



Seventh Edition

# FOUNDATIONS OF MARKETING

John Fahy and David Jobber

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John Fahy and David Jobber

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# Dedication

*To my Dad, Michael  
For showing me the way*

*John Fahy*

# About the Authors



**John Fahy** is Professor of Marketing at the University of Limerick in Ireland and Adjunct Professor of Marketing at the University of Adelaide, Australia. He has a distinguished track record of teaching and research in the fields of marketing and business strategy. In particular, he is known for his work in the area of marketing resources and capabilities, and how these factors impact on organizational performance. He is a founder member of the MC21 group, which conducted research on marketing resources and performance across 15 countries. An eclectic thinker, his work draws on insights from marketing strategy, behavioural economics, evolutionary psychology and neuroscience. Other current research interests include customer value, evolutionary perspectives on marketing, and strategic leadership. He is the author of more than 100 refereed articles and his work has been published in several leading titles, including the *Journal of Marketing*, *Journal of*

*International Business Studies*, *Journal of Business Research*, *Journal of Marketing Management*, *European Journal of Marketing*, *International Business Review* and the *Sloan Management Review*. His *Journal of Marketing* paper on sustainable competitive advantage has been cited more than 2,400 times. He is also the winner of several major international research awards, such as the AMA Services Marketing Paper of the Year Award and the Chartered Institute of Marketing Best Paper Award at the Academy of Marketing Annual Conference.

Professor Fahy is also a renowned teacher, with a particular expertise in working with MBA and executive groups, and was awarded the prestigious Shannon Consortium Regional Teaching Excellence Award in 2012. His skills have been in demand around the world – he has worked with students in Australia, Japan, Hungary, Ireland, New Zealand, Russia, Singapore, the UK and the USA. The focus of his executive work is on bridging the gap between academic insight and the commercial realities facing organizations. He has been extensively involved in both open and custom programmes in Ireland and abroad, with companies such as Abbvie, Alexion, Analog Devices, Fexco, Glanbia, Pfizer, Promet and Syngenta. He is the author of several award-winning business case studies and has also been involved in the development of new pedagogical materials, such as a series of business videos where he interviews some leading marketing managers about recent strategic initiatives in their organizations. Further details can be found at [www.johnfahy.net](http://www.johnfahy.net).

Professor Fahy currently holds the Chair in Marketing at the University of Limerick. Prior to this he worked at Trinity College, Dublin, and he holds a master's degree from Texas A&M University and a Doctorate from Trinity College. Outside of work his passions include family, music, sport, food and travel.



**David Jobber** is an internationally recognized marketing academic. He is Professor of Marketing at the University of Bradford School of Management. He holds an honours degree in Economics from the University of Manchester, a master's degree from the University of Warwick and a doctorate from the University of Bradford.

Before joining the faculty at the Bradford Management Centre, David worked for the TI Group in marketing and sales, and was Senior Lecturer in Marketing at the University of Huddersfield. He has wide experience of teaching core marketing courses at undergraduate, postgraduate and post-experience levels. His specialisms are industrial marketing, sales management and marketing research. He has a proven, ratings-based record of teaching achievements at all levels. His competence in teaching is reflected in visiting appointments at the universities of Aston, Lancaster, Loughborough and Warwick in the UK, and the University of Wellington, New Zealand. He has taught marketing to executives of such international companies as BP, Croda International, Allied Domecq, the BBC, Bass, Royal & Sun Alliance, Rolls-Royce and Rio Tinto.

Supporting his teaching is a record of achievement in academic research. David has more than 150 publications in the marketing area in such journals as the *International Journal of Research in Marketing*, *MIS Quarterly*, *Strategic Management Journal*, *Journal of International Business Studies*, *Journal of Management*, *Journal of Business Research*, *Journal of Product Innovation Management* and the *Journal of Personal Selling and Sales Management*. David has served on the editorial boards of the *International Journal of Research in Marketing*, *Journal of Personal Selling and Sales Management*, *European Journal of Marketing* and the *Journal of Marketing Management*. He has acted as special adviser to the Research Assessment Exercise panel that rates research output from business and management schools throughout the UK. In 2008, he received the Academy of Marketing's Life Achievement award for distinguished and extraordinary services to marketing.



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# Preface to the Seventh Edition

Welcome to this seventh edition of *Foundations of Marketing*. Once again, the short time between editions has been characterized by remarkable levels of change. In the early months of 2020, the world was busy getting on with business as usual, such as trying to keep pace with developments in technology, changing consumer tastes, responding to the need for greater levels of sustainability, and so on. Media reports of a strange new respiratory virus emanating from China were getting attention, but it was not considered as something to be too concerned about. Yet by March of that year, large parts of the world literally began to shut down. People were advised to work from home and travel outside of their homes only for essential reasons such as to buy food or take exercise. Air travel was suspended or drastically reduced, and fleets of aircraft were grounded. Schools and universities were closed and education moved online. Many forms of social activity came to a halt. The COVID-19 pandemic was here and likely to persist for much longer than anyone wished. Another 'new normal' in the ever-changing world we inhabit had arrived.

In the context of this rapidly changing world, the field of marketing also evolves and changes. First and foremost, marketing is a field of practice. All kinds of organizations invest in marketing for reasons that range from communicating their missions and messages to trying to grow their revenues and market share. One of the most appealing features of the field is that it never stands still. Innovation is constant. Businesses bring out new products and new business ideas emerge all the time. This book provides many examples of contemporary organizations that are disrupting industries and creating new forms of value for customers. But being innovative is not enough, organizations must also communicate their messages in a marketplace that is noisy and in a media landscape that is becoming ever more fragmented. Again, innovation is the key here. Finding new ways to reach and engage with consumers has never been more important.

