principles of Marketing

MAMM 211

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Chapter One

Fundamental Concepts of Marketing

Topic Outline

1. Marketing Defined
2. The Marketing Process
3. The Changing Marketplace
4. History of Marketing Thought

1. What is Marketing?

- Many people think of marketing only as selling and advertising.
- However selling and advertising are only the tip of the marketing iceberg.
- Today marketing must be understood not in the old sense of making a sale---"telling and selling" – but in the new sense of "Satisfying customer needs".

Definition (cont…)

- There are many definitions of marketing.
- Why understanding the different definitions of marketing so important for marketing students?

1.1. Definition by AMA

- ‘Marketing consists of those activities involved in the flow of goods and services from the point of production to the point of consumption.’ (AMA, 1938)
- ‘Marketing is the process of planning and executing the conception, pricing, promotion and distribution of ideas, goods and services to create exchange and satisfy individual and organizational objectives.’ (AMA, 1985)

AMA (cont…)

- ‘Marketing is an organizational function and a set of processes for creating, communicating and delivering value to customers and for managing customer relationships in ways that benefit the organization and its stakeholders.’ (AMA, 2004)
- ‘Marketing is the activity, set of institutions, and processes for creating, communicating, delivering and exchanging offerings that have value for customers, clients, partners, and society at large.’ (AMA, 2007)

AMA (cont…)

- What substantial differences exist between the first formal definition of marketing (i.e. the AMA’s 1938 definition) and the one the AMA provided nearly 70 years later in 2007? What explains the changes, if any, in the definition?

1.2. Definition by Kotler and Armstrong (2012)

- Broadly, marketing is a social and managerial process by which individuals and organizations obtain what they need and want through creating and exchanging value with others.
- In narrow business context, marketing involves building profitable, value laden exchange relationships with customers.
- Hence, marketing is the process by which companies create value for customers and build strong customer relationships in order to capture value from customers in return

