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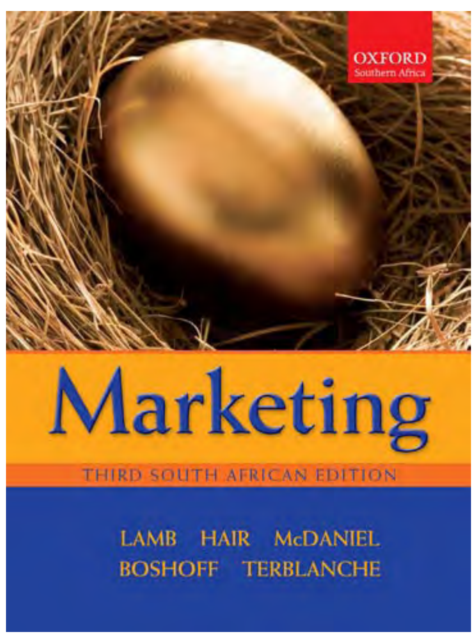
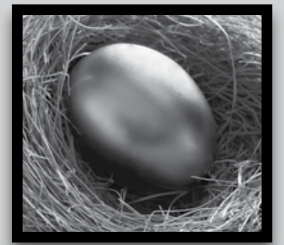
Contents:



PART 1



Introduction to Marketing

An overview of marketing

CHAPTER 1

Learning outcomes

After studying this chapter, you should be able to:

1. Define the term 'marketing'
2. Explain the nature and relevance of customer satisfaction and loyalty in a marketing context by emphasising the need to measure customer satisfaction
3. Explain the concept of exchange in marketing terms
4. Describe six marketing management philosophies and their role in the evolution of marketing thought
5. Differentiate between sales and marketing orientations to marketing
6. Discuss the nature and implementation of the marketing concept
7. Explain how pursuing new opportunities can contribute to the realisation of the firm's goals and objectives
8. Explain how an appropriate definition of a firm's business is relevant, and what the pitfalls associated with an inadequate definition are
9. Describe the importance of a competitive advantage in marketing and how this advantage can be established and maintained
10. Describe the marketing process
11. Briefly review the role of marketing in the firm
12. Critically evaluate the criticism often levelled against marketing and suggest arguments that can be used to justify marketing's role in an economy
13. Describe several reasons for studying marketing
14. Demonstrate your grasp of the theory discussed in this chapter by providing appropriate practical examples to illustrate any marketing principle or concept
15. Provide a marketing management solution related to any of the above outcomes.

Introduction

Let's assume that you are a budding young entrepreneur who has decided to take the plunge – to start your own business with a few friends. As you are all keen cyclists, you decide to open a retail cycling shop. What do you

Marketing in practice

In successful firms, client is top of the heap

A leading toy company turned its complaining customers into product testers and 'design consultants'. Levi Strauss set up kiosks with Internet access in its stores to allow consumers to design their own jeans. First Union Bank installed a computer system that flags incoming calls based on the profit potential of each customer. That's because the consumer is king. Successful companies almost instinctively take heed of this old cliché.

These examples come from a global manufacturing survey into customer loyalty by Deloitte Consulting and Deloitte & Touché It covered close to 900 executives in 35 countries, South Africa included. The research, entitled 'Making Customer Loyalty Real: Lessons from Leading Manufacturers', talks of a 'customer paradox': deteriorating customer satisfaction in the face of rising product quality. It notes that this can be addressed only by shifting from a purely product-focused attitude towards focusing on customers – becoming 'customer-centric'. It describes customer-centric manufacturers as those 'that set explicit targets for retaining customers and make extraordinary efforts to exceed their customer loyalty goals'.

For those who have gone this route, the benefits are significant. For a start, the survey found that customer-centric manufacturers (let's call them CC manufacturers) are 60 per cent more profitable than their non-CC competitors. The survey also found that more than half exceed their market share targets compared with about a quarter of non-CC companies, and that there is a direct correlation between being customer-centric and improving shareholder value creation. Investing in a large company, the research report says, '… is not necessarily an advantage to shareholders; investing in a customer-centric company is'.

Continued… →

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CC manufacturers include the likes of Daimler-Chrysler, Dell Computer, Rolls Royce, Compaq Computer, and, in South Africa, South African Breweries.

When manufacturers become customer-centric, a chain is set in motion, which Deloitte calls the customer loyalty cycle. A CC manufacturer uses customer information to predict buying patterns and to make better-targeted products less expensively, allowing them to keep down their inventories. Continually using customer feedback enables these manufacturers continually to improve products and services. Production costs are kept down by a host of factors, including utilising machines better, lower inventories, fewer parts, fewer shortages, and lower rework ratios and scrap rates.

Lower costs are passed on to the customer via better service, not necessarily via lower prices. The customer, in turn, feels that he or she is being taken seriously. Disturbingly, the survey suggests that customer loyalty is not a priority for the majority of manufactures: only 28 per cent of those surveyed are customer-centric; 48 per cent do not set or meet customer loyalty goals, and 26 per cent lie somewhere in between. In SA, significantly less than a quarter of surveyed manufacturers are customer-centric.

In reality it's not that easy to become a customer-centric company. But, the report warns, manufacturers that lack good customer relationships and are not organisationally integrated will find it increasingly difficult to keep up with changing customer needs and more importantly, competitors.

Source: Adapted from Bennett, J. 1999. In successful firms, client is top of the heap. *Sunday Times*, 12 September, p. 5

Questions

1 What, in your opinion, does 'customer-centric' mean?
2 What are the potential benefits for firms that are 'customer centric'?
3 Why should the loyalty of customers be important to business firms?

do to get started? You may have completed a first year business management course, and recall something about the factors of production: natural resources, human resources (labour), capital, and entrepreneurship. You also learned about the typical business functions such as the production function, the financial function, the purchasing function, and the marketing function. As the expert marketer in the management team, however, you have to address a few important marketing-related issues before you attend the first management meeting:

- What are the needs of people buying bicycles?
- Do they all have the same needs?
- If not, how can we satisfy the different needs?
- How many people in South Africa buy bicycles every year?
- Do they buy at specific times of the year?
- Who are our competitors, how many are they, and how strong are they?
- How can we differentiate our bicycles from those marketed by competitors?
- Will we be able to physically get our bicycles to potential buyers?
- What is an acceptable market price for different bicycles?
- Can we be profitable selling at that price?
- How are we going to tell potential buyers of our shop and products?
- Who will be responsible for planning and executing our marketing plan?

All these questions and activities are related to a process called *marketing*. Marketing links production (in this case of bicycles) with a market consisting of potential buyers of bicycles. The primary function of marketing is to provide need-satisfying products to potential buyers – at a profit.

1 What is marketing?

What does the term *marketing* mean? Many people think 'marketing' means 'selling'. Others think marketing is advertising. Still others believe marketing has something to do with making products available in retail stores, arranging displays, and maintaining inventories for future sales. Actually, marketing includes *all* of these activities and much, much more.

Marketing has two facets:

- It is a philosophy, an attitude, a perspective, and a management orientation that stresses *customer satisfaction*.
- Marketing is also a set of activities used to implement this philosophy.

The American Marketing Association's definition encompasses both perspectives: '*Marketing* is the process of planning and executing the conception, pricing, promotion, and distribution of ideas, goods, and services to create exchanges that satisfy individual and organisational goals.'[1] Marketing therefore comprises the following:

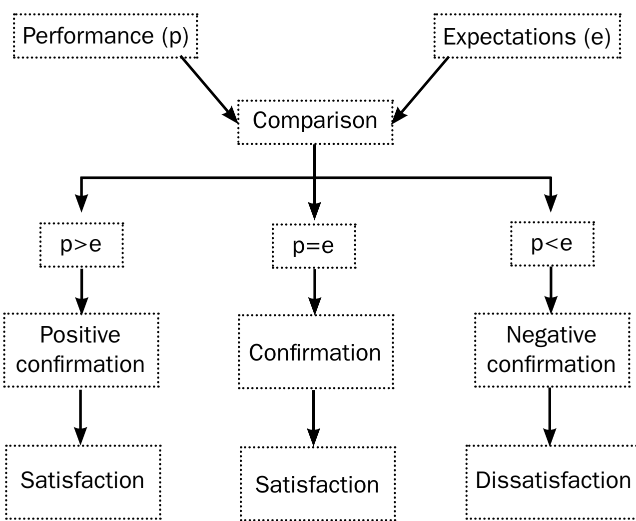
- The anticipating and satisfying of consumer needs
- By means of mutually beneficial exchange processes, and
- Doing so profitably and more effectively than competitors
- By means of efficient managerial processes.

The key phrase here is 'satisfying consumer needs'. Without satisfying consumer needs, no firm or organisation, whether profit-driven or not, can survive over the long term. Customer satisfaction can therefore be described as the most important primary goal of marketing.

2 Customer satisfaction

When maximising customer satisfaction is the goal, the firm needs to know how well it is meeting customer expectations. *Customer satisfaction* is the feeling that a product has met or exceeded the customer's expectations and can be explained in terms of the so-called Disconfirmation Paradigm (Figure 1.1). Figure 1.1 shows that meeting or exceeding customer expectations both lead to customer satisfaction, but dissatisfaction results if performance (such as product performance or employee performance) falls short of those expectations.