The study of marketing today encompasses much more, however. When we study marketing we also think about the consumer and how they interact with the organizations they encounter in everyday life. Consuming, at a simple level, involves satisfying needs and wants but at a deeper level involves extending the self and projecting that self in society. People consume for rational reasons and also emotional ones. They aspire to own certain brands and they disregard others. Increasingly, many consumers are becoming more thoughtful and conscious with regard to the brands they consider. They want to know if these brands are behaving sustainably, and whether or not they are engaged in practices that damage the environment or exploit their workforces. Cancel culture is not just a social phenomenon but a business one as well. And, at a wider level, the crises that are climate change, pollution and resource depletion are forcing everyone to think about how they can change their behaviour to ensure the sustainability of life on the planet.

## The seventh edition

Before you dive in to the detail of the chapters, below is an overview of some of the main features of this seventh edition.

### *Technology and marketing*

Technology has always been central to the practice of marketing in that marketing seeks to employ the technologies of the day in its activities. Consequently, the past 10 years has seen a clamour in the field to adopt the practices of digital marketing, which for many meant the use of digital technologies as a vehicle for marketing communications. Unfortunately for many practitioners this meant throwing out tried and trusted techniques in favour of making investments in less well understood arenas such as programmatic advertising and search advertising, often with negative consequences. This book has always taken the approach of thinking critically about the implementation of technology in marketing. This edition continues with that approach as we evaluate how technology is influencing the many different subfields in marketing, but also balancing this with a recognition that new is not always better. Big data and social listening are changing how we gather customer insights, but ethnographic work and observation can still play a key role in uncovering qualitative insights. Technology enables one-to-one marketing, particularly online, but mass marketing is a popular



approach in other arenas. And while many offline brands are moving most of their marketing budgets to online and social channels, we see the paradox that is social platforms and e-commerce businesses spending heavily on traditional media like television and sponsorship to build their brands. This book explores these nuances while also looking at some of the latest technologies, such as machine learning, that are beginning to play a big role in the field.

### *Sustainability and critical marketing*

While the world economy hurtles along, there have been many academics and commentators whose research provides pertinent pause for thought. A number of books in the area of political economy either question the merits of capitalism or are predicting its demise in the very near future. The consequences of the capitalist project are everywhere to be seen, from pollution-induced climate change to the depletion of the Earth's resources to the ever widening gap between the rich and poor to the human suffering caused by global migration. Throughout the world, the practice of marketing is inextricably linked with the well-being of society. Therefore, it cannot be viewed in an ideologically neutral way. This book invites the reader to critically reflect on the principles and practice of marketing throughout. In particular, it includes 12 Critical Marketing Perspective vignettes that outline contentious aspects of marketing and invite the reader to evaluate arguments from both sides of the debate, along with a guide to further reading on the subject matter. We also review some important developments in the field of sustainability, such as the circular economy.

### *Diversity*

In the past decade, there has been a long overdue recognition of the need for greater levels of diversity in organizational life. Initially, this was thought of in terms of gender and the need to have greater representation of women on boards and senior teams. But concepts of diversity have expanded greatly to include sex, race, ethnicity, age, and so on. It has also moved beyond representation in management to thinking about diverse markets and subcultures, and how to cater for consumer diversity in products and communications. Research and practice in the field of diversity is a key feature of this edition.

### **Learning about marketing**

Marketing is an interesting and exciting subject that is at the core of our lives both as consumers and as employees or managers in organizations. Therefore the focus of this book has always been on blending conceptual insights with the contemporary world of marketing practice. As such it retains the popular features of previous editions and adds several new ones.

Insights from the world of practice feature in myriad ways. Each chapter begins with a Marketing Spotlight focusing on the marketing activities and challenges facing some well-known global enterprises, which sets the scene for the content that follows and includes questions designed to improve critical thinking. In addition, there are 36 new Marketing in Action vignettes throughout the book that focus on the activities of a variety of organizations, large and small, public and private. Roughly one-third of these organizations are based in the UK/Ireland, one-third in Europe and one-third are from around the world, giving a wide geographic breadth. Each of these inserts contains discussion questions designed to improve critical thinking and learning. In addition, 12 new and updated end-of-chapter cases, with a similarly wide geographic spread, are included to provide more detailed problems for analysis and discussion.

Although the text is foundational, it also provides students with an introduction to many of the concepts in the marketing literature. Included, among other topics, are consumer culture theory, semiotics, multi-sensory marketing, experiential marketing, search engine optimization, ambient marketing, value co-creation and marketing metrics. These concepts are presented in an accessible way, to enable students to learn both the classic and contemporary elements of effective marketing.

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# Guided Tour

## Chapter Outline and Learning Outcomes

The topics covered and a set of outcomes are included at the start of each chapter, summarizing what to expect from each chapter.

### Chapter outline

What is marketing?  
 The nature of customer value  
 The development of marketing  
 The scope of marketing  
 Marketing, consumption and society

### Learning outcomes

By the end of this chapter you will:

- 1 Understand what marketing is
- 2 Understand the nature of customer value
- 3 Describe how marketing thought has developed over the years
- 4 Explain the scope of marketing
- 5 Understand marketing from the perspective of the consumer
- 6 Critique the role of marketing in society

MARKETING SPOTLIGHT

The rise of Gymshark

In our modern consumer society, it would be very easy to conclude that we have access to all the products we could possibly need. For example, in the world of sportswear we have the choice of global brands like Adidas, Nike, Under Armour and Lululemon, to name but a few. Nevertheless, the success of the UK-based Gymshark, shows that consumers are always interested in something new and different, and with this comes the market opportunities that businesses crave. Gymshark's origins were very modest. The company was founded in 2012 by Ben Francis when he was just 19 years old. A keen fitness enthusiast, his grandmother had shown him how to use a sewing machine and he and some friends began making the kinds of gym vests and T-shirts that they liked. At this time, he was still a university student who also delivered pizzas in the evening, and he balanced all these activities for two years before finally quitting college to focus on his new enterprise. By 2020, Gymshark had reported annual revenues of £260 million, profits of £30 million and had an estimated market valuation of £1 billion.

