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PART ONE

THE CHANGING ROLE OF MARKETING

CHAPTER ONE

THE MARKETING CONCEPT

Marketing is both a business philosophy and an action-oriented process. This first chapter aims to describe the system of thought, to clarify the ideological foundations of the marketing concept and its main implications regarding the firm's operations and organization. A distinction is made between strategic and operational marketing, that is, between the strategic brain and the commercial arm of the firm, respectively. The tasks of strategic and operational marketing are briefly described and will be analysed in more detail in the following chapters.

Chapter Learning Objectives

When you have read this chapter, you should be able to understand:

- The theoretical and ideological foundations of the marketing concept
- The difference between "strategic" and "operational" marketing
- The differences between "response" and "creative" strategic marketing
- The difference between transactional and relationship operational marketing
- The limitations of the marketing concept
- The marketing mix paradigm

1.1 THE MARKETING CONCEPT DEFINED

Since more than 50 years now, the marketing concept has been heralded by marketing academics and practitioners and its acceptance is still viewed as the optimal marketing management philosophy. In the management literature, the marketing concept has been described in various ways by different authors, but the term has become synonymous with having a customer orientation. The shortest definition of marketing is "meeting needs profitably". The traditional marketing concept is based on three pillars:

- A *customer orientation*: Implying that an intimate understanding of his or her needs and wants should be the focal point of all managerial actions.
- *Integration of efforts*: Implying coordination with the other functions (R&D, production, accounting and financial activities) within the firm to disseminate the customer orientation.
- A *profit objective*: The marketing concept is intended to make money for the firm, as a reward for its focus on customer satisfaction.

Developed in the management literature in the 1950s, the paternity of the concept is generally attributed to Drucker (1954) and to McKitterick (1957), a leading marketing executive from GE. Keith's article (1960) is one of the earliest presentations of the concept in the academic literature. For the layperson, the basic idea at the root of the marketing concept is by no means perceived as very original, if not simply a platitude. Any street vendor organizes its business to ensure that its clients get what they want, where and when they want it, and expects reward in return. Since the beginning of times, people have been engaging, through barter or trade, in mutually satisfactory exchange relationships and the customer focus clearly existed "when the king ordered boots from the boot maker". Under conditions of general scarcity, demand tends to be basic and the identification of attractive markets is easy. But in highly competitive markets, under conditions of oversupply, a business philosophy is required which states that supply should be market-driven and that the process of manufacturing should start with a clear statement of customers' needs.

The marketing concept suggests that the pursuit of customers' interests, in the end, serves the selfish interest of the firm: a *win–win* situation. The same idea was expressed by the Roman Emperor Marcus Aurelius in his Meditations on Stoic Philosophy (160 A.D.): "If you serve others, you serve yourself." In the economic literature, this principle was formalized by Smith (1776) and, till today, forms the basis of the market economy system and can be summarized as follows:

> Society' well being is the outcome, not so much of altruistic behaviour, but rather of the matching, through voluntary and competitive exchange, of buyer's and seller's self interest.

Although in modern economics this basic principle has been amended with regard to social (solidarity) and societal issues (externalities, collective goods, Government regulations), it,

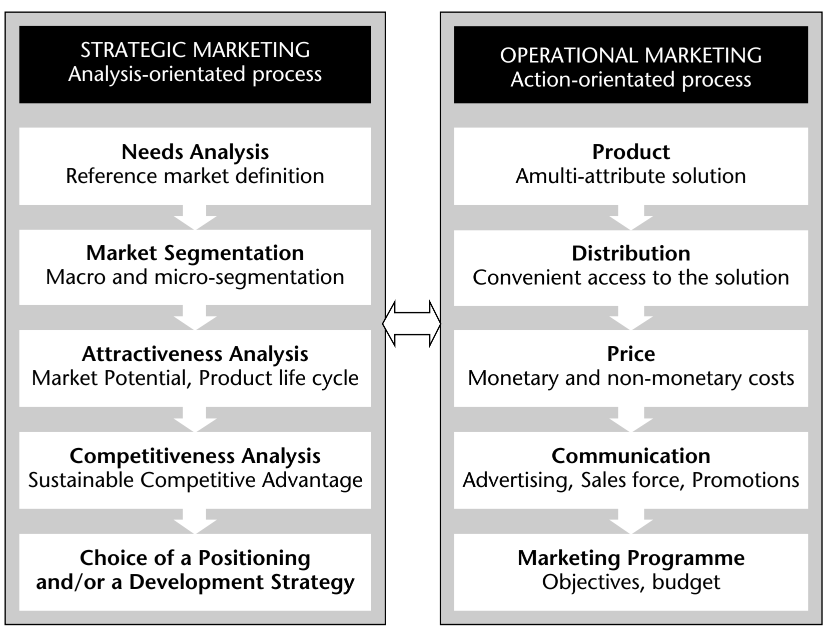

Figure 1.1 The two faces of marketing
Source: Lambin (2000/2007).

nevertheless, remains the main principle driving the economic activity of a successful firm operating in a free – but regulated – market economy. Those ideas have been developed and implemented in management by authors such as Chamberlin (1933), Drucker (1954), Abbott (1955), Alderson (1957), McKitterick (1957), Howard and Sheth (1969), the main founding fathers of today's marketing discipline.

The implementation of the marketing concept assumes a twofold approach on the part of the firm, as shown in Figure 1.1. The term "marketing" – literally the process of delivering to the market – does not express the inherent duality of this process very well and emphasizes the "active" side of marketing more than the "analytic" side. As an aside, we may point out that to avoid the ambiguity – and the use of an English word in the common vocabulary – the French Academy (*l'Académie Française*) coined the terms *la mercatique* and *le marchéage* to illustrate these two facets of marketing. In practice, however, the French business community does not use these terms.