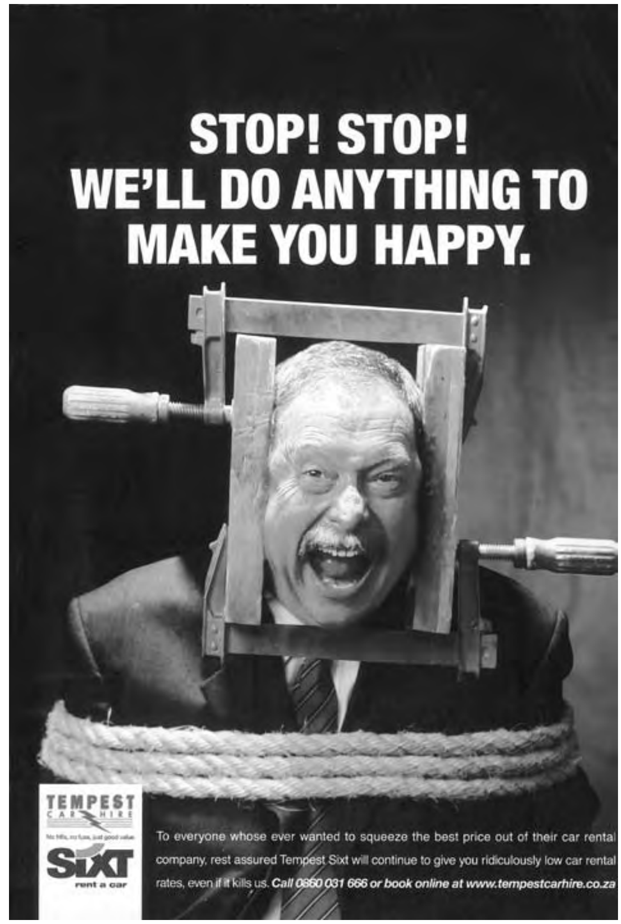
Figure 1.1 The disconfirmation paradigm



Source: Adapted from Smith, R.A. and Houston, M.J. 1983. Script-based Evaluations of Satisfaction with Services. In: Berry, L.L., Shostack, G.L. and Upah, G.D. (eds). *Emerging Perspectives on Services Marketing*. Chicago, Illinois: American Marketing Association, Proceeding Series: pp. 59–62

Customer satisfaction is therefore a customer response (a judgement) to a product or service in terms of the extent to which consumption meets their expectations. Meeting and exceeding customer expectations and thus sustaining customer satisfaction is not an easy task. In fact, a survey of 700 private firms in South Africa has identified customer satisfaction as 'the key performance area' in 2007 – even more important than profitability, market share, and turnover.[2]

No firm, however, can rely on customers to take the initiative to make their feelings of satisfaction or dissatisfaction known. Therefore, business firms have to set out to measure the customer satisfaction levels of their customers.



Measuring customer satisfaction

A programme to measure customer satisfaction should be a permanent, ongoing process that translates what customers want (their needs and expectations) into information usable for managerial decision-making. A customer satisfaction programme should define, in customers' own words, what they want (expectations) in products and services, in terms of product attributes and quality level. Telkom, for example, measures its customer satisfaction levels annually in terms of customer expectations, quality of service, quality of products and image, and claims a 74 per cent customer satisfaction rating.

Customer satisfaction measurement should also provide insight into aspects that are important or specific to a certain industry or firm such as the price perceptions of customers, or service delivery speed or the image of a brand. Current customers, lost customers, and potential customers should be included in a customer satisfaction measurement programme.

Information about customer satisfaction can be collected in a variety of different ways such as:

- Formal research surveys (mail, telephone, personal interviews, focus groups, the Internet)
- An analysis customer complaint data (customer complaint boxes, letters of complaint) or interviewing staff (especially those who interact directly with customers)
- The collection information about customer needs and expectations from intermediaries such as retailers, sales agents, and wholesalers.

Measuring customer satisfaction can thus be both formal and informal and can be either qualitative or quantitative in nature.

Eg

British Airways/Comair collects customer satisfaction information from a variety of different sources. They participate in a global the British Airways customer satisfaction survey called the Global Performance Monitor, which benchmarks British Airways/Comair against international standards. This information is augmented with more qualitative interviews they conduct with their Executive Club members (frequent flyers) during focus group meetings called Listening Forums. Another source of information is comment cards that are sent to the company by passengers.

Another good example of a comprehensive customer satisfaction measurement programme and how it can assist managerial decision-making is that of the California Department of Parks and Recreation (DPR) in America. Customer satisfaction surveys form a key component of DPR's quality improvement process. Data collected from 9 000 questionnaires sent out four times per year at the 268 California state parks enable park management to continually fine-tune their service strategies. For instance, based on feedback from concerned visitors, park officials began collecting data on boating and jet-ski accidents. Over a five-year period there were 480 accidents, a majority of them involving drivers between 23 and 33 years of age. Before the survey, rangers believed that the accidents were alcohol-related and were ready to ban alcohol at the lake. However, the data revealed that the major cause of accidents was inexperienced operators. This insight led park officials to shift their focus to boating safety education. After monitoring the programme's impact for one summer, they saw a 31 per cent drop in vessel accidents.[3]

Like the California Department of Parks and Recreation, in order to begin improving customer satisfaction, a firm needs to be able to clearly identify the attributes that convey value to the customer. In order to identify these attributes, a firm needs to measure customer expectations, perceptions of performance as well as perceptions of importance for each value component – such as, product, service, and price. However, a good customer satisfaction measurement programme generates more than just empirical data about customers' expectations and perceptions. It also captures qualitative inputs that do not typically result from traditional marketing research, making the customer an integral part of a firm's learning and decision processes. For example, a series of focus group interviews with small groups of customers could provide valuable insights how a firm could improve product features, delivery times, enhance customer service or whatever is important to customers.

If you still wonder why business firms should do research to assess the satisfaction of their customers, ask yourself the question: what do consumers do if and when they are dissatisfied with a firm? Dissatisfied customers often complain to others (such as other consumers or

Reader: Air sickness

A month ago our travel agent booked me on a business class seat to Sydney for a business function, on flight SA 7700. On Sunday March 13, I arrived at Johannesburg International two hours before the departure time to check in, only to be told that all business-class seats had been allocated and that I would be given an economy class seat. My employer is happy to pay business-class fares as this allows us to operate more effectively by getting to our destination reasonably well rested, so I was peeved, to say the least. I requested an interview with some form of supervisor or manager, but no one was prepared to respond.

I was then allocated a window seat in economy class and was told that they would block off the seat next to me. This did not happen. I travel internationally about once every six weeks, and as a Gold Card holder I find this kind of treatment unacceptable. What's the point of a Gold Card? What's the point of paying the additional amount for a business-class ticket?

Internally, future flights will be on Comair and on my flights to India, a routing via Dubai is probably a good alternative, especially with the free game of golf thrown in for business-class travellers. On my flights to Toronto and Chicago, British Airways will be my airline of choice.

Source: Oscar Smith, RGA Reinsurance, Park Town. Letter published in *Financial Mail*, 25 March, 2005 bodies, for example the South African National Consumer Union or the Ombudsman in the case of life insurance problems), or they buy less and less or they stop buying from the offending firm altogether, or even worse, they simply switch to a competitor (see: 'Air sickness' on p.6). Firms who fail to retain their customers, that is keep them loyal by keeping them satisfied, pay a heavy price in monetary terms for their inability to keep their customers satisfied.

Satisfied customers, on the other hand, tell others how happy they are with a firm (positive word-of-mouth), they buy more and more and in this way, increase sales and profits, and often are prepared to pay a price premium, further increasing sales and profits. Keeping customers satisfied therefore leads to customer loyalty, which ensures the survival and prosperity of the firms who get it right.

Customer satisfaction or customer dissatisfaction?

When designing customer satisfaction measurement programmes, firms need to understand the two-factor model of customer satisfaction. This model suggests that the same factors that contribute to satisfaction may not necessarily contribute to dissatisfaction. One category of factors is called hygiene factors. Hygiene factors are factors that contribute to customer dissatisfaction. The second category is called satisfiers. Satisfiers are factors that contribute to customer satisfaction.

Customers can tell firms why they are satisfied or dissatisfied with a product or a service. The absence of, or low performance on, some product attributes may quickly lead to dissatisfaction, even though high performance on those same attributes may contribute very little to high levels of customer satisfaction. Conversely, the factors that cause customer satisfaction may not be identified as factors whose absence results in leading to customer dissatisfaction. In other words, low performance on attributes causing high satisfaction does not necessarily result in customer dissatisfaction. It is important to note that hygiene and satisfier factors may vary with different groups of customers. Customer satisfaction research can be designed to determine which factors customers perceive as belonging in the hygiene category and which factors they perceive as being satisfiers.

If a firm performs at a very high level in delivering the hygiene attributes, customers will perceive the product or service as being acceptable, but not spectacular. Hygiene attributes collectively constitute some minimum level of satisfaction, and failure to meet that minimum will cause customers to become dissatisfied. Performing at a very high level on hygiene attributes might yield the customer response 'So what? You're expected to do that.'

For example, customers expect a hotel room to be clean – a hygiene factor. If the room is not clean when they arrive, they will be dissatisfied. It will not matter if the bed is comfortable, the decor of the room is impressive, or the bathroom is big and luxurious. Failure to deliver on the hygiene attribute of cleanliness will lead to customer dissatisfaction. Yet if the room is clean, customers probably will not even notice, because cleanliness is, at minimum, what they expect. Thus, cleanliness (a hygiene factor) does not have as strong an effect on satisfaction as it does on dissatisfaction.

The hygiene attributes must thus be delivered at an acceptable level of performance before the satisfiers become important. Once the customer's expectations on hygiene elements have been met, then the satisfiers have the potential to create higher levels of customer satisfaction. In the hotel example, if the room is clean, then the comfortable bed, soothing colours and luxurious bathroom may each contribute to higher satisfaction levels.