2. The Marketing Process

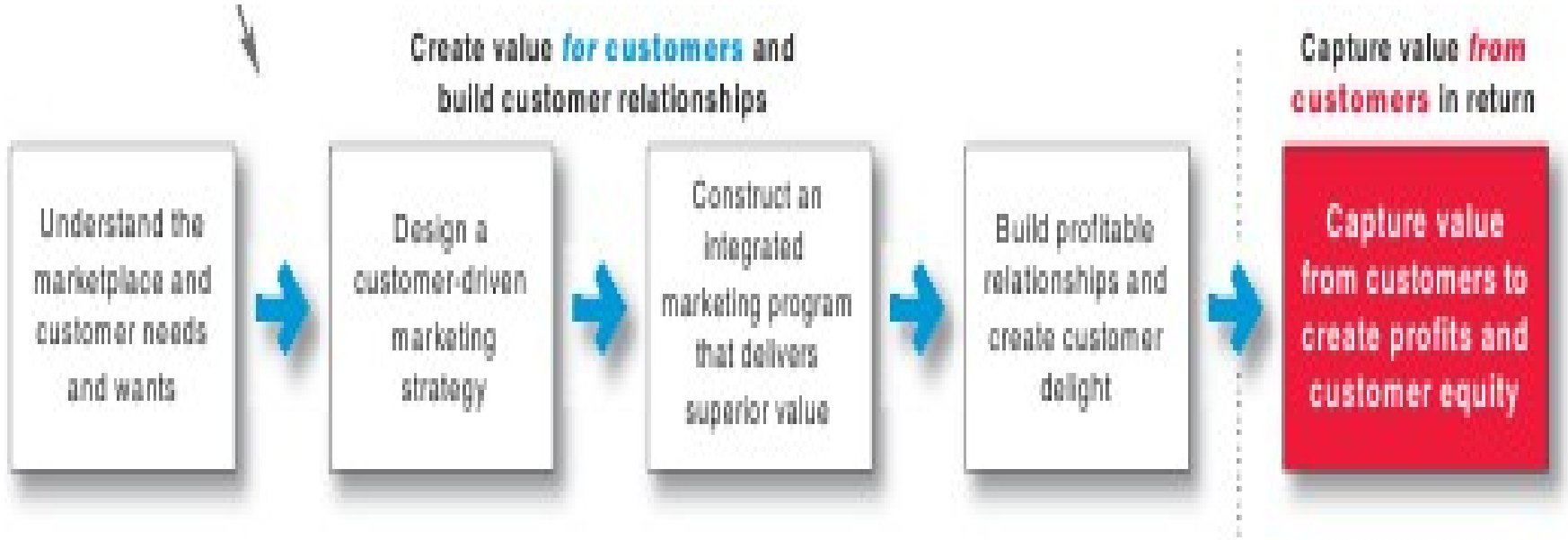


FIGURE | 1.1
A Simple Model of the Marketing Process

2.1. Understanding the Marketplace and Customer Needs

Customer and marketplace concepts/Core marketing concepts:

(1)needs, wants, and demands;

(2)market offerings (products, services, and experiences);

(3) value and satisfaction

(4)exchanges and relationships; and

(5)markets

Customer Needs (cont….)

1. **Needs, Wants, and Demands**

Needs

- Human **needs are** states of felt deprivation.
- They include basic physical needs, social needs, and individual needs
- Marketers did not create these needs; they are a basic part of the human makeup.

Wants

- Needs shaped by culture and individual personality
- They are specific satisfiers of human needs

Demand

- When backed by buying power, wants become demands.

Customer Needs (cont….)

2. **Market Offerings—Products, Services, and Experiences**

- Consumers' needs and wants are fulfilled through market offerings
- Offerings include products, services, information, or experiences as well as *persons, places, organizations, information,* and *ideas.*
- *Services*—activities or benefits offered for sale that are essentially intangible and do not result in the ownership of anything.
- **Marketing Myopia:** The mistake of paying more attention to the specific products a company offers than to the benefits and experiences produced by these products.

Customer Needs (cont….)

3. **Customer Value and Satisfaction**

- Customers form expectations about the value and satisfaction that various market offerings will deliver and buy accordingly.
- Value is the consumer's estimate of the product's overall capacity to satisfy his or her needs.
- Value is a measure of the usefulness of a product.
- It is the ratio between what the customer gets and what he gives.

Customer Needs (cont….)

- Marketers must be careful to set the right level of expectations; avoid too low and too high expectation levels
- Customer value and customer satisfaction are key building blocks for developing and managing customer relationships.

Customer Needs (cont….)

4. **Exchanges and Relationships**

- The act of obtaining a desired object from someone by offering something in return.
- Major conditions for exchange:
  - There are at least two parties.
  - Each party has something that might be of value to the other party.
  - Each party is capable of communication and delivery
  - Each party is free to accept or reject the exchange offer.
  - Each party believes it is appropriate or desirable to deal with the other party.
- **Transaction**: It takes place when the two parties reach into an agreement.

Customer Needs (cont….)

5. **Market**

- The set of all actual and potential buyers of a product or service.
- There are five types of customer markets:
  - Consumer markets
  - Business/industrial markets
  - Reseller markets
  - Government markets
  - International markets

2.2. Designing a Customer Driven Marketing Strategy

- Once it fully understands consumers and the marketplace, marketing management can design a customer-driven marketing strategy.
- **Marketing management** is the art and science of choosing target markets and building profitable relationships with them.
- The marketing manager’s aim is to find, attract, keep, and grow target customers by creating, delivering, and communicating superior customer value.
- Marketing management is demand management: affect the level, timing, and nature of demand in a way that helps the organization achieve its objectives.