Strategic versus operational marketing

Today, most marketing textbooks have introduced the strategic marketing perspective in their content. See, for example, Baker (2007), Best (2004), Kerin, Hartely, Berkowitz and Rudelius (2007), Lendrevie, Lévy and Lindon (2007), Wind (2008). The differences between operational and strategic marketing are summarized in Table 1.1.

Strategic marketing is an *analysis-oriented* process focused on the analysis of the needs of individuals and organizations. The role of strategic marketing is to follow the evolution of the reference market (Levitt, 1975; Abell, 1980) and to identify various existing or potential product markets or segments on the basis of an analysis of the diversity of needs to be met. Once the product markets are identified, they represent economic opportunities whose quantitative and qualitative attractiveness needs to be evaluated. For a given firm, the appeal of a product market depends on its own competitiveness, in other words, on its capacity to meet customers' needs better than its rivals (Henderson, 1983). This competitiveness will exist as long as the firm holds a competitive advantage, either because it can differentiate itself from its rivals due to sustainable distinctive qualities or because of higher productivity, putting it at a cost advantage. The process of strategic marketing has a medium- to long-term horizon; its task is to specify the firm's mission, define objectives, elaborate a development strategy and ensure a balanced structure of the firm's product portfolio (Day, 1977).

Operational marketing is an *action-oriented* process that is extended over a short- to medium-term planning horizon and targets existing markets or segments. It is the classical commercial process of achieving a target market share through the use of tactical means related to the product, distribution, price and communication decisions. The operational marketing plan describes objectives, positioning, tactics and budgets for each brand of the company's portfolio in a given period and geographical zone. When restricted to operational marketing, marketing tends, however, to degenerate into a sales orientation and an exclusive concern for marketing communication. Operational marketing will be efficient only if it is based on well-defined and solid strategic options.

Table 1.1 Contrasting operational and strategic marketing

Operational marketing	Strategic marketing
Action-oriented	Analysis-oriented
Existing opportunities	New opportunities
Non-product variables	Product-market variables
Stable environment	Dynamic environment
Reactive behaviour	Proactive behaviour
Day-to-day management	Longer-range management
Marketing function	Cross-functional organization

Source: Lambin (2000/2007).

The tasks of strategic marketing

Strategic marketing is, to begin with, the analysis of the needs of individuals and organizations. From the marketing viewpoint, the buyer is not seeking a product as such, but is after the solution to a problem which the product or the service might provide. This solution may be obtained via different technologies, which are themselves continually changing. The role of strategic marketing is to follow the evolution of the reference market and to identify various existing or potential product markets or segments on the basis of an analysis of the diversity of needs to be met.

Once the product markets are identified, they represent economic opportunities whose attractiveness needs to be evaluated. The appeal of a product market is quantitatively measured by the notion of the potential market, and dynamically measured by its economic life, or its life cycle. For a given firm, the appeal of a product market depends on its own competitiveness, in other words, on its capacity to meet buyers' needs better than its rivals. This competitiveness will exist as long as the firm holds a competitive advantage, either because it can differentiate itself from its rivals due to sustainable distinctive qualities or because of higher productivity, putting it at a cost advantage.

Figure 1.2 shows the various stages of strategic marketing in relation to the firm's other major functions. Irrespective of whether a product is market-pull or company-push (or technology-push), it has to undergo the process of strategic marketing to evaluate its economic and financial viability. The interface between R&D, operations and strategic marketing plays a decisive role in this respect. The choice of the product market that results from this confrontation is of crucial importance in determining production capacity and investment decisions, and hence is vital to the equilibrium of the firm's overall financial structure.

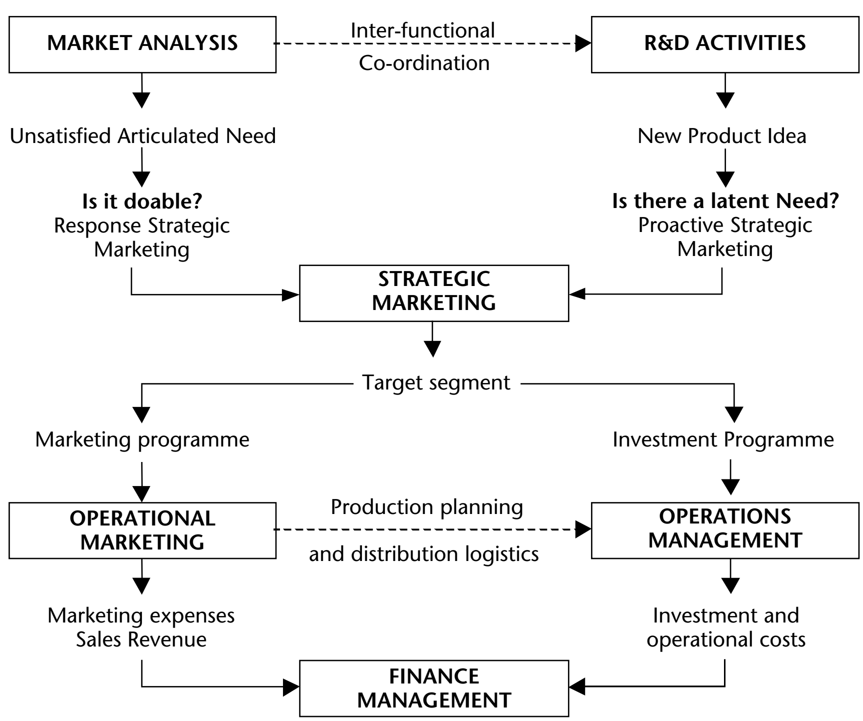

Figure 1.2 The two roles of strategic marketing
Source: Lambin (2000/2007).

The role of strategic marketing is therefore (a) to lead the firm towards existing opportunities or (b) to create attractive opportunities, that is, opportunities which are adapted to its resources and know-how and which offer a potential for growth and profitability. The tasks of strategic marketing are summarized in the left column of Table 1.2.