When measuring customer satisfaction, both the hygiene factors and the satisfiers that are important to customers need to be identified and evaluated. Therefore, management concerned about customer satisfaction needs to ask its customers the right questions to ensure their continued loyalty.

The benefits of customer satisfaction and loyalty

It is unfortunately true that many firms lose up to half of their customers in five years. Keeping customers satisfied by offering them satisfaction and superior value will increase the chances that they will become loyal customers, ensuring the firm's long-term survival and growth. Satisfied and thus loyal customers are more profitable to firms than those who are not loyal. The favourable economic outcomes of customer loyalty include:

- **Lower acquisition cost**. Acquisition cost is the cost of recruiting new customers, and includes the cost of advertising, sales calls, public relations and promotional expenditure. While these costs may be the same per customer for loyal and non-loyal customers, overall acquisition costs will eventually be lower for firms with a large loyal customer base, because they need to generate fewer new customers to sustain its profitability. The direct retailer Home Choice, for instance, estimates that 42 per cent of their sales are made to existing customers, dramatically lowering the need to generate new sales by recruiting new customers.
- **Base profit**. All customers buy some product or service and pay a price higher than the firm's costs. This profit on basic purchases, unaffected by time, loyalty, efficiency, or other considerations, is called base profit. The longer a firm keeps a customer, the longer it will earn this base profit.
- **Revenue growth**. In most businesses, customer spending tends to accelerate over time. In retailing,

for example, customers who buy clothing eventually notice that the store carries other products, like shoes or jewellery, and begin to purchase these other products as well. A customer of a travel agent may use the travel agent only for local travel and when she or he gets the opportunity to travel overseas make use of the same travel agent again. So, per customer, revenues grow if firms can retain the loyalty of their customers.
- **Cost savings**. As customers get to know a business, they learn to be more efficient. Informed customers do not waste time requesting products or services the firm does not provide, nor are they as dependent on employees for information and advice. In financial planning, for instance, financial planners spend about five times as many hours on a first-year client as they do on a repeat customer. Over time, collaborative learning between the customer and firm creates productivity advantages that directly translate into lower costs.
- **Referrals**. Satisfied customers tend to recommend a firm or brand to others, behaviour we refer to as word-of-mouth. Positive word-of-mouth is a very powerful source of 'advertising' for any firm and is often regarded as a more credible source of information than advertising by many consumers.
- **Price premium**. Loyal customers who feel they are getting superior value will tend to be less price sensitive than non-loyal customers. In other words, very satisfied customers are less likely to respond to a competitor's lower prices, special offers or discounts and will in many cases be prepared to pay a price premium to continue enjoying the use of the superiority offered by the firm. Mercedes-Benz is not the cheapest motor vehicle on the market, yet is a very successful firm. Nedbank emerged from the 2005 *Finweek* survey as the bank with the highest bank charges in South Africa. Yet Nedbank is a successful bank whose customers are more than willing to pay the higher fees for what they believe is a superior service compared to what they would get elsewhere.

It must be pointed out, however, that customer satisfaction may not ensure customer loyalty at all times, or ensure profitability, but it is a necessary condition for building loyalty among customers. Thus, the initial exchange between buyer and seller must be a satisfactory one as a starting point to build long-term customer loyalty.

3 The concept of exchange

Exchange is one of the key terms in the definition of marketing. Yet exchange is quite simple. It means that a person (a buyer) gives up something of value to a seller to in turn receive something that he would rather have. Normally we think of money as the medium of exchange. A buyer 'gives up' money to 'get' the products and services wanted from a seller, who in turn 'gives up' the products or services to 'get' money. Exchange does not necessarily depend on money, however. Two persons may barter or trade such items as books or oil paintings. A student who 'swaps' her bicycle for a textbook has been involved in barter trade – a form of exchange without money changing hands.

Five conditions must be satisfied for any kind of exchange to take place:
- There must be at least two parties (a buyer and a seller)
- Each party must have something the other party values
- Each party must be able to communicate with the other party and deliver the goods or services sought by the other trading party
- Each party must be free to accept or reject the other's offer
- Each party must want to deal with the other party.[4]

It is important to note that exchange will not necessarily take place even if all these conditions exist. They are, however, necessary for exchange to be possible. For example, you may place an advertisement in your local newspaper stating that your used motor vehicle is for sale at a certain price. Several people may call you to enquire about the car, some may even test-drive it, and one or more may even make you an offer. All five conditions have thus been met, but unless you reach an agreement with a buyer and actually sell the car, an exchange has not taken place. Also note that marketing can occur even if an exchange does not occur. In the car-selling example just described, you would have engaged in marketing even if no one bought your vehicle. Marketing therefore does not guarantee successful exchange. Successful exchange demands, however, that a number of pre-requisites be met first, as listed above.

Exchange takes place within what is described as a market. A *market* consists of people and organisations with needs and wants, who have the means to pay and the willingness to buy. Needs are the basic (often physiological) forces that motivate people to behave in a certain manner. We cannot, however, create *needs*. Hunger, thirst and the need for shelter cannot be created. We can, however, create *wants*. Wants are needs that have been learnt over time. Consumers can learn that a Wimpy breakfast tastes delicious and is good value for money. Marketers cannot make consumers hungry, but they can certainly help them associate the need (hunger) with the benefits of a Wimpy breakfast (a want) – for example, by advertising, which is just one of the many communication tools available to the marketer. The exchange of value (buying and selling) therefore leads to benefits for both parties: income for the seller and need satisfaction for the buyer – and the firm's reward for creating a satisfied customer is profit.

Now, you should know what marketing is. How marketing has been conducted over the ages has, however, changed as the discipline has developed and adapted to new influences over time. Several developmental phases can be identified with a specific philosophy dominating marketing thought and practices during different time periods.

4 Marketing management philosophies

Six competing philosophies can influence a firm's marketing activities. These philosophies are commonly referred to as production, product, sales, marketing, societal, and relationship marketing orientations. Although they all still manifest themselves in marketing thinking and activities to this day, each one of them was the dominant paradigm during a specific time in the historical development of the discipline of marketing.

Production orientation

A *production orientation* is a philosophy that focuses on the internal production or manufacturing capabilities of the firm rather than on the desires and needs of consumers. The production era culminated in the Industrial Revolution – an era when the world made significant progress in improving production processes and started moving towards mass production.

A production orientation means that management assesses its internal resources and asks questions such as: 'What can we do best?', 'What can our engineers design?', and 'What is easy to produce with our equipment?' In the case of a service firm, managers ask, 'What services are most convenient for the firm to offer?' and 'Where do our talents lie?' Some have referred to this orientation as a 'Field-of-Dreams' marketing strategy, referring to the movie line, 'If we build it, they'll come.'

There is nothing wrong with assessing a firm's capabilities. In fact, such assessments are major considerations in strategic marketing planning (see Chapter 14). However, focusing a firm's marketing efforts on its internal production capabilities *only* and ignoring customer needs can create problems over the long term.

A production orientation does not necessarily doom a firm to failure, especially not in the short term. Sometimes a firm is very fortunate and what it can best produce is exactly what consumers (the market) want at the time. For example, when personal computers first came on the market, most DOS-based software programmes were not particularly user-friendly. Yet the marketers of word processing software programmes such as MultiMate were successful – for a while. Why? Because the word processing programmes at the time used production technologies that were a huge improvement on the old electric typewriters, and competition was weak. Despite their user-unfriendliness, consumers still bought the programmes, because they offered considerable advantages over the competing products such as electric typewriters. When competition is weak or demand exceeds supply, a production-orientated firm can survive and even prosper.

Eg

When Xerox introduced the first plain paper copier, it had a production capability that was unique. Because of the unique technology Xerox was very successful – mostly because it did not face serious competition for several years after the launch. While competition was weak and fragmented, Xerox prospered. But things soon changed. Once the competition (especially from Japanese firms) gained access to the copier technology and improved on it, especially in the areas of product quality and customer satisfaction, Xerox rapidly lost market share.

Most of the firms that succeed in competitive markets have a clear understanding that they must first determine what customers want and then produce it, rather than focus on what managers think should be produced. The banking group ABSA now defines its business as 'meeting customers' personalised financial needs' as opposed to 'an institution that stores money' because they realised that a production orientation will not serve them well in the modern-day banking environment where consumer needs are changing.[5] Visa card is no longer a card brand but 'a provider of a large number of payment solutions'. In other words, a production orientation is inadequate because it does not consider whether the goods and services that the firm produces most efficiently also meet the needs of consumers.

Product orientation

The product orientation era started once most firms had sorted out their production-related problems (that is, introduced some form of mechanisation) and consequently shifted their attention from improving production processes to improving product features and product quality.

Business firms who operate under a product orientation believe that they will be successful if they manufacture a good quality product, regardless of the impact of other influences. Superior quality products and special product features are the focus of these firms and they assume that that is all consumers are interested in. They do not do any research to determine what consumers want in a product or try to involve them in the design process. This type of firm does not pay much attention to the activities of their competitors either. They are so fixated on the product they manufacture and its features, that all else pales in significance.

The problem with this strategy is that ignoring customer needs is often fatal. Consumers buy products to satisfy their needs. If products are manufactured with features that are impressive but do not satisfy needs, consumers will simply not buy the product. Consider the example of PPG Industries.