Several aspects of marketing have been central to Gymshark's extraordinary success. First was its clear focus on one target market, namely 18–25 year olds, whose lives revolve around fitness, fashion and music. This was a segment of the market that had been missed by existing brands, who

## Marketing Spotlight

A lively vignette begins each chapter to introduce the main topic and show how marketing works in real life.

## Marketing in Action

In each chapter you'll find these fun, informative examples of marketing in action, which show how the issues covered in the chapter affect real-life companies and products. Each Marketing in Action vignette has a Critical Thinking box to provoke discussion and encourage critical reflection on that topic.

Marketing in Action I.I  
Gousto: a new recipe for home cooking

**Critical Thinking:** Below is a review of the growth of Gousto, a market leader in the recipe box business. Read it carefully and consider the kinds of customer value delivered by the company that has enabled it to grow in a competitive market space.

Cooking meals at home is a good example of how markets change and evolve. In many ways the basics have been the same for decades: we buy our ingredients, mainly from supermarkets, store them in our

Critical Marketing Perspective I.I  
Marketing: good or evil?

It is possible to look at marketing from different standpoints. A positive view holds that marketing provides significant benefits to society. For example, the innovative efforts of companies provide us, as consumers, with a world of choice and diversity. A Google search allows us to find information on anything we want; with an app on their iPhone, doctors no longer need a stethoscope to examine patients, and retailers like Amazon and eBay allow us to shop from anywhere. The innovations of tomorrow will bring us more new and appealing products, services and solutions. Second, as the practice of marketing improves, our particular needs are increasingly being met. If we eat only gluten-free products, love skiing and have a passion for Japanese origami, there are organizations that will fulfil these needs. As firms collect more information about their customers, they will tailor solutions to meet specific user requirements. Finally, the competition between firms continually forces them to improve their services and products, and deliver extra value to customers. For example, the videoconferencing services provided by companies like Cisco, Microsoft and Zoom allowed business, educational and personal interactions to continue when much of the world was effectively shut down by the COVID-19 pandemic. At the same time, marketing is also the subject of some trenchant criticism. For example, it is seen as not only fulfilling needs but also creating unnecessary wants. Critics argue that companies use sophisticated marketing techniques to create aspirations and to get consumers to buy products

## Critical Marketing Perspective

Critical Marketing Perspective boxes are located throughout the book, designed to highlight ethical issues, and provoke discussion and critical reflection.

Exhibit 11 Coca-Cola Life failed to meet the needs of its target market segment and was withdrawn after less than three years.



Grisana P/Shutterstock

Table 11 Market-orientated businesses vs internally orientated businesses

Market-orientated businesses	Internally orientated businesses
Customer concerns throughout business	Convenience comes first
Know customer choice criteria and match with marketing mix	Assume price and product perform most sales
Segment by customer differences	Segment by product
Invest in market research (MR) and track market change	Rely on anecdotes and received wisdom
Welcome change	Cherish status quo
Try to understand competition	Ignore competition
Marketing spend regarded as an investment	Marketing spend regarded as a tax
Innovation rewarded	Innovation punished
Search for latest markets	Stick with the same
Be fast	Why rush?
Strive for competitive advantage	Happy to be no-too

## Exhibits, figures and tables

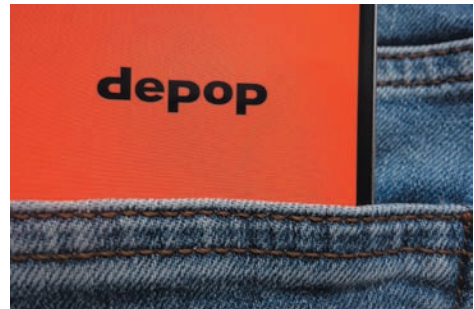
We've included a hand-selected array of contemporary adverts and images to show marketing in action. Key concepts and models are illustrated using figures, tables and charts.

## End-of-chapter case studies

Every chapter has its own case study, directly relating to the issues discussed and designed to bring the theories to life. See page xi for a full list of companies and issues covered. Questions are included for class work, assignments and revision, and to promote critical reflection.

### Case 1

Depop: sustainable fashion in challenging times



#### Introduction to Depop

Depop was developed by entrepreneur Simon Beckerman in 2011; it subsequently launched in Italy in 2013 and relocated to London in 2015. The company has expanded globally and also has offices in New York and Sydney. Depop has been described as an eBay/Insta-style marketplace predominantly used by Generation Z entrepreneurs and consumers alike. In recent times, Depop has gained a following of 30 million users across 150 countries, a number that tripled in less than three years, accelerated by the onset of the COVID-19 pandemic and an exponential growth in online shopping. Most Depop users comprise Gen Z consumers aged mainly under

### Summary

This chapter has introduced the concept of marketing, and discussed the role it plays in business, consumption and society. In particular, the following issues were addressed.