Response versus proactive strategic marketing

As illustrated in Figure 1.2, innovations or new product ideas can have two very distinct origins: the market or the firm. If the new product idea comes from the market as a result, for example, of a market research study having identified unfilled (or poorly filled) needs or wants, the market observation is communicated to R&D people who will try to find an appropriate response to this unfilled need. The question is, "Is it feasible?" The innovation is *market-pull*. The role of operational marketing will then be to promote the new solution proposed to the identified target segment.

Another origin of an innovation may be the laboratory or R&D people who, as a result of fundamental or applied research, discover or develop a new product, a new process or a new organizational system to meet better existing or latent needs. Many companies gain competitive advantage and roar past rivals by creating breakthrough innovations. These companies are *technology-driven* rather than customer-oriented. Such innovations come from the creativity and insight of scientists and engineers who make

Table 1.2 The complementary roles of strategic and operational marketing

Tasks of strategic marketing	Tasks of operational marketing
To design a value proposition,	To make the value proposition,
... for a well-identified group of potential customers,	... known by and conveniently accessible to,
... sufficiently differentiated from competition,	... the well-identified group of potential customers,
... taking into account the roles of the other market actors,	... at a price acceptable by them and profitable for the firm,
... and sustainable by the firm.	... with the support of an appropriate personal and impersonal communication programme.

Source: Authors.

Box 1.1 Implementation problem: is a technology-driven strategy a real alternative to a market-driven strategy?

Some marketing scholars (Hayes and Abernathy, 1980; Bennett and Cooper, 1981) have argued that the market orientation concept hurts rather than helps the competitive performance of firms because of its over-reliance on market-pull innovations (i.e., response strategic marketing). Many companies, indeed, gain competitive advantage by being primarily technology-driven and not customer-driven. Imagine – say these scholars – consumers trying to tell a market researcher about their need for a mobile phone or a digital camera before those products were introduced.

This criticism is based on a truncated view of the market orientation concept by ignoring the proactive approach of strategic marketing. Scientists and engineers, rather than consumers, may well be the source of new product ideas in technology-driven companies, but the products that arise from those ideas must satisfy customers needs, even if latent or unarticulated, or they will end up serving no market at all. Thus, technology-driven companies must ultimately apply the market orientation concept if they are to be successful. There are enough examples, in industrial history, of technological monsters developed in ivory towers by engineers that have never found a market.

technological discoveries and then work them into radically new products. The innovation *is technology-push*.

In this case, the role of strategic marketing is more complex. The question is, "Is there a need and a potentially profitable market segment?" Strategic marketing will have then to assess the size of the target segment and the success factors of the innovation. The role of operational marketing may be more complex and challenging because its role is to create the market for a product or service which is not explicitly demanded or expected by the market and which may require from potential customers a change in their consuming or using habits.

Innovation is at the core of strategic marketing. New product ideas can have two very distinct origins: the market or the firm. Thus, in strategic marketing, a distinction must be made between two distinct but complementary approaches: response strategic marketing and creative (or technology-driven) strategic marketing.

- In *response strategic marketing*, the objective is to meet expressed needs or wants and to fulfil them. The goal of operational marketing is to develop an existing demand or potential market. Innovations are market-pull. The key question is, Is it feasible?
- In *supply-driven or proactive strategic marketing*, the objective is to identify latent or unarticulated needs or to find new ways to fill existing needs or wants. The objective is to create new markets through technology and/or organizational creativity. Innovations are technology-push. The key question is, Is there a need?

In affluent economies, where most needs and wants are well met and where the majority of existing markets are stagnant, proactive strategic marketing has an important role to play to create new market opportunities in the future. The Internet technology provides these new opportunities. As Akio Morita, Sony's leader puts it:

> Our plan is to lead the public with new products rather than ask them what kind of products they want. The public does not know what is possible, but we do. So instead of doing a lot of market research, we refine our thinking on a product and its use and try to create a market for it by educating and communicating with the public. (Schendler, 1992)

Kotler and Keller (2006, p. 724), in their apology of an excellent "holistic marketing" practice make a distinction between "market-driven" and "market-driving" management.

Box 1.2 How to promote a proactive strategic marketing?

- Helping customers anticipate developments in their markets.
- Continuously trying to discover additional needs of customers of which they are unaware.
- Incorporating solutions to unarticulated customer needs in new products or services.
- Brainstorming on how customers use our products and services.
- Innovating even at the risk of making our own products obsolete.
- Searching for opportunities in areas where customers have a difficult time expressing their needs.
- Working closely with lead users who try to recognize customer needs months or even years before the majority of the market recognize them.
- Extrapolating key trends to gain insight into what users in a current market will need in the future.

Source: Adapted from Narver, Slater and MacLachlan (2004).

We agree with Day (1999, p.37), who says that "this is a distinction without a difference". Market-driven firms are not only reactive through response strategic marketing, but they are also driving changes by breaking the rules of the game through proactive strategic marketing. Good examples of proactive strategic marketing are given by firms like Ice-watch, Dell Computers or Ikea.

In short, the objective of strategic marketing is not only (a) to listen to customers and then to respond to their articulated needs, but also (b) to lead customers where they want to go, even if they do not know it yet. This underlines the importance of the distinction between expressed (or *articulated*) and latent (or *unarticulated*) needs. What a customer wants is an appropriate solution to his or her problem. Merely satisfying expressed needs may be insufficient for a firm to attract or to retain customers.

The tasks of operational marketing

The economic role that marketing plays in the operation of the firm is shown in Figure 1.2. The main relationships between the four major managerial functions (R&D, operations, marketing and finance) are illustrated. The main task of operational marketing is to generate sales revenues that are the target turnover. This means to "sell" and to obtain purchase orders by using the most efficient sales methods while at the same time minimizing costs. The objective of realizing a particular sales volume translates into a manufacturing programme as far as the operations department is concerned, and a programme of storage and physical distribution for the sales department. Operational marketing is therefore a determining factor that directly influences the short-term profitability of the firm.