Eg

Throughout the 1980s researchers at PPG spent considerable time, effort, and money developing a bluish motor vehicle windshield that would let in filtered sunlight but block out the heat. Scientists were convinced that this new product would be significantly better than existing windshields. However, when the new windshield was introduced, the automobile manufacturers refused to buy it. They didn't like the colour or the price. 'We developed a great mousetrap, but there were no mice,' said Gary Weber, vice president for science and technology at PPG at the time.[6]

PPG paid a heavy price for thinking in terms of its product's features instead of in terms of the needs of customers. But even if the windscreen had enjoyed success, PPG would soon enough have come up against another problem associated with a product orientation: product features are often easily copied. So what is new and impressive now may not be so for long before competitors are marketing products with similar features. For example, the security company Maxidor was hugely successful when it first produced security doors with its unique 'slam lock'. This door locked itself when slammed shut. The advantage was soon lost, however, when it was copied by other security firms such as Trellidor.

Another South African firm that quickly realised that a product orientation was bound to fail was Nando's. Nando's strategist Josi McKenzie says their focus has shifted from marketing Portuguese-style peri-peri chicken to what customers really wanted – 'the Nando's experience'.[7]

Sales orientation

The sales orientation era started when business firms increased their production capabilities and capacity to such an extent that they sat with surplus goods they could not sell. Buyers thus had to be found for the mounting inventory in many warehouses.

A sales orientation is based on the idea that people will buy more goods and services if aggressive sales techniques are used, and that high sales volumes result in high profits. Not only are sales to the final buyer emphasised, but intermediaries such as retailers are also encouraged (even pressurised) to push manufacturers' products more aggressively. To sales-orientated firms, marketing means selling things and collecting money. Insurance salespeople sometimes exhibit a sales orientation by using 'hard sell' techniques. Alexander Forbes is a case in point. The group has been described as 'aggressive' sellers. Its Group CEO at the time, Graeme Kerrigan, said that it is a deliberate strategy. He is quoted as saying: 'We employ people with enthusiasm, energy and excitement. And we encourage a bit of hard sell.'[8]

The fundamental problem with a sales orientation, as with a production and product orientation, is a lack of understanding of the needs and wants of consumers. Sales-orientated firms often find that despite the quality of their sales force, they cannot convince people to buy goods or services that are neither wanted nor needed. The business publication *Financial Mail's* sales steadily declined from about 33 000 per week in the middle of 2000 to about 26 000 by the beginning of 2004. The reason? The company admitted that it had concentrated too much on circulation figures and had lost track of the needs of its readers. Sales targets can never replace satisfying customer needs.

Marketing orientation

A consumer orientation, which is the foundation of contemporary marketing philosophy, is based on an understanding that a sale depends not simply on excellent production facilities or on an aggressive sales force, but rather on a thorough understanding of consumers' needs. A consumer orientation assumes that consumers do not buy products for the sake of having them, but because of the need-satisfying properties that the products have. Some buy a motor vehicle to get from A to B. Others buy the same vehicle to impress their friends. Still others buy the same vehicle for racing purposes. They all buy a motor vehicle, but they all do so to satisfy different needs. The basis of a consumer orientation is identifying, understanding, and satisfying the needs of consumers.

Consumer orientation is based on a philosophy, also referred to as the *marketing concept*. The marketing concept is simple and comprises an intuitively appealing approach to marketing. It suggests that the social and economic justification for a firm's existence is the satisfaction of consumer needs and wants while meeting the firm's objectives. The marketing concept is based on three 'pillars':

- First and foremost, customer satisfaction – by focusing on customer needs and wants
- Integrating all the firm's activities, including production, to satisfy these needs and wants
- Achieving long-term goals, such as sustained profitability, by satisfying customer needs and wants, legally and responsibly.

The marketing concept is based on acknowledging that customer need satisfaction is *the* key in successful marketing. The importance of need satisfaction is acknowledged in the majority of definitions of marketing. Without need-satisfying characteristics, no sale will occur, suggesting unsuccessful marketing. In short: a firm must provide what the customer wants – not what the firm *thinks* customers want or should want.

Although the philosophy of the marketing concept is simple and intuitively appealing, it is often surprisingly difficult to implement. Some firms have unfortunately learnt this the hard way.

Eg

Afribrand, a firm that used to specialise in marketing products to street hawkers, was mystified when the new biscuits it supplied were simply not bought. After a while the reason became clear. Street hawkers traditionally bought broken, rejected biscuits from biscuit factories, so the new, whole, unscathed biscuits did not satisfy their needs. As a result, they simply did not buy them. To be able to sell their biscuits, Afribrand had to break them before selling them to the street hawkers! In other words, Afribrand realised that for exchange (sales) to take place, they had to satisfy the needs of their customers.

Customer satisfaction is a positive reaction to a purchase decision or product after purchase. In other words, it is the result of a purchase, and is in essence an assessment of need satisfaction. Customers who are satisfied with their purchase(s) ought to be the objective of all marketers, because that will show that the firm has successfully implemented the marketing concept.

Today, most types of firms, at least in theory, subscribe to the marketing concept. For example, Spar has become one of the leading retailers in South Africa by focusing on what most grocery shoppers want: good quality products, reasonable prices, a clean and spacious environment, and quick service.

While accepting the philosophy of the marketing concept, marketers have realised over time that there are two additional requirements for successful long-term marketing. The first is that marketing must be executed in such a manner that the society in which the firm operates benefits from the firm's activities. The second requirement is that marketing should not be a once-off activity: instead, it ought to lead to a long-term relationship and mutual loyalty between the firm and the customer. These requirements have led to two further developments in marketing thought, namely a societal marketing orientation and a relationship marketing orientation.

Societal marketing orientation

One reason a marketing-orientated firm may choose not to deliver the benefits sought by consumers is that these benefits may not be beneficial to individuals or society. There is obviously demand for products such as cannabis and unlicensed firearms, but they are illegal. Other products are legal but are subject to ethical constraints. This important refinement of the marketing concept, called the *societal marketing concept*, acknowledges that a firm exists not only to satisfy consumer needs and wants and to meet the firm's objectives, but also to preserve or enhance individuals' and society's long-term best interests.

Marketing 'environmentally friendly' products and packaging, for instance, is consistent with a societal marketing orientation. ABSA Bank's sponsorship of the Kruger National Park's centenary is one such example. ABSA says: 'We're always ready to lend a hand by investing in the preservation of the environment in which we all live, which will continue to make our country a better place. This comes as second nature to us.' Acceptance of the societal marketing orientation is an acknowledgement by marketers that business firms do not do business in isolation and must make a contribution to the society in which it functions.

Relationship marketing orientation

The realisation that customer loyalty is an important consideration in long-term marketing success has been the most recent refinement of the marketing concept. Enlightened marketers realised that they needed to focus on building long-term relationships with their customers rather than on short-term transactions. *Relationship marketing*, as a philosophy, emphasises forging long-term partnerships with customers. Firms build relationships with customers by offering value and providing satisfaction on a consistent basis. Firms that successfully implement relationship marketing benefit from repeat sales (loyalty) and referrals that lead to increases in sales, market share, and profits. Costs fall because it is less expensive to serve existing customers than to attract new ones. Keeping a customer costs about one-fourth of what it costs to attract a new customer, and the probability of retaining a customer is over 60 per cent, while the probability of attracting a new customer is often less than 30 per cent.[9]

Customers also benefit from stable relationships with business firms (see the reader: 'Schemes to reward a firm's loyal clients' on p. 12). For example, a bank teller who knows her clients' needs is surely in a better position to provide a quicker, more efficient, more personalised, and need-satisfying service than a bank teller who serves a stranger whom she does not know at all.

Airlines' frequent-flyer programmes (such as South African Airways' Voyager programme) are an example

Reader: Schemes to reward a firm's loyal clients

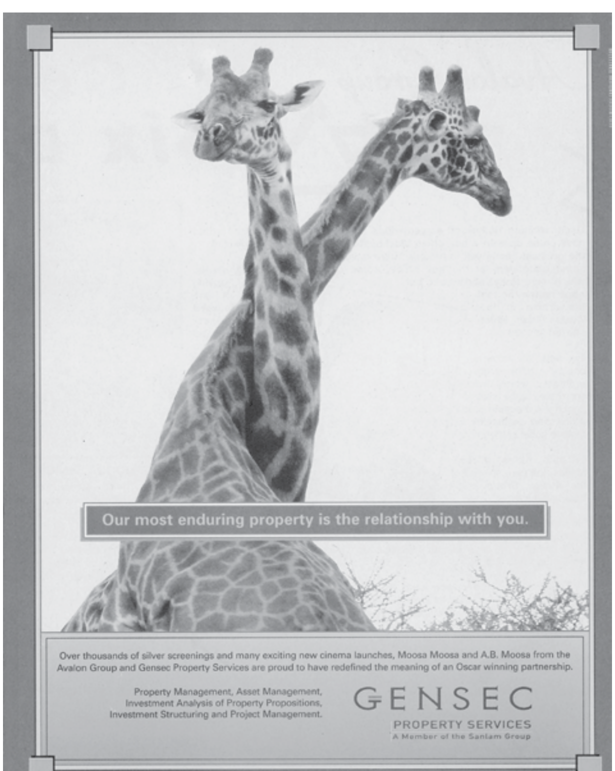
Rewards and incentive programmes to encourage good consumer behaviour are now an integral part of SA's business culture, and the country's health-care industry is no exception. These rewards and incentive schemes are seen as part of the wider concept of customer relationship management (CRM). Leisurelink MD Trevor Koen says firms use reward programmes to reassure customers of the value of their custom. These established clients stand to benefit by demonstrating behaviour that adds value to the company. To take the example of a medical aid scheme, good behaviour by members would typically include taking regular cholesterol, blood pressure or Pap smear checks.

Koen says until recently most companies have focused primarily on acquiring new business – to which a high cost is attached – and not sufficiently on retaining the business they already have. By acknowledging and rewarding existing, customers they are less likely to be tempted to switch to another brand. In addition, rewards programmes serve to introduce a wider range of products and services to existing clientele, says Koen.