1. What is meant by the marketing concept? The key idea here is that it is a business philosophy that puts the customer at the centre of things. Implementing the marketing concept requires a focus on customer satisfaction, an integrated effort throughout the company and a belief that corporate goals can be achieved through customer satisfaction.
2. The idea of customer value, which is the difference between the perceived benefits from consuming a product or service and the perceived sacrifice involved in doing so. Customers are faced with a wide variety of choices in most instances, therefore companies need to clearly spell out what value they are offering and this forms their customer value proposition.
3. That marketing as both a field of study and a field of practice is constantly evolving. The way that we think about marketing has moved from an internal focus on production and sales towards a more outward-looking focus on customers and markets. These market-driven organizations are better placed to succeed in rapidly changing competitive environments.
4. That the central role of marketing in the organization is to provide a greater understanding of the needs and wants of consumers. Recent developments in technology such as data mining and machine learning are playing an ever more important role in generating these insights.
5. That the scope of marketing is broad, involving non-business as well as business contexts. Political parties, educational institutions, sporting organizations, religious organizations and others are regular users of marketing.

(continued)

### Study questions

1. Discuss the development of marketing. What are the critical ways in which marketing has changed over the years?
2. Identify two examples of organizations that you consider provide customer value, and describe how they do it.
3. Select one influencer or celebrity that you follow online. Describe how they have used marketing to build their brand.
4. Marketing is central to how we live our lives. Discuss.
5. Rather than assisting in the creation of value, marketing is responsible for many of society's ills. Discuss.
6. Visit the Chartered Institute of Marketing content hub [www.cim.co.uk/exchange/](http://www.cim.co.uk/exchange/). Select any story currently featured that interests you and summarize three key learning points from the article.

## End-of-chapter material

The Chapter Summary reinforces the main topics, to make sure you have acquired a solid understanding. Study questions allow you to apply your understanding and think critically about the topics. Suggested reading and References direct you towards the best sources for further research.

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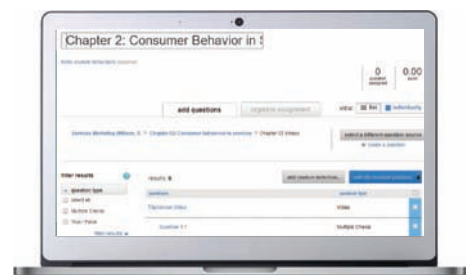


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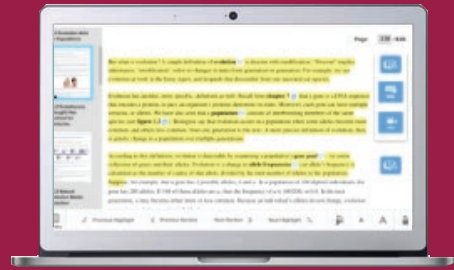
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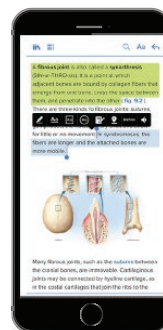
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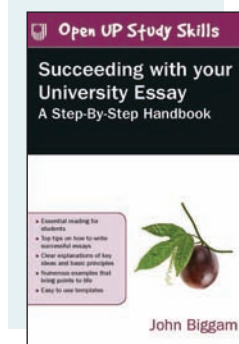
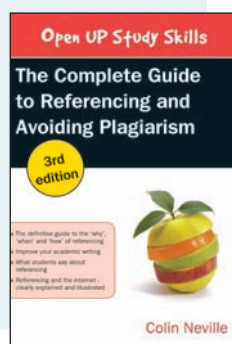
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## Part

# The Market-Led Organization

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| 1. The nature of marketing                        | 2   |
| 2. Marketing strategy and planning                | 28  |
| 3. Understanding customer behaviour               | 58  |
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## Chapter I

# The Nature of Marketing

### Chapter outline

What is marketing?

The nature of customer value

The development of marketing

The scope of marketing

Marketing, consumption and society

### Learning outcomes

By the end of this chapter you will:

- 1 Understand what marketing is
- 2 Understand the nature of customer value
- 3 Describe how marketing thought has developed over the years
- 4 Explain the scope of marketing
- 5 Understand marketing from the perspective of the consumer
- 6 Critique the role of marketing in society

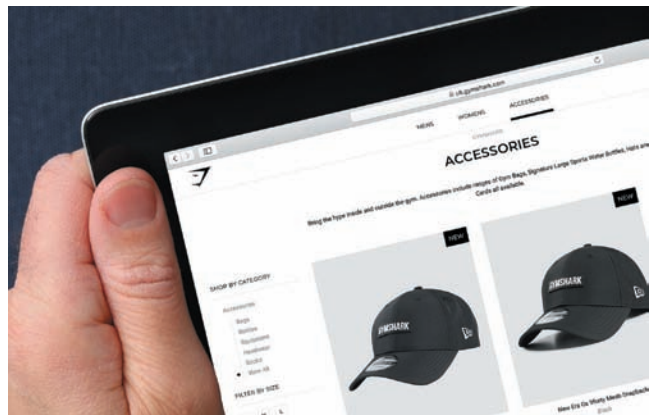
## MARKETING SPOTLIGHT

### The rise of Gymshark

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Several aspects of marketing have been central to Gymshark's extraordinary success. First was its clear focus on one target market, namely 18–25 year olds, whose lives revolve around fitness, fashion and music. This was a segment of the market that had been missed by existing brands, who were focusing on body building gear for older consumers that was not very suitable for slim teenagers. Second, the company has shown a high level of focus on its customers. One celebrated example of this was when its website crashed during a Black Friday sale in 2015, resulting in many shoppers not being able to get the deals they were looking for. Francis personally hand-wrote 2,500 apology letters to those not able to make purchases and included new discounts for them. Third, Gymshark has built a value proposition around stylish, fashionable gym gear that is only available direct through its website. And fourth, awareness of the brand has been built through the effective use of influencers and social media rather than traditional techniques like television advertising.

