them, and on which they all depend. At best, the response to increased environmental concern has been to try to accommodate it within existing models of the environment (of the PEST type) by discussing it as a political pressure, an influence on the economics of business, a social trend or a technological challenge. The reality is that the physical environment is the foundation on which societies and economies are based. Figure 28.1 visualizes the marketing environment

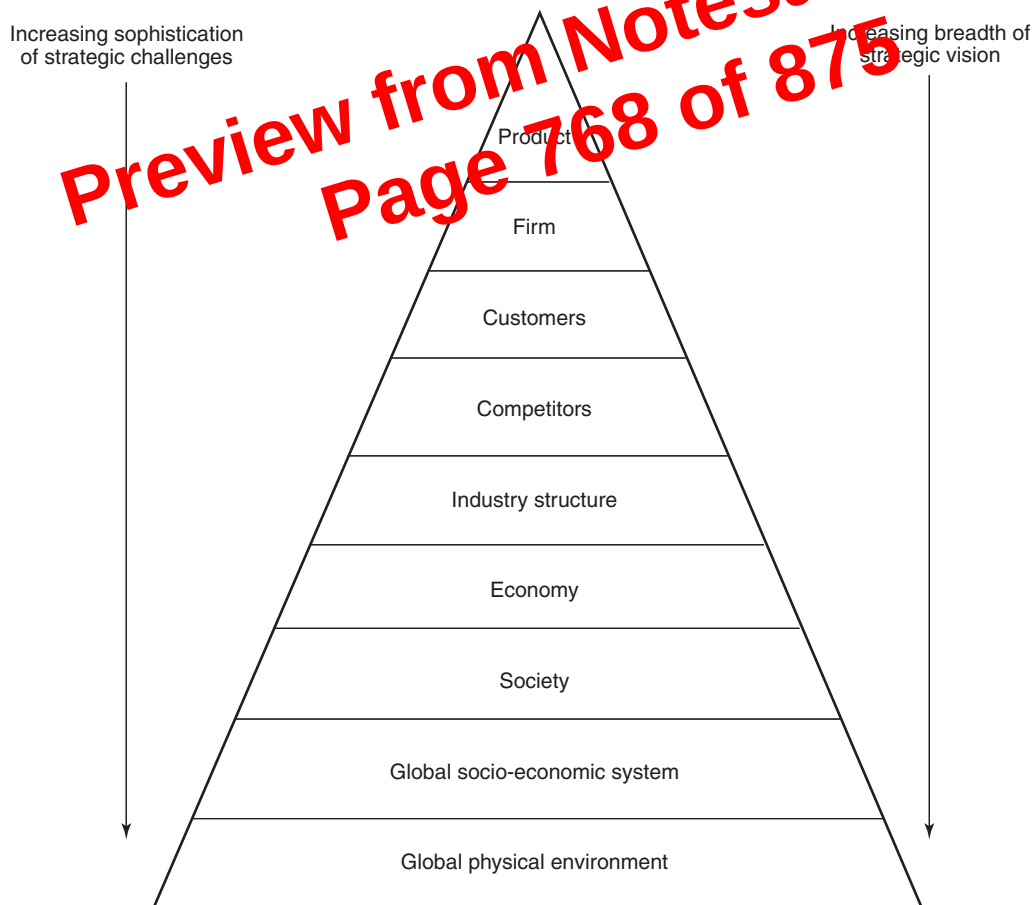


Figure 28.1 The physical environment as the foundation of the marketing environment