'Companies should be focusing on introducing products to their existing customers, because statistically these customers are more likely to respond than those who are not clients of the company.' Through a rewards programme, Koen says, customers are able to make use of an 'objective currency' that enables them to acquire a television set or an overseas holiday, for example, in lieu of cash. Recipients are able to choose how they wish to redeem the currency, and in the Leisurelink programme there are upwards of 400 rewards, from entertainment tickets to a trip around the world.

Source: Adapted from *Business Day*, 6 April 2001, p.21.

of financial incentives to consumers in exchange for their loyalty in terms of continuing patronage. After flying a certain number of miles or flying a specified number of times, the frequent-flyer programme participant earns a free flight or some other award such as free lodging. Frequent-flyer programmes encourage customers to become loyal to specific airlines and therefore reward them for this behaviour. The banking group First Rand's eBucks programme (First National Bank and RMB Private Bank) is arguably one of the most successful loyalty programmes in South Africa (it has more than a million members). First Rand customers earn 'eBucks' when they use their credit, debit or cheque accounts and can spend the rewards (they get 10 eBucks for each Rand spent) on a variety of products and services.



Many firms acknowledge the importance of long-term relationships, and convey this orientation in their advertising. Mutual and Federal says: 'There is nothing short term about our relationship with our policyholders.'

A sense of well-being occurs when one establishes an ongoing relationship with a firm or service provider such as a retailer, doctor, bank teller, hairdresser, or accountant. The social bonding that takes place between provider and customer ensures personalisation and customisation of the relationship. Firms can enhance these bonds by, for instance, being reliable, referring to customers by name, and providing continuity of service through the same employee such as a 'personal banker'.

Although different marketing orientations have predominated at different times, this does not mean that nowadays all business firms actually implement the latest thinking in their daily marketing activities. Sadly, in South Africa the ideal of a consumer orientation based on need satisfaction, long-term customer relationship-building, and due regard for the environment, is often a pipe dream. One has only to read the letter columns of magazines and newspapers to find confirmation of that. A letter writer recently wrote: 'The saga of poor service from the Post Office continues. The Post Office is costing us a fortune through late deliveries of accounts and payments.' A regular movie-goer recently said that he has stopped going to movies because of 'the movie starting out of focus, booking the ideal seat only to find it broken, inadequate leg room, bad sound quality, continual latecomers, cellphones ringing, doors left open letting in noise and light, and patched screens painfully visible'.

Successfully implementing the marketing concept is easier said than done. Unfortunately, the focus is too often on sales rather than on customer satisfaction and building relationships with customers.

5 Differences between sales and marketing orientations

As noted at the beginning of this chapter, many people confuse the terms *sales* and *marketing*. These orientations are substantially different, however. Table 1.1 compares them in terms of five characteristics: the firm's focus, the firm's business, those to whom the product is directed, the firm's primary goal, and tools the firm uses to achieve its goals.

The firm's focus

Table 1.1 shows that the staff of sales-orientated firms tend to be 'inward looking', focusing on selling what the firm makes rather than making what the market wants (an outward or external focus). Many of the historic sources of competitive advantage – technology, innovation, economies of scale – allowed business firms to focus their efforts internally and to prosper. The accounting profession could be an example. Today, most successful firms have shifted to an external, consumer-orientated focus. This focus acknowledges that no amount of technical superiority will bring success over the long term unless customer needs are satisfied.

As Alex Trotman, ex-Ford Motor Company Chairman, once said, 'The customer, not Ford, determines how many vehicles we sell.'[10] Raymond Ackerman, the chairman of Pick 'n Pay, refers to 'the supremacy of the customer'.[11] He has coined the phrase 'Treat the customer like a queen and she will make you a king' to illustrate Pick 'n Pay's marketing philosophy.[12]

A decision on the firm's focus leads to the question 'What business are we in?' This question is discussed in more detail when we discuss Learning Outcome 8 under the heading 'The firm's business' later on in this chapter.

The firm's primary goal

As Table 1.1 illustrates, a sales-orientated firm seeks to achieve profitability through sales volume and tries to convince potential customers to buy, even if it knows that the customer's needs and the product's benefits are mismatched. Sales-orientated firms place a higher premium on making a sale than on developing a long-term relationship with a customer. In contrast, the ultimate goal of most consumer-orientated firms is to make a profit by creating customer value, providing customer satisfaction, and building long-term relationships with customers.

Tools the firm uses to achieve its goals

Sales-orientated firms seek to generate sales volume through intensive promotional activities, mainly personal selling and advertising. In contrast, consumer-orientated firms recognise that promotion decisions are only one of several basic marketing strategy decisions that have to be made. These include decisions on the so-called 4Ps: product decisions, place (or distribution) decisions, promotion (marketing communication) decisions, and pricing decisions. Chapters 8 to 13 focus on these topics. A consumer-orientated firm recognises each of these four components as important. On the other hand, sales-orientated firms view promotion as the primary means of achieving their goals.

Those to whom the product is directed

A sales-orientated firm targets its products at 'everybody' or 'the average customer'. A consumer-orientated firm targets specific groups of people (see Table 1.1). The

Table 1.1 Differences between sales and marketing orientations

	What is the focus of your firm?	What business are you in?	What is your primary goal?	How do you seek to achieve your goal?	At whom is the product directed?
A sales orientation	Inward focus: on the firm's needs	Selling goods and services	Profit through maximum sales volume	Primarily through intensive promotion	Everybody
A marketing or consumer orientation	Outward focus: on the wants and needs of consumers	Satisfying consumer needs and wants	Profit through customer satisfaction	Through co-ordinated marketing activities	Specific groups of people

fallacy of developing products directed at the average user is that relatively few average users actually exist. Typically, populations are characterised by diversity. An average is simply a mid-point in some set of characteristics. Because most potential customers are not 'average', they are not likely to be attracted to an average product marketed to the average customer – often by a below-average marketer.

Consider the market for shampoo. There are shampoos for consumers with oily hair, dry hair, and for those suffering from dandruff. There are shampoos for permed hair, coloured hair, heat-damaged hair. Some shampoos enhance the hair's colour. Special shampoos are marketed for infants and elderly people. There are 'frequent-use', 'all-in-one' and 'family' shampoos – but nowhere will you find a shampoo that admits to catering for the 'average' customer.

A consumer-orientated firm recognises that different customer groups exist and that their needs are different. It may therefore need to develop different goods, services, and promotional appeals for different customer groups. A consumer-orientated firm carefully analyses the market and divides it into groups of people who are fairly similar in terms of selected characteristics (referred to as market segmentation). Then the firm develops marketing strategies that will bring about mutually satisfying exchanges with one or more of those groups or segments.

Caxton Magazines, for instance, has a very good idea who reads its different magazines (such as *Bona*, *Style*, *SA Country Life*, *Living and Loving*, *Garden and Home*, and *Farmers Weekly*) and knows what their needs are.

Paying attention to the customer isn't exactly a new concept. Back in the 1920s, General Motors Corporation helped write the book on customer satisfaction by designing cars for every lifestyle and pocket. This consumer-orientated approach was a breakthrough for an industry that had been largely driven by production needs ever since Henry Ford promised consumers they could have any car colour they wanted as long as it was black. Chapter 6 thoroughly explores the topic of analysing markets and selecting and focusing on those segments that appear to be most promising in terms of opportunities to utilise.

A word of caution

This comparison of sales and consumer orientations is not meant to belittle the role of marketing communication (promotion) or personal selling in the marketing mix. In fact, consumers cannot buy products of which they are unaware. Marketing communication (some prefer the term promotion) is the means by which firms communicate with present and prospective customers about the merits and characteristics of their firm and products. Effective marketing communication is an essential part of effective marketing. Salespeople who work for consumer-orientated firms are generally perceived by their customers to be problem-solvers and important links to supply sources and new products. Chapter 12 examines the nature of personal selling in more detail.

6 Implementing the marketing concept in existing firms

In an established firm, changing to a consumer-driven organisational culture must occur gradually. Furthermore, middle-level managers alone cannot effect a change in corporate culture; they must have the total support of the CEO and other top executives. According to Thomas J. Pritzker, president of Hyatt Hotels, the notion that a customer orientation can just be turned on is a fallacy: 'Management has to set a tone and then constantly push, push, push.'[13]

Eg

The success of Nordstrom, the American retailer, illustrates the results of strong management support for customer-orientated service. Nordstrom employees will do almost anything to satisfy shoppers. One story, which the company doesn't deny, tells of a customer who got his money back on a car tyre, even though Nordstrom doesn't sell tyres. It is therefore not surprising that Nordstrom received the highest overall customer satisfaction rating from 2 000 shoppers who participated in a study ranking 70 US retail and department store chains on attributes such as price, convenience, and quality of offerings.[14]

Changes in authority and responsibility

Changing from a product or sales orientation to a consumer orientation often requires major revisions in relationships within the firm. Non-marketing employees such as production managers who have been making marketing decisions may suddenly lose their authority. Staff in such areas as marketing research may find that they have gained considerable authority. One way of winning acceptance for implementing the marketing concept is to get everyone who will be affected by the change to participate in the planning process. It is important to remember, however, that during a period of change, some human relations problems are inevitable. Implementing the marketing concept slowly rather than in a revolutionary fashion will smooth this transition.

A South African company that has successfully converted to a consumer orientation is Tiger Brands (see the reader: 'A new breed of tiger', below).