With little money to spend on marketing communications in its early days, Francis reached out to prominent bodybuilders that he was a fan of who had large followings on YouTube, such as Matt Ogus, Chris Lavado and Lex Griffin, and asked if they would be happy to receive samples. The response was positive and relationships were built with these athletes, who provided both feedback on the products to Ben as well as endorsing the brand online. From primarily male athletes in the beginning, Gymshark expanded to include female influencers such as the likes of Nikki Blackletter, who had two million followers on Instagram. The use of these influencers and ambassadors has been central to building international awareness for the brand. The company cultivated and managed these relationships very carefully and has favoured long-term partnerships with 'Gymshark athletes', as they are known, who hold similar values to the company, rather than going with people who might be popular at a point in time. The Gymshark brand community has been built up through a combination of extensive activity on its YouTube, Facebook, Instagram, Twitter, Pinterest and TikTok social media channels, giving it an estimated combined audience of 65 million followers in 2021.



True Images/Alamy Stock Photo

(continued)

## 4 Chapter I The Nature of Marketing

Ben Francis created a YouTube channel to document the Gymshark story and to answer questions about the company. Subscribers have the opportunity to follow the brand's story as it unfolds. In addition to this, Gymshark conducted offline marketing through brand expos and pop-up shop events, where fans got the opportunity to meet and interact with their favourite fitness influencers. This in turn created the opportunity for the development of user-generated content, further expanding awareness, such as its '66 days/change your life' challenge (#Gymshark66) on TikTok, where followers were asked to choose a personal goal and post updates on their progress.<sup>1</sup>

### Questions

1. What role did marketing play in the success of Gymshark?
2. What does the brand have to do to maintain its success?

The activities of companies both reflect and shape the world in which we live. For example, some have argued that the invention of the motor car has defined the way we live today because it allowed personal mobility on a scale that had never been seen before. It contributed to the growth of city suburbs, to increased recreation and to an upsurge in consumer credit. It gave us shopping malls, theme parks, motels, a fast-food industry and a generation of road movies. The COVID-19 pandemic, which began in 2020, was a dramatic shock to the world that also had a profound effect on business and marketing. Certain industries – like aviation, high-street retailing and the hospitality industry – suffered hugely as large sectors of the population remained confined to their homes. But it also presented new opportunities for sectors like technology, online retailing and pharmaceuticals as consumers began to live and work in new ways.

Therefore, the world of business is an exciting one, where there are new successes and failures every day. The newspaper industry was once all-powerful and the main means by which consumers learned about what was happening in the world. It continued to thrive with the arrival of radio and television, and complemented these media. But the internet has changed the way that news is both captured and communicated, with the result that many newspapers are either struggling or have failed, while apps like Twitter and BuzzFeed have become the main means through which news is sourced. Not too long ago, Skype was the dominant platform for making calls over the internet. Such was its success that Microsoft paid US\$8.5 billion to acquire it back in 2011 and it became a central element of the company's product offerings to both business and personal customers.<sup>2</sup> The arrival of the pandemic heralded a boom for companies providing video-calling platforms for meetings, leisure, and interacting with family and friends. Skype should be thriving but its failure to capitalize on its early advantages has meant that it has been supplanted by companies like Zoom, Houseparty and popular messaging apps like WhatsApp and Telegram.

At the heart of all of this change is marketing. Companies succeed and fail for many reasons, but very often marketing is central to the outcome. The reason for this is that the focus of marketing is on customers and their changing needs. If you don't have customers, you don't have a business. Successful companies are those that succeed not only in getting customers but also in keeping them through being constantly aware of their changing needs. The goal of marketing is long-term customer satisfaction, not short-term deception or gimmicks. This theme is reinforced by the writings of top management consultant Peter Drucker, who stated:<sup>3</sup>

*Because the purpose of business is to create and keep customers, it has only two central functions – marketing and innovation. The basic function of marketing is to attract and retain customers at a profit.*

What does this statement tell us? First, it places marketing in a central role for business success since it is concerned with the creation and retention of customers. The failure of many products is often attributed to a lack of attention to customer needs. For example, in 2014, Coca-Cola launched its new sub-brand, Coca-Cola Life, to appeal to consumers aged 35–55 looking for a lower-calorie drink than regular Coke but also with natural sweetness rather than the artificial flavours added to its diet drinks. However, within three years the product was axed as it became clear that it was neither healthy enough nor natural enough to appeal to the target market

(see Exhibit 1.1).<sup>4</sup> Second, it is a reality of commercial life that it is much more expensive to attract new customers than to retain existing ones. Indeed, the costs of attracting new customers have been found to be up to six times higher than the costs of retaining existing ones.<sup>5</sup> Consequently, market-orientated companies recognize the importance of building relationships with customers by providing satisfaction, and attracting new customers by creating added value. Grönroos stressed the importance of relationship building in his definition of marketing, in which he describes the objective of marketing as to establish, develop and commercialize long-term customer relationships so that the objectives of the parties involved are met.<sup>6</sup> Third, since most markets are characterized by strong competition, the statement also suggests the need to monitor and understand competitors, since it is to rivals that customers will turn if their needs are not being met. The rest of this chapter will examine some of these ideas in more detail.

**Exhibit 1.1 Coca-Cola Life failed to meet the needs of its target market segment and was withdrawn after less than three years.**



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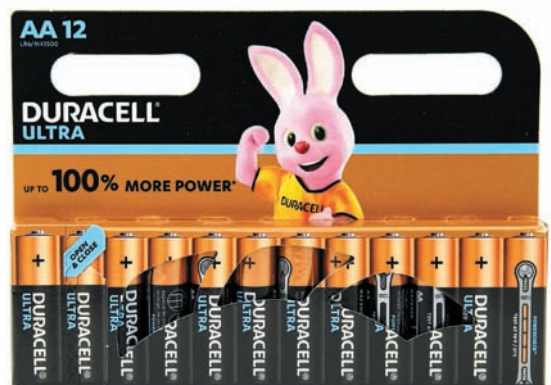
## What is marketing?