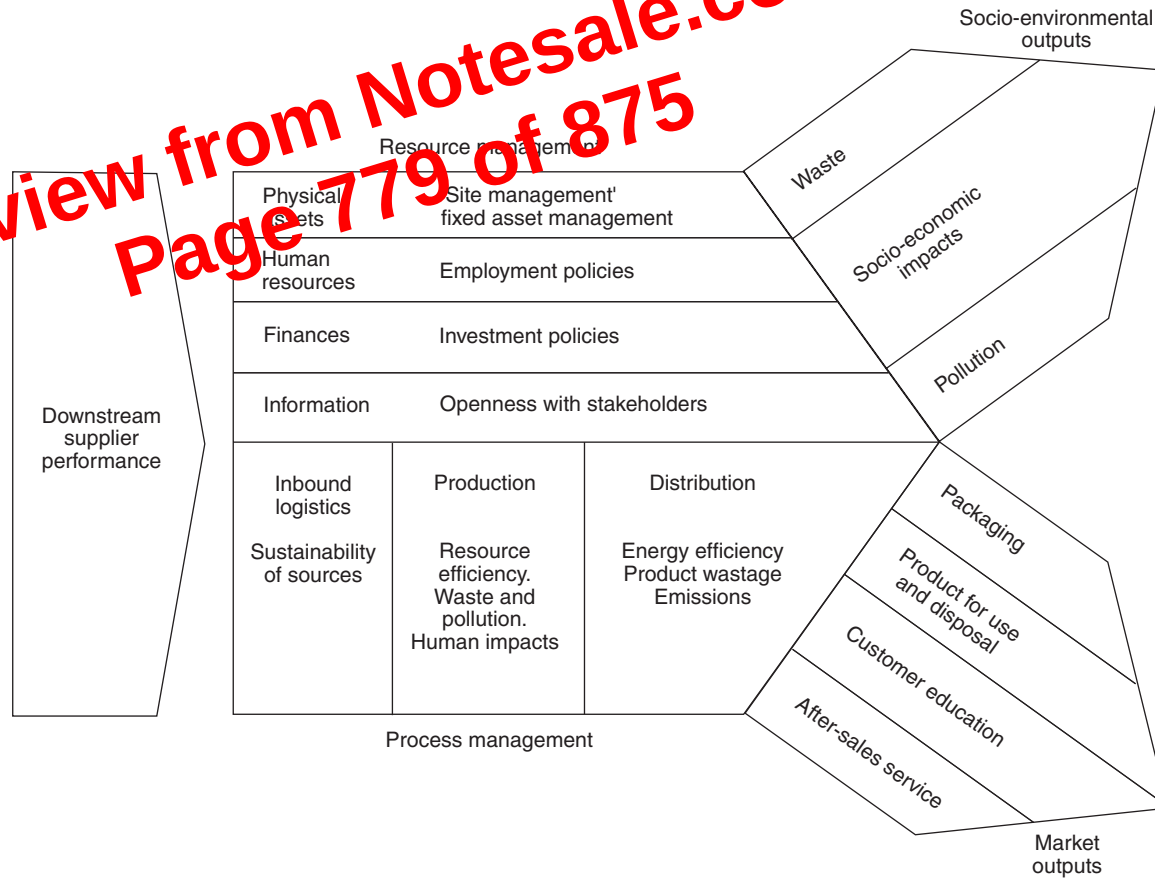


Figure 28.2 Components of environmental performance

terms of providing customers with information to support their recycling behaviour. For example, labelling plastic containers to indicate the type of plastic used makes the recycling process simpler.

Labelling programmes vary in terms of whether or not they are mandatory or voluntary within a particular industry, whether they involve single or multiple issues, the level of information they provide, and the level and style of verification that underpins them. Each of these dimensions has provided ample opportunity for controversies about labelling schemes within industries and between companies, regulators and NGOs. The EU eco-labelling scheme, for example, has been mired in political wrangling for much of the last decade, and has had relatively little impact on consumption and consumers within Europe as yet.

The evolving agenda: from green products to sustainable value

The early years of green marketing, much like the early years of industrial growth after the Second World War, have been dominated by a focus on products. Initially, greening centred on specific physical products such as lead-free fuel, recycled paper, organic food or cruelty-free cosmetics. The key difference lay in the emphasis on how the product was made, both as a product attribute and as an influence on consumer demand.