Eg

When a person or a firm has been doing something a certain way for many years, change often comes very hard. For example, the top management of Xerox Corporation spent much of the 1970s building huge layers of bureaucracy and wasting a lot of money developing products that never reached the marketplace. It took Xerox 10 years to realise that its old strategy of throwing people at problems and raising prices as costs went up just couldn't work forever. It wasn't until 1980 that Xerox finally realised how capable its Japanese counterparts were and how little it knew about customer needs and wants.[15] At that point, the company started making the changes that eventually pulled it out of the doldrums.

Saki Macozoma, the ex-Managing Director of Transnet, said converting Transnet into a consumer-orientated firm was difficult: 'Previously the mind-set was that "we run a train service between Johannesburg and Cape Town and if you want to, you can put your goods aboard". He acknowledged that Transnet was highly competent technically but that there was 'no business culture'. Today Transnet regards its core business as 'bulk freight transportation'.[16]

Namibian Breweries acknowledges that they have been a sales-orientated company up to now. Their whole marketing effort has been focused on their customers (retail sales outlets such as liquor stores and supermarkets, restaurants and shebeens) instead of their consumers (those who consume their products). To compete with SAB in the mass beer market, they had to convert to a market-driven firm, said the then general manager of Namibian Breweries in South Africa, André Homann. 'Without a consumer we have no business,' he added.[17]

7 The importance of new opportunities

It was pointed out earlier that the marketing concept is based on three 'pillars', one of which was customer satisfaction by focusing on customer needs and wants and – more importantly – anticipating and satisfying customer needs and wants. To achieve this objective, the firm must constantly scan the environment for potential opportunities that it can utilise (environmental scanning is discussed in more detail in Chapter 2), and then decide whether and how to utilise the potential opportunity.

Although there are other considerations as well, such as the objectives of the firm, its strengths and its weaknesses (these are discussed in more detail in Chapters 2 and 14), there are three very important steps in evaluating new opportunities. The questions that must be addressed are:

1 What business are we in?
2 Does this apparent opportunity fall inside or outside the scope of our business?
3 If we pursue this opportunity will we have a sustainable competitive advantage?

It is very important that firms are constantly on the lookout for new opportunities to ensure that they survive in a

Reader: A new breed of tiger

An iconic manufacturing company of the old SA economy, Tiger Oats has become Tiger Brands and, in slipping on the new coat, is taking on a whole new identity. 'We are in the process of reinventing Tiger, moving from strategic independent business units into a demand-driven, synergised branded food and health-care business,' says Nick Dennis, Tiger's MD. 'Before we said we would build a consumer- and customer-focused business around brands, this was a supply chain and production-driven company with exceptionally strong financial and administrative controls. That was the core competence. We were and still are world-class at facilities, production, administration and finance.

'You have to put your money where your mouth is,' Dennis says. 'Unless you do this, it is hollow to say you are building a branded consumer goods organisation. We have set up an internal university for our marketing people, called the School of Magic. This mirrors the manufacturing academy we already have.' While becoming marketing-driven, however, Tiger still overwhelmingly does its own manufacturing. Everything in the business is seen as either creating demand (marketing, R&D, and selling) or meeting demand (procurement, logistics, and manufacture). The quality of the Tiger products, which underpins the brand delivery, is a source of great pride.

'The first and most important competence is consumer understanding and the ability to turn that into unique insights. We are trying to evolve our culture and modus operandi from a line-driven organisation which threatens to become hierarchic and multi-tiered. We can beat the multinationals because we are closer to the ground and can operate more quickly.' Tiger no longer thinks in traditional terminologies of sales, marketing and production, says brand development director Malcolm Searle. 'They are functional silos. We no longer just produce peaches and put them in cans. The consumer wants health snacks. We must find a way of satisfying that by modifying our peach products. We call this the demand management process.'

Source: Adapted from Koenderman, T. 2001. A new breed of tiger. *Financial Mail*, 21 September, p. 83–84 competitive environment and to ensure that competitors do not steal a march on them by being first with, say, a new product. For instance, Langeberg allowed Royco to be the first company in the market with a 'potato bake' product, which allowed Royco to capture a significantly larger market share. Langeberg now has to play 'catch-up'. Media24, on the other hand, was quick to spot the opportunities offered by the growing home improvement and 'do-it-yourself' market and launched *Tuis* magazine in Afrikaans and *Home* in English to fill the 'gap' in the market.

The second step (considering whether we should pursue the opportunity) involves several decisions on an appropriate marketing strategy, marketing plans and marketing programmes and we will return to them later. First we have to consider the question: 'What business are we in?'

8 The firm's business

How a firm perceives the business it is in often reflects the degree of its commitment to the marketing concept. As Table 1.1 illustrates, a sales-orientated firm defines its business (or mission) in terms of goods and services. A consumer-orientated firm defines its business in terms of the benefits its customers seek. Consumers who spend their money, time and energy expect to receive benefits, not just goods and services. This distinction has enormous implications.

There are two ways of defining a firm's business, or the market in which it competes, namely in generic terms or in product-market terms. Defining the firm's business as competing in a product-market involves answering four questions:[18]

- What? (Product type)
- To meet what? (The customer need satisfied)
- For whom? (Customer types)
- Where? (Geographic area)

Consumers in a product-market will have very similar needs, and competing firms will offer close substitutes to satisfy those needs. If Ster Kinekor defines its business as 'supplying films to film theatres to satisfy the film watching needs of private individuals in South Africa' it is a product-market definition. The definition implies that consumer needs are very much the same (watching films) and all competitors will do exactly the same – supply films to film theatres. It is also a very narrow definition, because it does not allow for options *other than* supplying films. The danger here is that a too narrow definition could result in the firm missing market opportunities to serve customers whose wants could be met through a wider range of product offerings.

Eg

In 1990 Encyclopaedia Britannica earned more than R240 million after taxes. Just four years later, after three consecutive years of losses, the sales force had collapsed. How did this respected company sink so low? Britannica managers saw that competitors were beginning to use CD-ROMs to store huge masses of information, but chose to ignore the new computer technology[19] because they thought of themselves as being in 'the book-publishing business'. It is not hard to see why parents would rather give their children an encyclopaedia on a compact disc than a printed one. A full set of the Encyclopaedia Britannica costs a minimum of R9 000, weighs 269 kg, and takes up almost two metres of shelf space.[20] The CD versions sold by other publishers cost less than R2 400. If Britannica had defined its business in generic terms as 'providing information' instead of 'publishing books', it might not have suffered such a precipitous fall.

Similarly, a too narrow definition could also have led to problems for Ster Kinekor. They would have missed the opportunities offered by home entertainment such as videos and DVDs. Instead, they have seen their business in generic market terms as 'we are in the entertainment business'. A generic definition implies a wider range of competitors (in this case any provider of any form of entertainment), but also opens up a wider range of potential opportunities to satisfy the needs of consumers. Most importantly, however, a generic definition of a firm's business focuses on customer needs and the benefits they seek. As Charles Revson, the founder of Revlon, says: 'In the factory we make cosmetics. In the store we sell hope.'

Malcolm Searle, the brand development manager of the food manufacturer Tiger Brands, the owners of, among others, the Tastic rice brand, says: 'People are not buying a set of ingredients. They ask, "What are we going to have for dinner tonight?" not "What rice am I going to eat?" We are not in the rice business but in the business of understanding what people consume at mealtimes. We thought we were in the peanut butter and jam business. But we are in the spreads and toppings business, competing with honey, fish paste, and cheese spreads'.[21] How a firm defines its business consequently also impacts on the competition it faces.

A firm describing its market in generic terms would then refer to a personal expression market rather than a Christmas card market, a home decorating market rather than a paint market, a family security market rather than an insurance policy market, and a transportation market rather than a motor vehicle market.

Answering the question 'What is this firm's business?' in terms of the benefits customers seek, instead of goods and services, has at least three important advantages:

1. It ensures that the firm keeps focusing on customers' needs and avoids becoming pre-occupied with the physical attributes and features of its products, or the firm's internal needs.
2. It encourages innovation and creativity by reminding

people that there are many ways to satisfy customer needs and wants.

3 It stimulates an awareness of changes in customer desires and preferences, so that product offerings are more likely to remain relevant.

Marketing myopia is the term used to describe management's failure to recognise the scope of its business. Defining the scope of business too narrowly can lead to lost opportunities. Defining the scope of business too broadly, on the other hand, can lead to the sub-optimal use of resources as the firm gets involved in business it should not.

Eg

Mark Lambertti, the CEO of Massmart, is very conscious of the problems that marketing myopia can cause. He has made it clear that Massmart will not pursue marketing opportunities outside the African continent, or fashion markets, or in micro-marketing activities (as opposed to mass marketing), or where credit has to be extended to customers.[22]

By re-defining its business as 'document solutions', Xerox has been able to use cutting-edge technology, digital hardware, and sophisticated software to exploit new opportunities in document flow management to solve customers' need for efficient document distribution despite fierce competition.

Firms that have not evaluated apparent opportunities appropriately in terms of their business definitions have paid a heavy price. The construction company Stocks and Stocks became insolvent during 2000 and had to be delisted from the Johannesburg Stock exchange. The reason? Stocks and Stocks got involved in property development and management (Kwa Maritane resort near Sun City and Brookes Hill in Port Elizabeth, among others), which is outside their traditional business, namely building construction. What appeared to be an opportunity turned out to be a disaster as the firm got deeper and deeper into debt in pursuance of 'wrong markets' that 'eroded its focus'.[23]

Sun International, on the other hand, has remained tightly focused on their core business despite apparent opportunities elsewhere. The Managing Director of Sun International, Mr Peter Bacon, says: 'We do not want to become a rag-tag of dissimilar operations. We have to make the fullest possible use of the company's impressive bank of skills, professional knowledge and capability and to develop operations within the broad range of our facilities. … [We do not] want to become an operator of limited service hotels. Our role is to stay inside our proven area of ability – and that is to operate high-quality, full-service resorts in prime, high demand locations.'[24]

Failure to adapt to a focus on customer needs and on the way customers define their business may have serious consequences for many advertising agencies and for many other firms such as Woolworths (see the reader: 'Why Woolies lost us', below).