The vigour of operational marketing is a decisive factor in the performance of the firm, especially in those markets where competition is fierce. Every product, even those of superior quality, must have a price acceptable to the market, be available in the network of distribution adapted to the purchasing habits of the targeted customers and be supported by some form of communication which promotes the product and enhances its distinctive qualities. It is rare to find market situations where demand exceeds supply or where the firm is well known by potential users or where competition is non-existent.

There are many examples of promising products that have failed to prevail in the market due to insufficient commercial support. This is particularly the case in firms where the "engineering" spirit predominates, whereby it is believed that a good-quality product can gain recognition by itself, and the firm lacks the humility to adapt to the needs of customers.

Operational marketing is the most spectacular and the most visible aspect of the marketing discipline, particularly because of the important role played by advertising and promotional activities. Some firms have embarked on marketing through advertising. In contrast, some other firms – like many producers of industrial goods – have for a long time tended to believe that marketing does not apply to their business, thus implicitly linking marketing to advertising. Operational marketing is therefore *the firm's commercial arm* without which even the best strategic plan cannot lead to satisfactory results. However, it is also clear that without solid strategic options, there can be no ultimately profitable operational marketing. Dynamism without thought is merely unnecessary risk. No matter how powerful an operational marketing plan, it cannot create demand where there is no need, just as it cannot keep alive activities doomed to disappear. Hence, in order to be profitable, operational marketing must be founded upon a strategic design, which is itself based on the needs of the market and its expected evolution. The tasks of operational marketing are summarized in the right column of Table 1.2.

Transactional versus relationship operational marketing

Operational marketing is the commercial arm of the firm and its key function is to generate sales. Commercial negotiation and selling techniques are often thought to be the same. These are, however, two completely different procedures that will be discussed in more details in Chapter 18 (see Table 18.4). Transactional selling techniques are indubitably efficient *to close the sale* and are often associated with various aggressive selling methods: hard sell or manipulative marketing. These techniques were popular in the 1960s in operational marketing when the *sales orientation* was predominant. They have been challenged over the past ten years, under the influence of all the changes in customer behaviour and in the competitive environment. The differences between transaction and relationship marketing are many.

- Transaction marketing focuses on a discrete, individual sale. The relationships end once the sale is consummated.
- Relationship marketing is oriented towards a strong and lasting relationship. Maintaining and cultivating the customer base is the key objective, in order to create a mutually profitable relationship.
- Relationship marketing presupposes the opportunity for shared benefits, while transaction marketing works on a model of contradictory needs: the buyer wants a good price; the seller wants a high profit.
- Relationship marketing differs from transaction marketing in other respects as well. While the latter focuses almost solely on price, the former shifts the emphasis to non-economic benefits, such as services, delivery time and the certainty of continued supply.

The practice of relationship or counselling selling – as opposed to the "impose–convince–suggest–please" system – is characterized by the importance accorded (a) to true and nonmanipulative exploration of the customer's motivations and motives and (b) to the search of a long-lasting mutually satisfactory relationship between buyers and sellers. Relationship selling has shifted attention from "closing" the singular sale to creating the necessary conditions for a long-term relationship between the firm and its customers that in the long run breeds successful sales encounters. In market-oriented firms, there is a tendency to change the vocabulary from sales force to *sales counsellors*, *professional representatives* or *sales consultants*.

The marketing programme

This job of reflection and strategic planning is very different from operational marketing and requires different talents in the individuals who exercise it. Nevertheless, the two roles are closely complementary, as illustrated by Table 1.2, in the sense that the design of a strategic plan must be carried out in close relation to operational marketing. Operational marketing emphasizes nonproduct variables (distribution, pricing, advertising and promotion), while strategic marketing tends to emphasize on the ability to provide a product with superior value at a competitive cost. Strategic marketing leads to the choice of product markets to be exploited in order of priority and the forecast of primary demand in each of these product markets. Operational marketing, on the other hand, sets out market share objectives to reach in the target product market, as well as the marketing budgets necessary for their realization.

As shown in Figure 1.3, the comparison of the market share objective and primary demand forecast in each product market makes it possible to develop a sales objective first in volume and then in terms of turnover, given the chosen pricing policy. The expected gross profit is obtained after deducting direct manufacturing costs, possible fixed costs for

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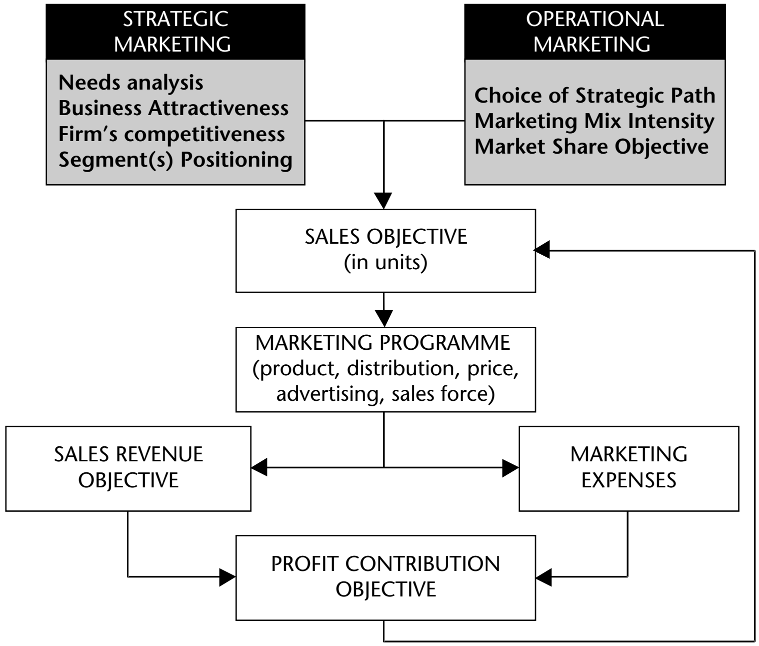

Figure 1.3 The integrated marketing programme
Source: Lambin (2000/2007).

specific structures, marketing expenditure attributed to the sales force and advertising and promotion as allowed for in the marketing budget. This gross profit is the contribution of the product market to the firm: It must cover overhead and leave a gross profit. The content and structure of the marketing plan are described in detail in Chapter 21.