Gradually, the focus in green marketing has broadened to include services such as tourism and financial services. Globally, services account for the majority of economic activity and of economic growth, yet there is little research on the sustainability impacts of services, coupled with a lack of methodologies to pursue sustainable service design and development. Yet some elements of the service economy, such as transport, travel and hospitality, have considerable social and environmental impacts. Typically, services are a combination of intangible elements (services) and physical elements (products) supported

by an infrastructure (systems). Viewing the delivery of value to customers holistically as a product service system (PSS) is an increasingly common approach in research communities, but it is an approach which most businesses are, as yet, unfamiliar with.

Taking a holistic PSS-based view is important, because increasingly there is a blurring of the edges as to what exactly represents a 'service'. Also, the extensive use of outsourcing as a service in many industries can obscure the nature and distribution of the socio-environmental impacts of production. To make progress towards sustainability, supply chain management and service design will become increasingly important business processes. It is important for people involved in the design of any product, service or PSS (including marketers, design engineers, industrial designers, procurers, supply chain managers and entrepreneurs) to take account of life cycle impacts to determine environmental and social impacts, and to seek strategies to minimize negative impacts.

The blurring of the distinction between products, services and systems means that, for the future of green marketing, perhaps we should be thinking more in terms of 'sustainable solutions'. Sustainable solutions are products, services or system changes that minimize negative and maximize positive sustainability impacts (economic, environmental, social and ethical) throughout and beyond the life cycle of existing products or solutions, while fulfilling acceptable societal demands and needs. In improving these aggregate impacts, these solutions are delivering 'sustainable value'. These concepts allow us to take a more holistic view of the economy and its outputs, process and goals. Sustainable solutions (whether products, services or PSS), represent the outputs, and green marketing and sustainable design represent the processes which aim to deliver those outputs. However, the ultimate goal should be to deliver higher levels of net sustainable value (that satisfy customers and other stakeholders) through those outputs (Charter and Clark, 2002).

This holistic approach to the way in which marketing delivers the goods and services that we consume takes us far beyond trying to identify green consumers, develop green products, and persuade the former to pay an extra few per cent for the latter. It suggests a much broader research agenda, encompassing:

- sustainable service and PSS impacts;
- sustainable service and PSS methodologies;
- the relationship between sustainable 'solutions development' and supply chain/network or value management;
- cross-functional working practices required to achieve higher net sustainable value through sustainable solutions;
- management approaches required to create higher levels of net sustainable value.

The future of green marketing

Sustainability as a concept can be controversial, open to multiple interpretations, very hard to measure, and difficult to translate into meaningful action amongst the very real political, economic and technological constraints faced by companies and governments. The underlying point, however, is very clear. Any system or activity that is not sustainable ultimately cannot be sustained. Although this can be dismissed as a truism, it is a point that often seems to be missed. The last 50 years have witnessed some extraordinary developments in technologies, products, markets and marketing. They have also witnessed a doubling of world population from around three to around six billion. Without becoming more sustainable, over the next 50 years, marketing will struggle to do more than to deliver an increasingly mixed and short-term set of blessings, to a shrinking proportion of the world's population.

The dangers of unsustainable growth have rarely been more clearly illustrated than during the boom and bust of the 'dotcom'

financial bubble and the subsequent Enron and WorldCom scandals. It demonstrated many simple truths about the need for businesses to deliver real benefits and generate real and sustainable income streams, and also the dangers of profligate spending today on the promise of the wealth that new technologies will deliver tomorrow. These truths also apply to the industrialized economies as a whole. Many of the environmental costs of production and consumption are not being fully reflected (either directly or indirectly via taxation) in the cost structures of companies and the prices paid by their customers. This means that society and the environment are currently subsidizing our consumption and production. Our businesses are environmentally over-trading – a position that cannot be maintained indefinitely. Companies can grow and apparently prosper while running up huge financial debts (as Enron showed). The danger is that the longer the bills go unpaid, and the longer the debt mounts up, the more destructive the crash then becomes. While our businesses continue to consume the Earth's natural capital at an unsustainable rate, the risks grow that this environmental debt will create significant social and environmental consequences. The world cannot maintain its recent trends of growth in consumption and production without future consumers, and the billions living outside the consumer economy, bearing the cost.