The modern **marketing concept** can be expressed as ‘the achievement of corporate goals through meeting and exceeding customer needs better than the competition’. For example, Netflix added to its successful movie rental and streaming services by providing original TV show content. In addition, all of its content is available on mobile devices, allowing customers to watch their favourite movies and shows while on the move – a significant advantage over cable operators. Three conditions must be met before the marketing concept can be applied. First, company activities should be focused on providing **customer satisfaction** rather than, for example, simply producing products (see Exhibit 1.2). This is not always as easy as it may first appear. Organizations almost by definition are inward-looking, with a focus on their people, their operations and their products. Research has demonstrated the disconnect that often exists between managerial perceptions of customer satisfaction and those actually held by their customers. One study found that managers systematically overestimate levels of customer satisfaction, attitudinal loyalty and perceived value. Second, managers tend to underestimate the importance of customer perceptions of quality in driving their satisfaction, and of satisfaction in driving loyalty and complaint behaviour.<sup>7</sup>

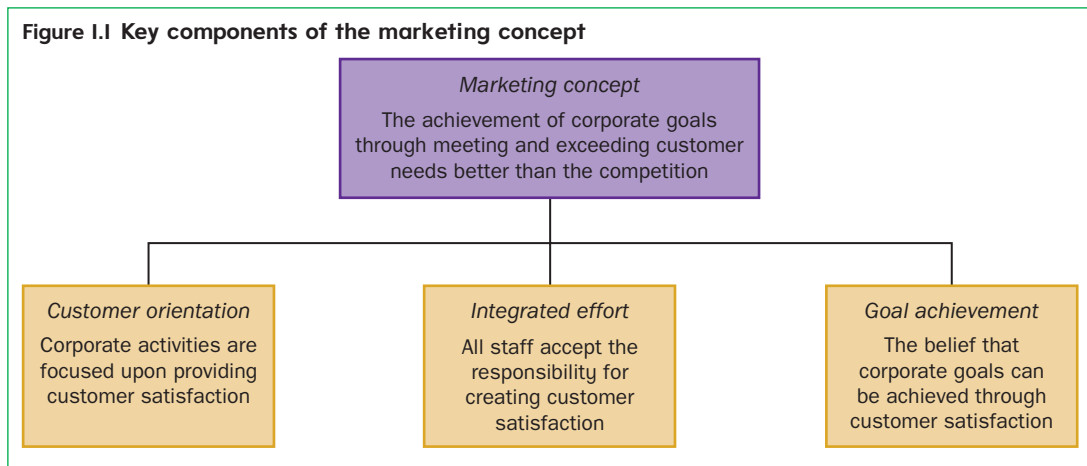
The customer may often appear to be at some remove from the organization and, when their needs are changing rapidly, companies can lose touch with them. For example, Vine was once the internet’s premier tool for making short-form videos when it pioneered the idea of six-second video clips that allowed users to capture casual moments in their lives. The business grew rapidly and was purchased by Twitter in 2012 for a reported US\$30 million. But it quickly began to lose ground as competitors like Snapchat and Instagram offered the option of recording longer videos, which proved more popular with users and as these apps built larger audiences they became more attractive to advertisers, leading Twitter to shut down Vine in 2016.<sup>8</sup>

Second, the achievement of customer satisfaction relies on integrated effort. The responsibility for the implementation of the concept lies not just within the marketing department but should run right through production, finance, research and development, engineering and other departments. The fact that marketing is the responsibility of everyone in the organization provides

**Exhibit 1.2 The Duracell brand owned by P&G has built a strong reputation in the marketplace as a longer-lasting battery.**



Ascannio/Shutterstock



**Exhibit 1.3 Red Bull is the global market leader in the energy drinks category.**



Najmi Arif/Shutterstock

significant challenges for the management of companies. Finally, for integrated effort to come about, management must believe that corporate goals can be achieved through satisfied customers (see Figure 1.1). Some companies are quicker and better at recognizing the importance of the marketing concept than others. For example, the Austrian brand Red Bull created a new product category in energy drinks, which it still dominates today, through the delivery of powerful brand values (see Exhibit 1.3).

In summary, companies can be viewed as being either inward looking or outward looking. In the former, the focus is on making things or providing services but with significant attention being paid to the efficiency with which internal operations and processes are conducted. Companies that build strategy from the outside

in start with the customer and work backwards from an understanding of what customers truly value. The difference in emphasis is subtle but very important. By maintaining an outside-in focus, companies can understand what customers value and how to consistently innovate new sources of value that keeps bringing them back.<sup>9</sup> Doing so efficiently ensures that value is created and delivered at a profit to the company – the ultimate goal of marketing.

## The nature of customer value

One of the most important tasks in marketing is to create and communicate value to customers, to drive their satisfaction, loyalty and profitability.<sup>10</sup> Generally speaking, customer value is framed as a dual exchange concept. First, in order to be successful, firms have to create perceived value for customers. But customers also return value to firms, both directly through purchases and indirectly through referrals, word-of-mouth promotion, and even suggestions for product and service modifications. Above and beyond these ideas of value as exchange, the concept can also be considered at a societal level, in terms of benefit from both the individual's and society's point of view – a fundamental theme that is explored throughout this book. And, at a third level, value can also be considered in a semiotic sense, where cultural meanings are mediated through consumption, and constantly reconstructed among multiple actors.<sup>11</sup> This is the fundamental premise of Consumer Culture Theory (CCT), which is explored in greater detail in Chapter 3.