The marketing mix paradigm

The operational counterpart or support of the marketing concept is commonly referred as to the *marketing mix or to 4Ps paradigm* – product, place (or distribution), price, promotion (or communication) – proposed by McCarthy (1960), that is, the specific techniques by which the firm seeks to meet consumers needs (the firm's commercial arm). The marketing mix paradigm includes the marketing tools that the manager combines in a specific way to deal with a specific marketing situation.

Borden (1964) groups these techniques in the following areas: product planning, pricing, branding, channels of distribution, personal selling, advertising, sales promotion, service, physical distribution and market research. Recognizing the special character of services as products, Booms and Bitner (1981) add, in addition to the standard 4Ps, an extra three Ps, totalling seven: *people*, any person coming into contact with customers, *process,* the "servuction" process involved in providing the service and the *physical evidence* provided to make the service tangible for the potential customer.

Several criticisms have been formulated against the marketing mix in the academic literature. For an extensive review, see Constantinides (2006) and Möller (2006). The most significant criticism of the 4Ps or 7Ps paradigm is its lack of strategic content, making it unfit as a planning instrument, in particular in turbulent environments. It is implicitly assumed in the marketing mix paradigm that the business to cover, the customers to serve, the competitors to outperform and the distributors to partner with are known and well identified. These strategic tasks are the most difficult to assume and will determine the long-term future of the firm. It is only once these strategic options are taken that the marketing mix paradigm becomes relevant.

A second important criticism is that, unconsciously, the marketing mix paradigm emphasizes an "inside-out" view of the market, whereas the marketing concept pretends to be an "outside-in" approach giving the primacy to customers. In the market orientation concept described in the following chapter, the 4Ps or 7Ps paradigm is analysed in a more customer-centric perspective in the framework of the "solution to a problem" approach.

Finally, a third criticism formulated in particular by Grönroos (1991, 1994) is that the marketing mix paradigm's focus is more on short-term market transactions than on building relationship with customers, an approach more appropriate for fast moving consumer goods (FMCG) markets but less relevant for services and B2B markets. Grönroos and his colleagues from the Nordic School (Gummesson, 1987, 1997) view marketing as an interactive process where relationship building and management are the priority objectives. Marion (2001) challenges this distinction between transaction and relationship marketing made by Grönroos. As soon as we have exchange, there is a relationship. A distinction between "limited" and "extensive" relationship would probably be more appropriate.

Still, today many firms are inclined to assimilate marketing with the marketing mix paradigm, which in fact is a *supply-driven* approach of the market. The objective is to use the understanding of consumers' needs to mould demand to the requirements of supply, thereby focusing on the needs of the seller. The true customer orientation concept is concerned with what can be done for customers by adapting supply to the expectations of demand, in a *win–win* perspective. To clarify the real role of marketing, the distinction made above (see Table 1.1) between strategic and operational marketing is essential.

1.2 STEPS IN IMPLEMENTING STRATEGIC MARKETING

The role of strategic marketing is (a) to lead the firm towards existing opportunities or (b) to create attractive opportunities, that is, opportunities which are adapted to its resources and know-how and which offer a potential for growth and profitability. The process of strategic marketing has a medium- to long-term horizon; its task is to specify the firm's mission, define objectives, elaborate a development strategy and ensure a balanced structure of the product portfolio. This process can be implemented in seven steps summarized here, but is discussed in more detail in Part 3 of this book.

Step 1: Reference market definition (see Chapter 8)

As put by Levitt (1960) and Abell (1980), the first question to address in a strategic thinking exercise is, "*What business are we in?*" The objective is to define the reference market in terms of generic needs in order to anchor the firm's business on stable ground and in a market-oriented perspective. The business definition is the starting point for strategy development. It helps identify the customers to be served, the competitors to surpass, the key success factors to master and the alternative technologies available for producing the service or the function sought by customers. The reference market definition does not imply that the firm should pursue all the options identified, but is helpful to delineate the battle field and to identify the opportunities and threats likely to come from substitute and/or complementary activities. Ideally, the business definition should be stated in terms narrow enough to provide practical guidance, yet broad enough to stimulate imaginative thinking, such as openings for product line extensions or for diversification into adjacent product areas.

Step 2: What is the diversity of needs in the reference market? (see Chapter 8)

In the majority of reference markets, there is a large diversity of needs and it is impossible to satisfy all customers with a single product or service. The "one size fits all" concept is obsolete in most advanced economies. Different consumers have varying desires and interests. This variety stems from basic variations of customers' expectations and benefits they seek from products. Increasingly, companies have found it essential to move away from mass marketing towards a target marketing strategy, where the focus is on one (or several) well-identified group(s) of customers. The objective is to sub-divide the market in more homogeneous sub-groups in order to adapt the firm's offering on the basis of a better understanding of their needs. Knowing how to creatively segment the market is one of the most important strategic skills a firm should have. Segmentation is generally done in two steps: macro- and micro-segmentation. Different methods of micro-segmentation exist: socio-demographic, benefit, behavioural and life style. The expected output is a segmentation grid describing the profile of the three or five (maximum) most important segments in qualitative (needs, buying habits, sensitivities to marketing variables, strength of competition, etc.) and quantitative terms (size, growth, profitability, etc.).