Marketing Mgt. (cont…)

- To design a winning marketing strategy, the marketing manager must answer two important questions:

1. What customers will we serve (what's our target market)? (segmentation and targeting)
2. How can we serve these customers best (what's our value proposition)
   - ✓ decision on how to *differentiate and position the company in the marketplace.*
   - ✓ a brand's *value proposition is the set of benefits or values* it promises to deliver to consumers to satisfy their needs
   - ✓ value propositions differentiate one brand from another

Marketing Mgt. (cont…)

1. **Demand Management**

- ***Negative Demand:*** dislikes the product and avoids it
- ***No Demand:*** lack of awareness or interest
- ***Latent Demand:*** need that can't be satisfied by existing products.
- ***Declining Demand:*** lower demand in the market
- ***Irregular Demand:*** varying demand by season, day or hour
- ***Full demand:*** a satisfying level of demand
- ***Overfull Demand:*** more demand than can be handled or delivered
- ***Unwholesome demand:*** demand for unhealthy or dangerous products.

Marketing Mgt. (cont…)

2. Marketing Management Orientations

- What philosophy should guide marketing mangers' effort to develop strategies?
- What weight should be given to the interests of customers, the organization, and society?
- Very often, these interests conflict.
- There are five alternative concepts under which organizations design and carry out their marketing strategies:
  - Production Concept
  - Product Concept
  - Selling Concept
  - Marketing Concept
  - Societal Marketing Concepts.

Marketing Mgt (cont…)

Production concept

- The idea that consumers will favor products that are available and highly affordable and that the organization should therefore focus on improving production and distribution efficiency.
- It is one of the oldest orientations that guides sellers.
- ***Can lead to marketing myopia***-risk of focusing too narrowly on their own operations and losing sight of the real objective
- It is still a useful philosophy in some situations.
- For example, computer maker Lenovo dominates the highly competitive, price-sensitive Chinese PC market through low labor costs, high production efficiency, and mass distribution.

Marketing Mgt (cont…)

- Marketers assume that consumers are primarily interested in product availability and low prices
- The production concept is useful:
  - When demand for a product exceeds the supply
  - When the product's cost is too high and improved productivity is needed to bring it down
  - In developing countries, where consumers are more interested in obtaining the product than its features.
  - When a company wants to expand its market.

Marketing Mgt. (cont…)

Product concept

- The idea that consumers will favor products that offer the most quality, performance, and features and that the organization should therefore devote its energy to making continuous product improvements.
- Marketing strategy focuses on making continuous product improvements
- Focusing *only on the company's products can also lead to marketing myopia*

Marketing Mgt.(cont…)

Selling concept

- The idea that consumers will not buy enough of the firm’s products unless it undertakes a large-scale selling and promotion effort.
- The aim of aggressive selling: sell what the company makes rather than making what the market wants
- practiced with unsought goods
- Successful when organizations track down prospects selling them on product benefits
- Practiced when they have over capacity
- Carries high risks

Marketing Mgt. (cont…)

Marketing concept

- Achieving organizational goals depends on knowing the needs and wants of target markets and delivering the desired satisfactions better than competitors do.
- Customer focus and value are the *paths to* sales and profits
- Customer-driven and customer-driving
- ***The Marketing concept rests on four pillars***: target market, customer needs, integrated marketing, and profitability.

Marketing Mgt. (cont…)