The role that marketing can, and should, play in the development of a more sustainable economy has been the subject of some debate. Marketing has often been presented as part of the problem in stimulating unsustainable levels of consumption, and in using public relations and other means of communication to obscure or deny the negative consequences of that consumption. Marketing is also frequently presented as an important part of the solution in the context of market mechanisms being used to encourage more sustainable consumption. It is certainly true that marketing as a tool can be used to help or hinder the sustainability

marketing activity within the resource constraints inherent in such enterprises.

The origins of this chapter lie in many years of involvement with SMEs from a variety of perspectives, as owner and partner in several enterprises and as consultant, trainer, educator and researcher of SMEs. In all of these activities, there is the firm belief that every SME is unique and as a consequence, the marketing activity is also uniquely different. Of course, it is possible to generalize but in doing so it is also important to remember the unique individuality of SMEs.

Characteristics of SMEs

There is purposefully no attempt in this chapter to define the term SME. There are many definitions incorporating some or all of the following: covering number of employees, revenue and turnover, size and range of products and markets, and so on. Suffice to acknowledge here the term SME as definition in itself, that is, 'small-to-medium-size-enterprise'. SMEs are just this, they are small to medium sized relative to large corporations. A significant differentiator between SMEs and large corporations is that of resources. All enterprises have limitations as to what they can or wish to do. Any managerial activity will be inhibited by lack of finance, people and expertise. However, the larger an organization, the more scope it has to generate funding for projects, moving people around according to where they're needed most and if necessary, buying in expertise where and when it is needed. In the case of SMEs few if any of these options are available.

A distinctive characteristic of SMEs is a lack of finance. True some SMEs may begin life as cash rich and perhaps some will grow into cash rich enterprises, but for the vast majority of SMEs lack of cash and financial resources impose severe limitations upon activities. The reasons for this may be many. For example, when an enterprise is established it invariably soaks up all available capital resources in

structuring the business and seeding initial market development. Thus, at the start-up stage most enterprises will experience financial limitations. Most enterprises after start up are reliant upon income generation to fund the initial investment and gain a surplus. Such surpluses will fund future growth which in turn requires further returns. Since just about every SME needs to grow in order to sustain and strengthen the business base, then just about every SME experiences financial limitations throughout the growing years. Until certain thresholds are reached, financial constraints tend to dominate decision making. Indeed, as an enterprise expands so does the complexity of its financial requirements and commitments.

As a consequence of financial limitations, SMEs also have human resource limitations. Most people employed in SMEs work in a logistical process/delivery capacity. An SME tends to have few management decision makers, indeed, much of the meaningful decision making is undertaken by the owner/manager or the entrepreneur. SMEs tend not to have specialist experts whose job is to do one task only. Instead, managers in an SME are 'generalists' who carry out a wide variety of tasks and decision making. As a consequence, decision makers' attention is often distracted away from a specific function which can often be to the detrimental inefficiency of a given functions performance.

Both of the limitations of lack of finance and lack of specialist expertise serve as severe constraints upon marketing ability and activity (Carson *et al.*, 1995). Small firms will often have very limited funds available for marketing purposes and what is more, limited marketing expertise in carrying out marketing decisions and activities. Therefore, that marketing which is performed may be undermined by simply not having enough money to spend with the added danger that even this limited spend may be used incorrectly or inefficiently. Even if marketing money is spent wisely, the nature of an SME, in that it is 'small' relative to its market

CHAPTER 30

Retailing

PETER J. McGOLDRICK

Introduction

Originally defined as 'the sale of goods in small quantities', a better working definition of retailing is:

the sale of goods and services to consumers for their own use.

This distinguishes retailing from the supply of goods, in quantities large or small, to industrial buyers. It also recognizes the adoption of retailing terms and concepts by a wide range of services providers. For example, banks and other financial services providers use the term 'retail' to differentiate their consumer and their corporate activities (McGoldrick and Greenland, 1994). As the marketing of services is considered elsewhere, the focus of this chapter is upon the sale of goods to consumers.