Step 3: How attractive is the business opportunity of the identified segments? (see Chapter 9)

Before deciding which segment(s) to target, the firm has to evaluate the intrinsic attractiveness of each segment, that is, its current size, absolute market potential, growth rate, accessibility, logistic support, competition intensity and so on. All those indicators are objective and out of the control of the firm. They describe the economic and competitive environment of each segment within which each competing firm operates. These market indicators can be evaluated through standard market research. Attractiveness indicators, and in particular sales potential estimates and projections, are used by general management to calibrate future investments and production capacity, should the firm decide to target one of these segments.

Step 4: Do we have a sustainable value proposition to propose to each segment? (see Chapter 10)

A market segment can be very attractive in itself, but not for a particular firm, given the skills and resources required to be a successful player. A firm should concentrate on those areas where its creative abilities lie. The objective here is to identify the kind of competitive advantage that the firm can enjoy in each segment and to assess its sustainability. Competitive advantage refers to those characteristics or attributes of a product or a brand that give the firm some superiority over its direct competitors while generating value to customers. A company can outperform rivals only if it can establish a difference that it can preserve. A strategic competitive advantage is more sustainable than an operational competitive advantage in the long term.

Step 5: Which segment(s) to target by priority? (see Chapter 11)

Having completed the market segmentation and the "attractiveness/competitiveness" analyses of the different product markets and segments, the next task is to decide what type of market coverage to adopt. Several market coverage strategies can be considered. In a *focused strategy,* market boundaries are defined narrowly. In a *full market coverage strategy*, two options exist: (a) a "mass marketing" strategy, where the firm focuses on what is common in the needs of customers rather than on what is different; (b) a "mass customization" strategy, where the firm approaches the market with a tailor-made programme for each segment. In a *mixed strategy*, the firm diversifies its activities to ensure that its portfolio of activities is well balanced in terms of profit and growth potentials and well diversified in terms of risks.

Step 6: How do we want to compete in the target segment(s)? (see Chapters 11 and 12)

Once the market coverage decisions are made, the next step is to decide on the positioning strategy to adopt within each targeted segment(s). Selection of the positioning strategy provides the unifying concept for the development of the marketing mix programme. This is one of the most critical steps in the implementation of strategic marketing, because the firm has to decide how to best differentiate its brand from competing brands. Positioning is defined as the decision made by the firm to choose the benefit(s) that the brand has to put forward to gain a distinctive place in the market. In a price-sensitive market, product positioning generally requires a lower price, because other sources of differentiation are not valued by target customers. For markets in which differentiation is possible and valued by target customers, three types of differentiation strategies are possible: product differentiation, price differentiation and image differentiation. The objective of the company will then be to communicate clearly the chosen positioning to potential customers so that it is clearly recorded in their minds.

Step 7: How to get a well-balanced product portfolio? (see Chapter 12)

The purpose of a product portfolio analysis is to help a multi-business firm decide how to allocate scarce resources among the target segments it competes in, called the *Strategic Business Units* (SBUs). Product portfolio analysis relates attractiveness and competitiveness indicators to help guide strategic thinking by suggesting specific marketing strategies to achieve a balanced mix of SBUs that will ensure growth and profit performance in the long run, given their differentiated positions along the attractiveness–competitiveness dimensions.

Portfolio analysis is obviously not a panacea, but it has the merit of emphasizing some important aspects of strategic management.

- It moderates excessively short-term vision by insisting on keeping a balance between immediately profitable activities and those that prepare the future.
- It encourages the firm to keep both market attractiveness and competitive potentials in mind.
- It establishes priorities in allocation of human as well as financial resources.
- It suggests differentiated development strategies per type of activity on a more data-oriented basis.
- It creates a common language throughout the organization and fixes clear objectives to reinforce motivation and facilitate control.

The output of these seven steps of the strategic marketing process constitutes the backbone of the operational marketing plan. Once the answers to these questions are obtained, the task remains to define the positioning options to be taken, to define the means required to achieve the stated objectives and, last but not least, to prepare a projected profit and loss statements for each activity and for the company as a whole.

1.3 MORE QUESTIONS ABOUT THE MARKETING CONCEPT

The term "marketing" itself generates ambiguity. In plain English it refers to the process of going to the market and the term implicitly places the emphasis on the "downstream" activities of the marketing process, that is, the marketing mix in action, and does not refer to the "upstream" activities that necessarily precede the market entry, that is, the confrontation of customers needs with the firm's creative abilities and skills.

Ambiguity of the term "marketing"

Many authors and managers do not make a careful distinction among *customer-oriented*, *marketing-oriented* and *market-driven*. They lean towards the traditional marketing concept to describe the orientation of a firm that stay close to its customers.

The linguistic definition of polysemy refers to "a word that has multiple but related meanings". Unlike finance people, marketing people are still divided in their understanding about the meaning of the word "marketing". The lack of consensus on language among managers – and in particular among chief executive officers (CEOs) – is evidenced by the answer received to the first interview question posed to a sample of CEOs: "How has marketing been changing in your company in the past three years?" The reply is along the lines of "that depends upon what you mean by marketing" (Webster, Malter and Ganesan, 2005, p. 36).

This level of confusion remains high among marketing practitioners and scholars as well. For example, while we will call "market-driven management" what the whole firm is doing to secure customer preference and thereby to achieve higher returns, Ambler (2000, p. 61) uses the term "pan-company marketing" and Kotler and Keller (2006, p. 17) the term "holistic marketing". In many sectors, companies tend to equate marketing with sales; others with brand management and sales; others with advertising, merchandising and sales and others with sales and communication, and so on. As stated by Kotler, Rackham and Krishnaswamy (2006, p.74), "All too often, organisations find that they have marketing function inside Sales and a sales function inside Marketing." This conceptual looseness and lack of semantic rigour are unworthy of a discipline having, since more than 60 years now, scientific and academic ambitions.