Reader: Why Woolies lost us

Simply, the reason Woolworths lost clothing shoppers is that it lost the plot, in particular in its women's range. Woolworths was where we shopped for good quality and competitively priced basics: the well-cut blazer, quality shirt, plain black shoes. Truworths and Edgars were where we went for 'in today, out tomorrow' fashion items. Today, Woolworths is a mishmash of everything and nothing. We still support Woolworths' food halls, but until it loses the imitation snakeskin shoes and high-fashion blouses, we will shop elsewhere for clothes.

Source: Linda Barron & friends, Letters to the Editor, *Financial Mail*, 7 September, 2001, p. 11

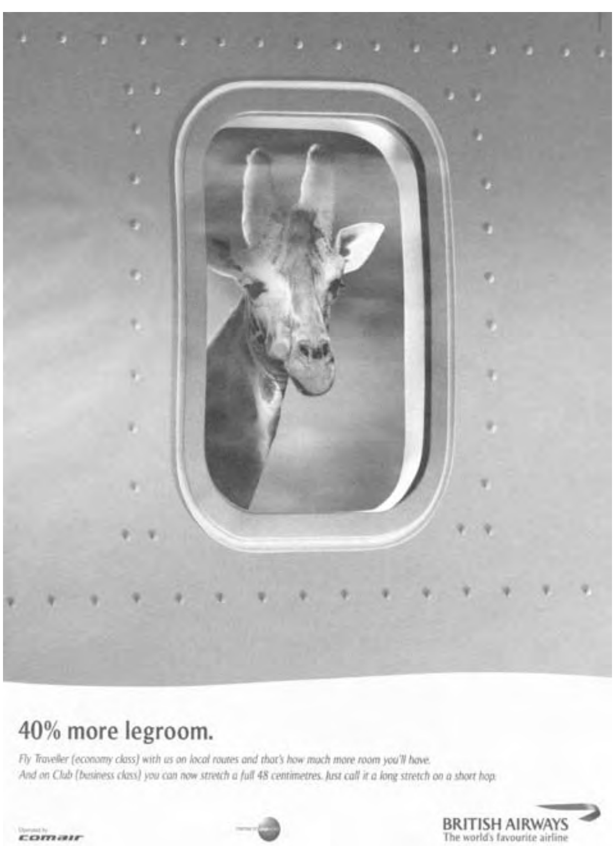
The marketing concept and the idea of focusing on consumer needs and wants do not mean that consumers will always receive everything they want. It is not possible, for example, to profitably manufacture and market for R50 each, car tyres that will last for 100 000 kilometres. Furthermore, customers' preferences must be mediated by sound professional judgement as to how to deliver the benefits they seek. As one adage suggests, 'People don't know what they want – they only want what they know.' In other words, consumers have a limited set of experiences. They are unlikely to request or expect anything beyond those experiences because they are not aware of benefits they may gain from other potential market offerings. For example, before Henry Ford started building motor vehicles, people knew they wanted quicker, more convenient transportation, but could not express their need for an affordable family car. In what is probably an urban legend of sorts Ford allegedly said: 'Had I asked them what they want, they would have said a faster horse'. Similarly, if researchers had asked housewives years ago,[25] many would have been able to say that a speedier way to cook meals and warm-up and defrost food would be very convenient. No one would, however, have been able to say: 'What I need is a microwave oven.' The ability to utilise new opportunities by anticipating consumer needs ahead of competitors can yield an important competitive advantage for business firms.

9 The importance of a competitive advantage

Once a firm has identified a potential opportunity, and decided that this opportunity falls within its scope of business, the next step is to consider whether it can establish a competitive advantage in the market it hopes to target.

Most industries and sectors in South Africa are fairly competitive. Of course, there are industries that are dominated by large (often public sector) organisations such as electricity (Eskom), fixed telephone lines (Telkom) and airports (the Airports Company). In the private sector, South African Breweries dominate the beer market. Although these dominating firms do not face much direct competition, they often have to contend with indirect competitors. For instance, if you are thirsty, you do not have to drink a SAB beer. You may prefer a Coke or a bottle of mineral water. Similarly, you can use gas instead of electricity, a cellphone rather than a fixed line telephone; or send an electronic mail message rather than post a letter using 'snail mail'.

In most other South African industries, competition is often vigorous. Examples are banking, car rental, retailing, and airline travel. Competition has an important bearing on marketing decision-making, especially in a competitive environment where it is easy for firms to copy each other's product offerings. For instance, the first video machine manufacturer to market a remote control found that it was not long before all the other manufacturers had copied the feature and they all had remote controls. In such an environment it is difficult to have something special to offer potential buyers.



Given the level of competition, consumers make a buying decision based on some rational decision. They select a Volkswagen City Golf above a Toyota Yaris for a reason. They buy from Woolworths rather than from Pick 'n Pay for a reason. They travel with British Airways rather than South African Airways for a reason. That reason is known as a *competitive advantage*. A competitive advantage is 'something' a firm or product has that competing firms or products do not have (also called a unique selling proposition or USP).

Eg

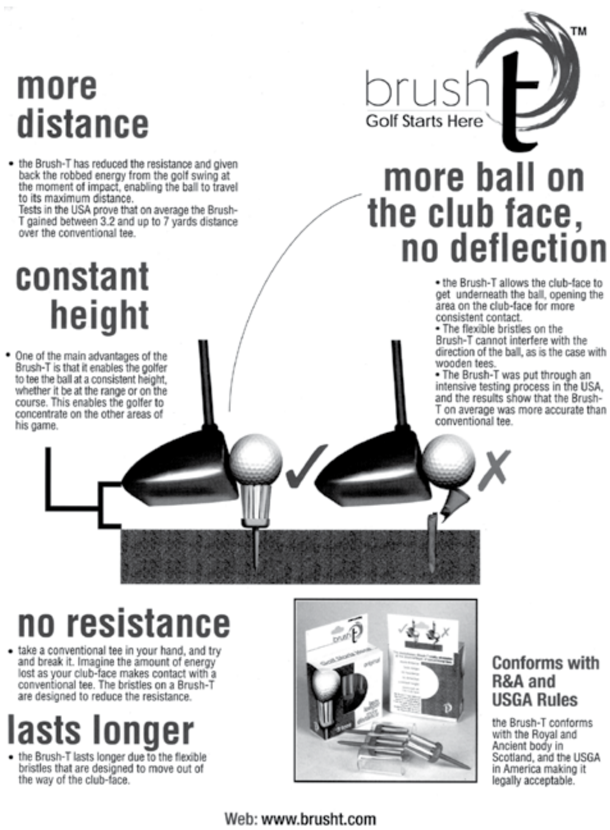
The Managing Director of Nu-World Industries (a firm marketing electrical appliances such as kettles, stoves and video machines), Michael Goldberg, says his firm's competitive advantages are the sales force's knowledge about their products, brands that range from low-cost, entry-level products to luxury items and low prices due to effective stock (inventory) management.[26]

The shampoo manufacturer Organics saw the need to develop a mousse for coloured hair. Its Color Activ mousse shampoo is the first mousse shampoo for coloured hair. The competitive advantage? 'To keep your hair colour fresher for longer.'

In a highly competitive environment firms must offer something special to prospective buyers – something that no other firm offers. This 'reason for buying' is a way of differentiating the firm and its products from those offered by competitors – a competitive advantage (see the Brush-T advertisement). Ideally, a competitive advantage must be sustainable over time and it must be based on dimensions or features (such as durability, user friendliness or quality) that are important to consumers (see the British Airways advertisement). Trying to use a dimension that is not important to consumers as a means of establishing a competitive advantage will simply not work. A tyre manufacturer using glossy black rather than a dull black for its tyres may find that many potential customers simply do not care. In Britain, a new red wine is now marketed that is claimed to be 'good for heart health'. The wine has exceptionally high levels of anti-oxidants (32 per cent more anti-oxidants than comparable red wine) that protect the human body against the harmful effects of free radicals. Only time will tell whether this feature is a competitive advantage.

Sometimes firms struggle to differentiate themselves from competitors, especially when they enter a market relatively late. Many of the cellphone operator Cell C's financial woes are attributed to its inability to properly differentiate itself from competitors Vodacom and MTN.[27]

Even in industries where it may appear to be difficult to establish a competitive advantage, some firms have



come up with novel ways to differentiate themselves. Examples are new methods to process milk to enhance its shelf life in the refrigerator (see the reader: 'New method of processing milk' on p. 19) or a car tyre that cannot puncture (Goodyear's claim).

There are numerous ways in which firms can differentiate themselves to establish a competitive advantage. We will refer to them throughout this book. In this chapter, we will discuss a few of these ways, namely service quality, creating customer value, maintaining customer satisfaction, having customer-orientated employees, superior training of employees, empowerment, and teamwork.

Service quality as competitive advantage

In industries where physical products form the core of the market offering – such as electrical appliances, motor vehicles, computers, groceries, sports goods, and the like – it is difficult to establish a competitive advantage that can be sustained. Remote controls on a video machine were a competitive advantage – for a while. A small, fuel-efficient car was a competitive advantage – for a while. User-friendly computer software was a competitive advantage until all competitors made their software user-friendly.