Market versus Internally Driven Businesses

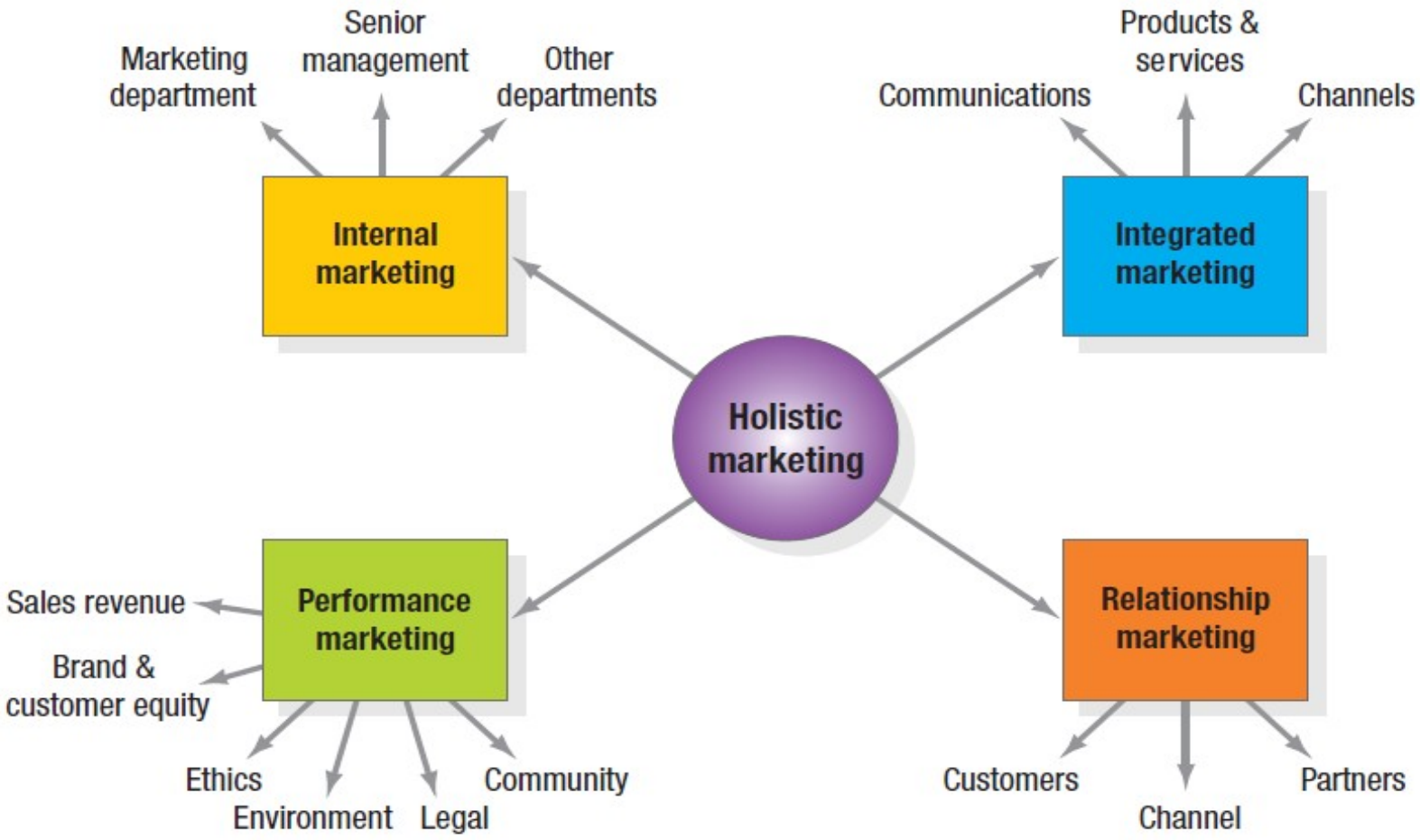
- customer concern throughout the business
- know how products and services are being evaluated against competition
- base segmentation analyses on customer differences
- consider marketing research expenditure as investment
- understand competitive objectives and strategies and anticipate competitive actions.
- employees who take risks and are innovative are rewarded.
- fast to respond to latent markets, innovate, manufacture and distribute their products and services.

Marketing Mgt. (cont…)

Societal marketing concept

- Consider consumers' wants, the company's requirements, consumers' long-run interests, and society's long-run interests.
- The societal concept calls upon marketers to balance three considerations in setting their marketing policies.
  - Company profits
  - Customers wants
  - Society's interest

Marketing Mgt. (cont…)



2.3. Preparing an Integrated Marketing Plan and Program

- The marketing program builds customer relationships by transforming the marketing strategy into action.
- It consists of the firm's *marketing mix, the set of marketing tools the firm uses to implement its* marketing strategy.
- To deliver on its value proposition, the firm must
  - first create a need-satisfying market offering (product).
  - decide how much it will charge for the offering (price)
  - how it will make the offering available to target consumers (place).
  - communicate with target customers about the offering and persuade them of its merits (promotion).
- Blend each marketing mix tool into a comprehensive *integrated marketing program that communicates and delivers the intended* value to chosen customers.