This definitional confusion about the labelling and the scope of the marketing concept creates problems, not only for the teaching of marketing, but more importantly for its implementation. We have seen many examples of poor marketing practices adopted in the name of the marketing concept. As stated by Christensen, Cook and Hall (2005), "Thirty thousand new consumer products are launched each year. But over 90% of them fail – and that's after marketing professionals have spent massive amounts of money trying to understand what their customers want. What's wrong with this picture? We believe that some of the fundamental paradigms of marketing are broken. We are not alone in that judgment." Even Procter & Gamble's (P&G) CEO A.G. Lafley (2005), cited in Christenson, Cook, and Hall (2005), arguably the best-positioned person in the world to make this call, says, "We need to reinvent the way we market to consumers. We need a new model." Rust, Moorman and Bhalla (2010) consider, for example, that the traditional marketing department must be reconfigured as a customer department that puts building customer relationships ahead of pushing specific products.

Performance of the marketing concept

The success of the marketing concept, born in the 1950s and adopted during the Golden 1960s, can be explained by the fact that both American and European companies were operating at that time in fast-growing seller markets, with demand larger than supply and well-known needs and wants.

Marketing has played an important role in the American and European market economies, not only by improving the productivity of the distributive system of goods and services but also because, by doing so, it has triggered a virtuous circle of economic development. The steps of this development process are the following:

- The marketing concept helps identify poorly satisfied or unmet market needs and stimulates the development of new or improved products.
- The tools of operational marketing (the *7Ps*) create and/or develop market demand for these new products or services.
- This increased demand generates cost decreases that make possible price reductions, thereby opening the market to new groups of customers.
- The resulting enlargement of the market requires new investments in production capacity that generates economies of scale and stimulates further efforts in R&D to create new generations of products.

These developments were so dramatic in the past 50 years that the period was characterized as the golden years of progress to the *Good Life*, as evidenced by the wide variety of modern discretionary purchase categories that were not even imaginable 100 years earlier: cars, televisions, videos, DVDs, computers, vacation homes, boats, recreational vehicles, pension funds, health clubs and widespread travel opportunities, and so on, with market penetration rates of well above 60 per cent observed in most industrialized countries.

The marketing concept has contributed to the development of a business democracy because:

- it starts with the analysis of the citizen-consumers' needs,
- it guides investment and production decisions on the basis of these expressed or anticipated market needs,
- it is respectful of the diversity of tastes and preferences by developing adapted products,
- it stimulates innovation and entrepreneurship.

In the 1970s, the development of strategic planning (Ansoff, 1965), with its emphasis on short-term financially oriented measures of management performance, contributed to the decline of management interest in the marketing concept. The major criticism (Webster, 1981, p. 11) was that marketing managers are generally unsophisticated in their understanding of the financial dimensions of marketing decisions and lack a bottom line orientation. They tend to focus more on sales volume and market share changes than on profit contribution and returns on assets. The challenge of measuring marketing performance is addressed in Chapter 21 of this book.

The changes in the business environment in the 1990s – saturation of core markets, technology-push innovations, globalization – have contributed to increase the complexity of markets and to reduce the effectiveness of traditional marketing practice. A resurgence of management interest for marketing has been observed in the 1990s (Webster, 1988 and Wind, 2008), with the development of the market orientation concept presented in the next chapter.

The risk of manipulative marketing

Despite the undisputable achievements of the marketing concept, several criticisms have been formulated about the marketing practice (Kaldor, 1971; Bell and Emory, 1971). The most severe criticism is the charge of *manipulative marketing*, through hard selling and misleading advertising, with the objective to mould demand to the requirements of supply instead of adapting supply to the expectations of the market (Table 1.3). In the 1960s, leading corporations have been accused of:

- misleading and manipulating children through TV advertising;
- producing merchandise with miracle ingredients which in fact are of little value;
- advertising ordinary or inferior features in a way to suggest that they are actually superior features;
- offering warranties for the consumer protection that are not understood by the consumer and, in fact, protecting the seller more than the buyer;
- using advertising in a way that exploits the agonies and anxieties of individuals.

The excesses of manipulative or "wild marketing" have led to the birth of countervailing powers (a) in the form of consumers' organizations (the consumerist movement) initiated by consumers in particular by Nader (1965) and (b) in the form of legislation which increasingly reinforces the protection of consumers' legal rights prompted by public authorities and (c) by self-discipline by companies and the adoption of rules of ethics that have contributed to the development of a more ethical behaviour. It is clear today that manipulative marketing is self-destructive for a company or for a brand and goes against its best long-term interest.

Marketing: a frightening word

In the popular language, the word marketing has become the synonym – in the best case – of selling but also of misleading, deceptive, untruthful, manipulating, boosting, superficial, window dressing. Why such contempt and how to explain the discrepancy between what the marketing concept pretends to be and its public perception?

This insidious fear of marketing is in everybody's mind. A preliminary explanation of this mistrust is clearly due to the too numerous cases of manipulative marketing still observed from time to time in industrialized markets. A more paradoxical explanation can be suggested, however (Lambin and Herman, 2001). If marketing, viewed as a process of market conquest, is guided by the rules of science – a belief generally held by public opinion – this would imply the existence of forms of determinism in the functioning of the market. In other words, cause and effects relationships or laws (even probabilistic laws), observable and measurable, that the firm can exploit to influence and even to manipulate consumers' behaviour in order to achieve its own growth and profit objectives would exist. This idea is worrying and is in contradiction with the free market ideology of the consumer-king, viewed as an independent economic decider. The marketing concept would disturb and

Table 1.3 Examples of manipulative marketing

– Sales of dangerous or defective products.
– Exaggeration of the product content through the use of flashy packaging design.
– Resorting to fraudulent practices with regard to price and delivery policies.
– Resorting to promotional techniques which exploit impulsive buyer behaviour.
– Advertisements which exploit the agonies or anxieties of individuals.
– Enticing people to over-consume using hard selling techniques.