There is nothing very new about the basic principles of retailing. It is still all about the identification and satisfaction of consumer needs and wants, at a profit. What has developed quite dramatically in recent years is the way in which retailers pursue these basic principles. Progressively, the folklore and rules of thumb that guided many decisions have been replaced by rigorous analysis and scientific modelling. While creativity and flair are

still important, it is fair to say that the science of retailing has now been born.

In part, this new sophistication in retailing can be ascribed to the growth in size and power of major retailers. Much of the 'received wisdom' on marketing, imported from the United States, still tends to relegate the role of the retailer to that of a channel of distribution for manufacturers' goods. This is a dangerously myopic view, in a world in which it is equally appropriate to view manufacturers as channels of supply for powerful retailers. As retailers extend this power across national frontiers, they are joining the ranks of oil companies, car makers and computer manufacturers as the world's largest companies.

With this size comes the ability to invest in the best equipment, the latest techniques and, most importantly, the most able management. This is reflected by the increased interest in retailing courses and careers amongst our best undergraduate and graduate students. Retailing has indeed come of age as a worthwhile area of study and as a rewarding and highly professional area of management.

This brief tour of retailing considers first how retailing has evolved, and some of the theories that attempt to explain retail change. Attention then turns to the structure of retailing, examining first the different types of retail organization, then the various types of outlet.

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Retail parks are more utilitarian groupings of 'retail sheds' and are also termed 'retail warehouse parks'. They offer convenient access and car parking arrangements but lack the indoor malls and many of the other comforts of the major, out-of-town shopping centres. The first such scheme opened in the UK in 1982; by 2000, there were 537 in operation. They involve far lower development costs than the major, full service shopping centres, which typically include extensive leisure and catering facilities. The trading format of the retail park has proved fairly resilient to varying economic conditions and they have continued to evolve, some adding cinemas, bowling alleys, fitness centres and pubs/restaurants to their mix. A parallel development in the USA, albeit typically based on larger units, is the 'power centre', defined by Hahn (2000) as 'an agglomeration of big box retailers'.

Factory outlet centres increased their presence in the UK in the 1990s and, by 2001, 34 were trading, with another 18 in the planning development pipeline. One of the largest, One-shire Oaks, includes 300 000 sq. ft of retail area and 120 factory outlets. Designer names such as Calvin Klein, Ted Baker, Nike and Reebok tend to predominate with their discount outlets, but high street names are also there in force, such as Principles, Marks & Spencer, Diesel and Next (Key Note, 2000b).

Department and variety stores

In most new shopping centres, developers seek to ensure that they attract key 'anchor tenants' in the form of major department and variety stores. Ironically, the market shares of both these retail formats have tended towards decline in most European countries. According to the International Association of Department Stores, a department store must have at least 2500 m² of space (26 900 sq. ft). Furthermore, it must offer a product range that is both wide and deep in several product categories.

Table 30.6 estimates the shares of non-food sales of department stores in various countries.

Table 30.6 Department and variety stores

Country	Share of non-food sales (%)	
	Department stores	Variety stores
Australia	8.8	7.5
Austria	6.9	3.8
Canada	16.1	6.7
Denmark	6.7	11.3
France	2.9	0.8
Germany	5.9	7
Hungary	5.9	26.2
Ireland	2.4	—
Netherlands	7.7	3.4
Russia	36.8	—
Spain	10.0	—
Sweden	3.5	1.4
UK	3.6	18.4
USA	8.6	10.2

Source: Euromonitor (2000).

In the USA, traditional, full-line department stores continue to decline in number, although the leading-edge operators, such as Federated, May & Co. and Dillard's, have made gains through acquisitions and more focused strategies. In the UK, John Lewis and Debenhams lead among the traditional department stores, Marks & Spencer holding the largest share of the variety store category.