If delivering **customer value** is the key to building a successful business, how can a firm know if it is creating such value? This has proved to be a troublesome question for many companies. For example, some firms add new features to products and hope that this will attract customers. Others engage in new marketing activities such as advertising campaigns, Facebook competitions or the creation of retail experiences. Still others



may seek to exploit consumer preferences for economy by offering products or services at lower prices. But the key question is: do consumers see any of these changes as being beneficial to them and worth any of the costs that they may have to incur in order to obtain these benefits? Consequently, customer value is often expressed in terms of the definition below and it is important to note that it is customers and not organizations who define what represents value:

$$\text{customer value} = \text{perceived benefits} - \text{perceived sacrifice}$$

*Perceived benefits* can be derived from the product (for example, the hotel room and restaurant), the associated service (for example, how responsive the hotel is to the specific needs of customers) and the image of the company (for example, is the image of the company/product appealing?). Conveying benefits is a critical marketing task and is central to positioning and branding, as we shall see in Chapters 5 and 6 (see Exhibit 1.4).

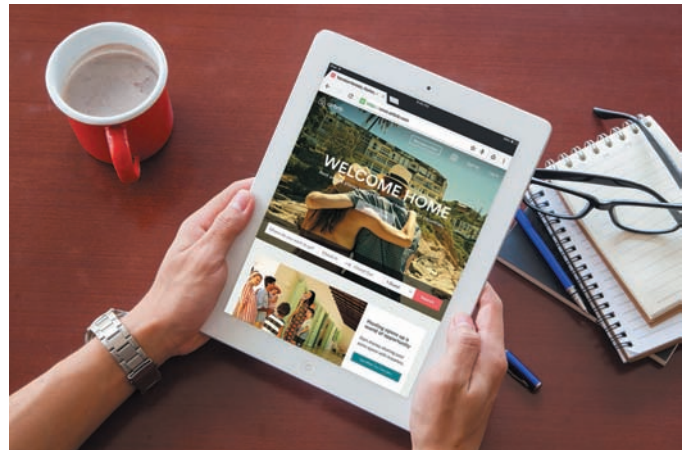
*Perceived sacrifice* is the total cost associated with buying the product. This consists not just of monetary costs, but also the time and energy involved in the purchase. For example, with hotels, good location can reduce the time and energy required to find a suitable place to stay. However, marketers need to be aware of another critical sacrifice in some buying situations: the potential psychological cost of not making the right decision. Uncertainty means that people perceive risk when purchasing. Therefore, hotel chains like Marriott and restaurant chains like McDonald's aim for consistency so that customers can be confident of what they will receive when they visit these service providers.

A further key to marketing success is to ensure that the value offered exceeds that of competitors, as we saw in the example of Vine above. Consumers decide on purchases on the basis of judgements about the value offered by different suppliers. Once a product has been purchased, customer satisfaction depends on its perceived performance compared with the buyer's expectations and will be achieved if these expectations are met or exceeded. Expectations are formed through pre-buying experiences, discussions with other people, and suppliers' marketing activities. Companies need to avoid the mistake of setting customer expectations too high through exaggerated promotional claims, since this can lead to dissatisfaction if performance falls short (see Chapter 7).

In the current competitive climate, it is usually not enough simply to match performance and expectations. Expectations need to be exceeded for commercial success so that customers are delighted with the outcome. In order to understand the concept of customer satisfaction, the Kano model (see Figure 1.2) helps to separate characteristics that cause dissatisfaction, satisfaction and delight. Three characteristics underlie the model: 'must be', 'more is better' and 'delighters'.

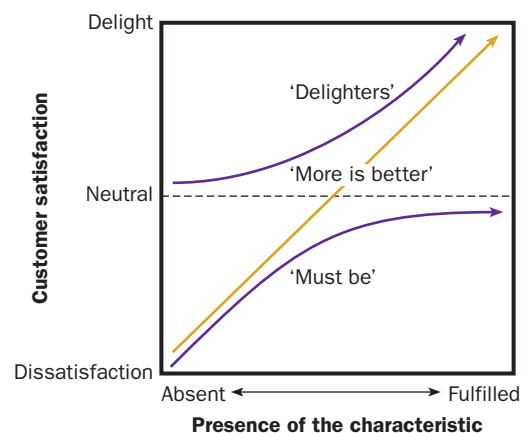
Those characteristics recognized as 'must bes' are expected and thus taken for granted. For example, commuters expect planes or trains to depart on time and for schedules to be maintained. Lack of these characteristics causes annoyance but their presence only brings dissatisfaction up to a neutral level. 'More is better' characteristics can take satisfaction past neutral and into the positive satisfaction range. For example, no response to a telephone call can cause dissatisfaction, but a fast response may give

**Exhibit 1.4** This campaign by accommodation website Airbnb conveys the unique benefits it offers to its customers.



I AM NIKOM/Shutterstock

**Figure 1.2** Creating customer satisfaction



Source: Joiner, B.L. (1994) *Fourth Generation Management*. New York: McGraw-Hill.

## 8 Chapter I The Nature of Marketing

rise to positive satisfaction. The usability of search results is an example of 'more is better' and became a key differentiating factor in the search engine industry, which has allowed Google to become the dominant player. 'Delighters' are the unexpected characteristics that surprise the customer (see Exhibit 1.5). Their absence does not cause dissatisfaction, but their presence generates delight. For example, tourists who have found that a holiday destination has exceeded their expectations through the quality of customer service that they have received will often be delighted and are likely to recommend the destination to friends and colleagues. Although modern organizations offer an innumerable variety of products and services, the four core forms of customer value described below have been identified.<sup>12</sup>

**Exhibit 1.5 As part of its 'Generosity Campaign', the Danish chocolate maker Anthon Berg developed the 'Generous Upgrader' at Copenhagen Airport, where passengers could scan their tickets and if they had a poor seat – for example, at the back of the plane – they would get a complimentary box of chocolates and Anthon Berg flying merchandise.**

**CHALLENGE**  
Get new potential customers to sample Anthon Berg's products and show our brand philosophy of generosity.