Source: Lambin (2000/2007).

parasitize the natural spontaneity of the "invisible hand". The claimed individual freedom and the postulated autonomy – "I choose therefore I am"– seem to be incompatible with a deterministic marketing process.

We have to recognize, however, that the axiom of complete individual freedom is unrealistic because any individual in his or her role of decision-maker is a human being socially and culturally formed. This implies that the motives of his or her choice are more influenced by imitation and social conditioning than by rational deliberation and by psychic spontaneity – a reality sometimes difficult to accept – and this state of affairs can also explain the instinctive mistrust vis-à-vis marketing. Moreover, marketing professionals know perfectly well that the scientific nature of marketing is very relative and that few companies today are able to measure the profitability of their marketing efforts, even more modestly, to evaluate the effectiveness of their marketing and advertising investments. As discussed in Chapter 21, substantial progress is made today in linking marketing action and financial performance.

Is the marketing concept of universal application?

The marketing concept holds that products or services should be created in response to the expressed needs and wants of their consuming publics because that would be the way to meet the organization's own needs, whether these needs are financial profits or some other non-financial goals. Is this normative framework applicable for any organization insofar as they have customers and products? As argued by Kotler and Levy (1969), marketing constitutes an applied behavioural techno-science consisting of a set of functions, the core of which is the exchange transaction (Bagozzi, 1979). Such reasoning expanded the marketing concept from the realm of economically based exchange to resources-based exchange in a broad range of social organizations. Topics range from public transportation, to political campaigns, hospitals, universities and the arts.

In contradiction with this view, Hirschman (1983, p. 46) argued that the marketing concept – as a normative framework – is not applicable to two broad classes of producers, artists and ideologists, because their personal goals are not satisfied by commercial success. Typically, the artist is motivated by the need to achieve self-fulfilment via his or her creativity, that is, the creative process itself is intrinsically satisfying. Artists achieve success in their own eyes. Similarly, ideologists formulate beliefs about the nature of reality and values regarding desirable states of reality. These creators, like artists, formulate ideology largely out of a need for self-expression. This includes religious leaders who seek to have their own religion tenets accepted, but would not be willing to modify them to achieve greater market acceptance. These producers are characterized by "self-oriented creativity" and practice "product-centred marketing". For this category of creators, Hirschman (1983) states, "There are three potential audiences: (1) the self, the creator's own feelings of self fulfilment and satisfaction; (2) peers and industry professionals, such as other artists or ideologists or professional critics; and (3) the public at large, which may consist of one or several market segments." To the extent that personal and peer values conflict with those of the public at large, then the customer orientation advocated by the marketing concept is irrelevant.

Two other categories of producers do not rely on the marketing concept. The producer who has fixed established inventories or production facilities (sunk costs) and does not have the opportunity to tailor offerings to suit the needs of customers. Also, when product offerings are highly desirable but available in limited supply, there is little incentive for the marketer to seek out his or her customer. In these situations, the "production-oriented" or the "sales-oriented" concepts are more appropriate business philosophies (Lambin, 2000/2007).

Needed clarifications of the marketing concept

The marketing concept has meant little more than looking to the customer for guidance as to what can be sold at a profit, but several ambiguities remain in the interpretation of the concept. Also, key issues are left out and this reduces substantially the operational value of the concept for guidance of the firm. Several important questions remain unresolved.

- Does the marketing concept imply creating needs?
- Does the concept refer only to "expressed" needs or also latent or unarticulated needs?
- Does the concept assume that consumers know what is needed and are able to express their needs?
- Are consumers able to conceptualize and evaluate highly innovative product ideas and concepts proposed by R&D and laboratories?
- Is the objective short-term or long-term satisfaction? How to define and measure customer satisfaction?
- Who is the real customer? No distinction is made between the different customer roles: buyer, payer and user.
- Does the concept imply protection of customer's well-being and safety in the use of the product?
- How far should the firm go in promoting its products and in stimulating needs?
- Are individual needs' satisfaction always compatible with the common good and public interest?
- What about other buying influences? The concept refers to customers only: wholesalers, retailers and others actors in the distribution channels. What about influencers like doctors, architects or consultants who do not buy, do not use and do not pay, but recommend products or brands? What about other stakeholders like consumerists, ecologists?
- Profit for whom? For the shareholder only or for other stakeholders as well?
- Does integration of the marketing function implies that marketing should take over the other functions or simply direct these activities? How to organize the required cross-functional coordination?
- Should marketing be held accountable for the environmental side effects of its activities?

Particularly restrictive in the marketing concept is the exclusive focus on customers, completely ignoring the influence of other key market actors. Knowing what customers want is not too helpful (a) if competitors are already providing the same product or service; similarly, (b) if powerful distributors refuse to list the brand, preventing the firm to reach the targeted customers; or (c) if powerful influencers do not certify or shortlist the product, or, (d) last but not least, if powerful stakeholders decide to boycott the brand. The dominant orientation towards customers in the marketing concept has deflected attention from the pursuit of competitive advantage over other stakeholders.

These questions will be reviewed in more detail in the following chapters, but it is already clear that the marketing concept does not address these issues. The operational statement and labelling of a revised concept that more clearly shows what it is and what it is not, while taking into account the challenges of the new market environment, is necessary.

Chapter Summary

Marketing is both a business philosophy and an action-oriented process. Within the firm, marketing's function is twofold: (a) to create opportunities or to lead the firm towards market opportunities adapted to its resources and know-how and which offer a potential for profit and growth (strategic marketing); (b) to be the firm's commercial arm for achieving a targeted market share through the use of tactical means related to product, distribution, price and communication decisions (operational marketing). Strategic marketing has two roles: to be responsive and to be proactive in needs analysis. Strategic marketing can be implemented in seven steps that will re-examined one by one in the following chapters. Operational marketing can be transactional or relationship. Several aspects of the marketing concept have to be clarified and these questions will be examined in the following chapters.

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