Many European variety stores were founded in the 1930s by department store operators, in order to offer a lower priced, lower service and lower assortment format. Examples include Prisunic by Printemps and Priminime by Bon Marche. In the UK, there are few such links between the department and variety store sectors, and variety stores hold a relatively strong 18.4 per cent of non-food sales. Many variety stores have traded up and diversified; on the other hand, department stores have

identification of gaps does not alone ensure their attractiveness. A sophisticated blend of financial and psychological modelling is required to predict the viability of the new market position. Neither is simple, but the prediction of consumer preferences is undoubtedly the greater challenge. It requires an understanding of the complex systems of trade-offs that consumers make when choosing a store.

Figure 30.5 offers a simple but useful summary of this difficult area of analysis. At the core of retail marketing strategy there must be a focus upon value, as perceived by the target customer. In general, they seek more of the positive attributes, less of the negative attributes, such as cost, risk, time effort and stress. A better understanding of the response patterns and trade-offs within the 'value equation' is, without doubt, a worthwhile area of investigation in the new science of retailing.

Loyalty: schemes or strategies?

It is appropriate to conclude this section with comments on one of the major preoccupations of retail strategy in recent years: loyalty schemes. It is hard to deny that there have been distinct waves of emphasis in retail strategy over the last 30 years, as illustrated in Figure 30.6. We can all argue exactly when each phase started and ended; more difficult to argue is the fact that these emphases, for a short period of time, become obsessions, if not fixations. This leads us to a sad conclusion: *most retail strategies have been formed in someone else's head office*.

One beneficial difference between this 'wave' and previous ones is that it focused upon the consumer rather than upon a specific aspect of the firm. Loyalty schemes are driven by the philosophy that it is cheaper to retain a customer than it is to attract a new one, or to recover a lost one. They come in many different shapes and

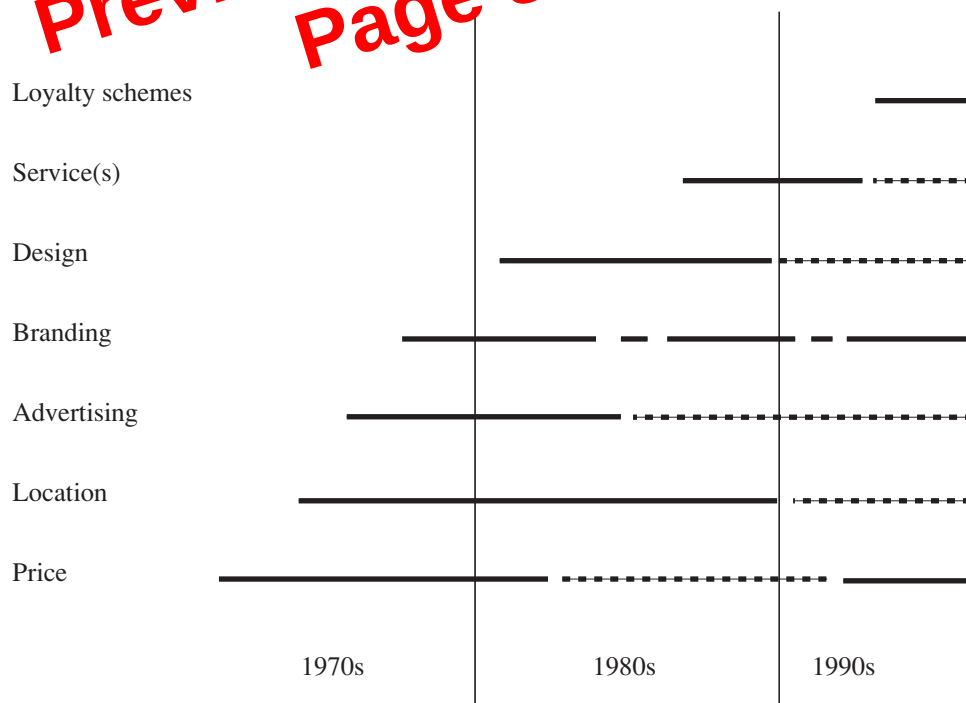


Figure 30.6 Waves of emphasis in retail strategy
Source: McGoldrick and Andre (1997).

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