**EXECUTION**  
The Anthon Berg Generous Upgrader is a specially built machine that informs airline passengers about the quality of their seat and upgrades them accordingly with chocolates. The origin of the idea, the logo, the chocolate upgrade.

**RESULTS**  
During the campaign period, over 40,000 travellers experienced the inclusion. In Copenhagen alone it was reported to mean more than 200,000 people. Despite spending over \$100k on PR, it generated attention from major media around the world.

Robert Boisen/Like Minded

**Price value:** one of the most powerful customer motivations to purchase is because a product is perceived as being cheaper than those offered by competitors. This has been exploited in many industries, such as air travel (Ryanair), food retailing (Aldi), car rental (easyCar), and so on. These types of organization recognize that, in their markets, some consumers will forgo extra product features in order to avail themselves of low prices (see market segmentation in Chapter 5). They respond by providing basic products at low prices. For example, low-fares airlines have stripped away many of the features that used to characterize air travel, such as in-flight meals, airport check-ins and no baggage restrictions. Consumers who want these features are now charged extra for them and the profitability of low-price companies is further enhanced by the high degree of attention they pay to the efficiency of their operations. Food retailer Aldi has an estimated global revenue of US\$109 billion and now generates 70 per cent of its sales from outside its home country of Germany.<sup>13</sup> Its business proposition is to offer customers a limited range of own-label products at permanently low prices in a no-frills environment.

**Performance value:** in the same way that some customers have a preference for low price, others are more concerned about product performance. What they are looking for is the latest features, and they are attracted to products by their functionality, the convenience they provide and perceived quality levels. The priority for companies operating in this space is to be consistently innovative, exploiting changes and discontinuities in technology in order to deliver products with attractive features and functionality. For example, the UK electronic products manufacturer, Dyson, has a team of 6,000 engineers and scientists working on product ideas, and the firm has been responsible for innovations like the cyclonic vacuum cleaner, the Airblade electric hand dryer and the Supersonic hair dryer, designed to reduce heat damage to hair. Firms like Dyson aim to provide value to customers based on the functionality, innovativeness, convenience and performance features of their products and services.

*Emotional value:* one of the big challenges facing the modern firm is to find effective ways to differentiate products based on performance elements. If one looks at the car industry, for example, the technical differences between cars in particular categories, such as economy cars and family saloons, are marginal. Most have very similar designs, functionality and features, and different manufacturers frequently share time on the same production lines. Similarly, for a whole array of consumer products, such as basic electrical appliances, the brands of competing firms are regularly manufactured by a small number of companies, and technical differences between them are minimal. Consequently, the only real difference that exists between these brands is in the mind of the consumer and this is what is known as emotional value. Some consumers may prefer

Volvo cars because they believe them to be safer than competing brands (technically this is not the case) and as a result remain loyal Volvo buyers. Coca-Cola became one of the biggest brands in the world thanks to a constant focus on joy and happiness in its advertising. This kind of emotional value is created through marketing activity, as we shall discuss throughout this text. It also helps to explain why some consumers will pay huge premiums for luxury brands (e.g. Chanel, Hermès) and why others will queue for hours to be the first among their peers to own certain products (e.g. iPhone, Supreme clothing – see Exhibit 1.6).

*Relational value:* another important motive to purchase is the quality of service received by the customer. This presents a particular opportunity in the case of service businesses (see Chapter 7), such as restaurants or business taxation services, which are not easy to evaluate in advance of purchase. When the customer finds a good-quality service provider, they may be willing to stay with this provider and, as the relationship builds, a high level of trust becomes established between the parties. Central to this is the notion of the **lifetime value of a customer**, which is recognition by the company of the potential sales, profits and endorsements that come from a repeat customer who stays with the company for several years. But relational value is not restricted to service businesses. All kinds of organizations are now becoming proficient users of **customer relationship management (CRM)** systems to get to know their customers better and to interact with them on a regular basis (see Chapter 7). Even fast-moving consumer goods brands such as innocent and Walkers built stronger relationships with core customers by running events and competitions that customers enjoyed (innocent village fetes, Walkers ‘Do Us a Flavour’), while in turn the companies benefit not only from customer loyalty but also the creation of new product ideas that come from the marketplace. In other words, value is increasingly being seen as not something that is created by organizations for customers but rather something that is co-created between organizations and customers.<sup>14</sup>

The challenge for organizations, then, is to try to become a value leader on one of these four dimensions. Those that do achieve these leadership positions, such as Ryanair (price value leader in aviation) or Louis Vuitton (emotional value leader in luxury fashion goods), tend to be significantly more successful than their peers. This is because they have a clearly defined **customer value proposition** or unique selling point (USP), which is a reason why customers return to them again and again. However, the proposition may evolve over time. For example, innocent drinks initially captured a share of the market through the quality of its smoothies (performance value) but this was quickly supplanted by the personality of the brand – its humorous, quirky approach to business and its cause-related activity (emotional value). It is generally very difficult for companies to gain leadership positions on more than one dimension, though some of the largest companies in the world, such as Amazon, Apple and others, clearly have.

The key role of customer value enables us to offer the following definition of **marketing**:

*Marketing is the delivery of value to customers at a profit.*

Therefore we see that, in a commercial setting, the two core elements of marketing are value and profit. Organizations must create and deliver some form of value for some customer group. Central to this is an

**Exhibit 1.6 Streetwear brands like Supreme use limited edition product launches that customers will frequently have to queue to get hold of.**



Kevin McGovern/Shutterstock