Marketing Program (cont…)

Developing an Effective Marketing Mix

- McCarthy (1964) classified various marketing activities into marketing-mix tools
- The ‘4-Ps’ are the four key decision areas
- There are four hallmarks of an effective marketing mix. The marketing mix:
  - matches customer needs
  - creates a competitive advantage
  - should be well blended
  - should match corporate resources
- Updating the Four Ps: the 4Ps revised to fit **modern marketing realities**

2.4. Building Customer Relationship

Customer relationship management

- The overall process of building and maintaining profitable customer relationships by delivering superior customer value and satisfaction.
- Relationship Building Blocks: Customer Value and Satisfaction
- Customer-perceived value
  - The customer’s evaluation of the difference between all the benefits and all the costs of a marketing offer relative to those of competing offers.
- Customer satisfaction
  - The extent to which a product’s perceived performance matches a buyer’s expectations.

2.5. Capturing Value from Customers

- The final step involves capturing value in return in the form of current and future sales, market share, and profits.
- By creating superior customer value, the firm creates highly satisfied customers who stay loyal and buy more. This, in turn, means greater long-run returns for the firm.

3. The Changing Marketing Landscape

- The major trends and forces that are changing the marketing landscape and challenging marketing strategy:
  - the uncertain economic environment,
  - the digital age,
  - rapid globalization,
  - the call for more ethics and social responsibility,
  - the growth of not-for-profit marketing

4. History of Marketing Thought

- As a discipline, marketing is in the process of transition from an art which is practiced to a profession with strong theoretical foundations.
- Development phases: Art → Applied Science → Sound Theoretical Foundation
- Marketing history Vs. the history of marketing thought
  - ✓ marketing history provides an account of how marketing practice developed and
  - ✓ the history of marketing thought provides an account of how ideas about marketing developed.

Marketing Thought (cont…)

- Why understanding the history of marketing thought so important?
  - The classic justification for history is that those who don't know their past are doomed to repeat its mistakes.
  - History establishes a baseline for recognizing changes in theory.
  - To frame the right questions to ask in teaching and research
  - To provide a framework for building and integrating knowledge.
  - It gives us an intellectual heritage and sense of origin.

Marketing Thought (cont…)

What is a school of thought?

- School of marketing thought is defined as "a substantial body of knowledge developed by a number of scholars describing at least one aspect of the
  - what
  - how
  - who
  - why
  - when, and
  - where of performing marketing activities."

Marketing Thought (cont…)

1. ***Marketing functions school***: what is the work of marketing?
2. ***Commodities school***: how are different classes of goods marketed?
3. ***Institutional school***: who does the work of marketing
4. ***Marketing management school***: how should organizations market their products and services?
5. ***Marketing systems school***: what is a marketing system? Why does it exist? Who engages in marketing? Where and when is marketing performed? How does it work? How well is the marketing system performing?

Marketing Thought (cont…)

6. ***Consumer behavior school***
   - ✓ eclectic schools of thought
   - ✓ initially dealt with questions of buying (search and selection) and consuming (use and disposal).
7. ***Macro-marketing school:***
   - ✓ how does the marketing system impact society? Or
   - ✓ how does society impact the marketing system?

Marketing Thought (cont…)

8. Exchange school:

- ✓ who are the parties to an exchange?
- ✓ What is the motivation of the parties to reach agreement?
- ✓ What is the context of exchange?
- ✓ How does market exchange differ from other exchanges

9. Marketing history school:

- ✓ when practices and techniques, concepts and theories were introduced and developed over time