As services are delivered by people, their quality is intangible – and therefore a lot more difficult to copy. Many believe that service quality is the only competitive advantage that is sustainable over the long term. Firms such as British Airways have realised that many international airlines also offer reliable air transport with a wide selection of international routes and destinations. British Airways argued, however, that although many airlines can offer the core, basic product (that is, *what* they offer), not all airlines will offer it in the same manner (*how* it is offered). British Airways has decided to differentiate itself by means of *how* its product is offered – excellent service quality. No-one can argue that they have not been successful!

Besides being difficult to copy, service is an excellent means of establishing a competitive advantage, because it is an important buying consideration for consumers. Research done by Caltex, for instance, has shown that their customers 'want fast, friendly service at the pump'[28], and Caltex tries to compete with other petroleum companies' service because they know that that is important to consumers.

Reader: New method of processing milk

A new method of processing milk to double its life in the refrigerator was unveiled by British company Arla Foods earlier this week. The company plans to produce 180 000 litres a day of Cravendale Purfiltre milk for the UK market, using technology originally developed by Ault Foods of Canada. The technology, pioneered by beer brewers, involves a filtering method similar to that which gives cold-filtered lagers their distinctive taste. 'The filter we use is specially designed to let all the nutrients in the milk pass through, but removes most of the bacteria,' says Arla Foods senior brand manager Claire Huntington. 'The new milk has all the same vitamins and calcium as traditional milk, but a greater level of purity and freshness. It stays fresh in the fridge for seven days after it is opened and up to 20 days unopened,' she claims. The milk is available in three fat types – whole, semi, and skimmed.

Up until now, the only method of ensuring milk stays fresher longer has been heat treatment, associated with UHT and long life milks. According to an Arla company spokesman, filtering milk has been tried in the past, but these efforts have tended to take out nutrients.

Source: Adapted from *Food & Beverage Reporter Online*, no 78, 12 February 2001

Sadly, in South Africa, service quality is often of a low standard (see the reader: 'Telkom has the will but not the skill', below). An international survey recently placed South Africa forty-fourth out of 46 countries in terms of service delivery.[29] The poor level of service delivered by many government departments has been acknowledged by the Department of Public Service Administration. In an attempt to rectify the situation a programme called Batho Pele (the Sotho for 'people first') has been introduced in an attempt to improve service delivery. South African firms also tend to perform poorly on the dimensions of service quality that are relatively important to consumers, such as reliability in service delivery, but perform well on dimensions that are not important to consumers, such as tangibles (the physical appearance of employees and facilities).[30] Establishing a competitive advantage through service excellence offers a huge opportunity to many South African firms.

Customer value as competitive advantage

Customer value is the ratio of benefits to the sacrifice necessary to obtain those benefits. The customer determines the value of both the benefits and the sacrifices. The sacrifices customers make include monetary costs (how much I pay), time costs (how long I take to get there, or how long I have to wait) and energy costs, and they typically try to minimise these sacrifices. The benefits customers pursue could be product-related (a fast car), service-related (reliable after-sales service) or image-related (I drive a BMW). The customer tries to minimise the sacrifices and maximise the benefits and in so doing maximise the value he or she will get. In any buying situation the customer compares the sacrifices with the likely benefits and decides whether the value proposition is sufficient for him or her to buy.

The marketer also tries to maximise the value the customer receives and can do so by either lowering the customer's costs (we will deliver for you; or if you

Reader: Telkom has the will but not the skill

We have just moved to Cape Town. The house we bought had a PABX system and ISDN line rented from Telkom and we thought we'd like to continue both so, well in advance, the estate agent asked for the lines to be transferred to us.

Arriving at the house we found that we didn't have phone jacks allowing us to send e-mails or connect the fax, so we phoned Telkom for help. The lady on the phone checked: no, the phone had not been transferred. We would have to go in to the Telkom office in Cape Town. Where was that? She had no idea.

My wife found the Telkom office and went in. The lady there said we had to prove we owned the house by going to the police station to get a sworn affidavit to that effect. This was done. My wife was then transferred to a very helpful consultant, Terence Philips, who spent over three hours trying to help her, phoning many people in different parts of Telkom for her. In the end he said the line would be transferred but this would take time. Meanwhile he gave us an order number and said if we bought a simple attachment we could get the fax and e-mail to work. We bought it. It didn't work.

By now we had slipped into the routine of phoning Telkom four or five times a day to ask when help would arrive. A nice man called Mustapha Hendricks came, immediately said he could do nothing for us, made several more phone calls, gave us a new order number and said help would arrive tomorrow. It didn't. When we phoned, Telkom denied knowledge of either of the order numbers we'd been given. We went into the Telkom office again and this time the chief technical officer, Gavin Jacobs, came to the house, said it was all a problem but that it would all get dealt with the next day. The next day no one came. We made frequent calls to Telkom. Gavin Jacobs told us that a lady called Nazima Harries would be in charge of the work. We rang her and she denied all responsibility but said she would send an e-mail to someone who might help. Various people from Telkom phoned us, some from Jo'burg, liberally dispensing new order numbers, but no help arrived. I phoned Gavin Jacobs: someone is on the way to your house right now, he said. No-one came.

The next day I made my regular pilgrimage to the Telkom office and met a new man, Finley Peake. I said, look, forget the PABX, forget the ISDN, it all seems too difficult for Telkom (though both systems were already installed). Let's just have the two lines we asked for. Two weeks of ceaseless phone calls, travelling to the Telkom offices, and then on to a friend to do our e-mail had taken their toll: we were prepared to drop our standards and just beg for the basics. Another Telkom man called, said he couldn't touch our system and left.

But then Finley Peake called: it was a go. With huge excitement we watched as a young man called Nico did the job in about two hours. The lessons? Anyone who buys shares in Telkom is mad. Telkom is full of nice people but its management hardly exists. The real question for SA is whether we still have enough educated manpower to run the present infrastructure, let alone grow it.

Source: Johnson, 2003. Telkom has the will but not the skill. *Business Day*, 27 February

buy two we will give you a discount) or by increasing the benefits (improved product design; more options). Marketers are, however, constrained in many ways. The value a marketer offers cannot exceed the cost of the product, for instance.

Eg

Creating customer value is a core business strategy of many successful firms. As American Airlines Chairman Robert L. Crandall has stated, 'With business around the world becoming ever-more global, airlines, like other firms, must find ways to provide superior value.'[31]

The motor vehicle industry also illustrates the importance of creating customer value. To penetrate the fiercely competitive economy vehicle market, Toyota South Africa adopted a customer-driven approach, with particular emphasis on reliability, value for money, and service. At the time Toyota marketed the Conquest by stressing product quality at a 'surprisingly affordable price'. The service quality goal was to treat each customer as one would treat a guest in one's home. While referring to product features such as air-conditioning, power steering and a five-speed gearbox, it is said to be 'packed with everything, including value for money'. This pursuit enabled the Conquest to establish a clear value image and capture a significant share of the economy car market.

Customer satisfaction as competitive advantage

As pointed out earlier, customer satisfaction is the feeling that a product has met or exceeded the customer's expectations. Many authors refer to the so-called disconfirmation paradigm when describing customer satisfaction (see Figure 1.1). According to this paradigm, consumers have pre-purchase expectations and then they evaluate the actual buying experience (a performance evaluation). If the pre-purchase expectations are met or exceeded the customer is likely to be satisfied. If performance is below expectations, dissatisfaction will be the result.

Customer satisfaction is a critical requirement for successful marketing, and successful firms the world over have got it down to a fine art. They make sure that they know what their customers want (through research) and they then make sure that they satisfy those needs well. These firms do not pursue once-off transactions, however. They cultivate long-term relationships through sustained customer satisfaction, and customer-orientated personnel play a key role in achieving this objective.

Customer-orientated employees as competitive advantage

For a firm to be focused on customers, employees' attitudes and actions must be customer-orientated.

An employee may be the only contact a particular customer has with the firm. In that customer's eyes, the employee *is* the firm (see Avis advertisement). Any person, department, or division that is not customer-orientated weakens the positive image of the entire firm. For example, a potential customer who is treated discourteously may well assume that the employee's attitude represents that of the whole firm. Firms that allow that type of behaviour are violating the integration principle of the marketing concept.

Eg

Marriott International Hotels says: 'Our basic philosophy is to make sure our associates (employees) are very happy and that they work to go the extra mile – take care of customers and have fun doing it'.[32] Every employee is cross-trained to handle all major guest services. Many other successful firms are making sure their employees focus on customers' needs. Pick 'n Pay, for instance, acknowledges the central role of employees in its customer satisfaction efforts by using the slogan 'Our people make the difference' in its advertising.

Well-trained employees as competitive advantage

Leading marketers recognise the role of employee training in customer service. For example, all new employees at Disneyland and Walt Disney World must attend Disney 'university', a special training programme for Disney employees. They must first pass Traditions 1, a day-long course focusing on the Disney philosophy and operational procedures. Then they go on to specialised training.

Eg

Pick 'n Pay has made use of this facility and can vouch for its effectiveness (see: 'Learning lessons from Disney', below). Similarly, McDonald's has Hamburger University. Nando's, the Portuguese flame-grill fast food chain, also has a 'university' where line employees and managers learn how to treat customers, because, as MD Brian Sacks says: 'People are the make-or-break factor in any service industry'.[33] There is an extra payoff for companies, such as Disney, McDonald's, and Nando's, that train their employees to be customer-orientated. When employees make their customers happy, the employees are more likely to derive satisfaction from their own jobs. Having contented workers who are committed to their jobs leads to better customer service and greater employee retention.

Employee empowerment as competitive advantage

In addition to training, many marketing-orientated firms are giving employees more authority to solve customer problems on the spot without having to get permission from a manager to solve the problem. The term used to describe this delegation of authority is *empowerment*. The American firm Federal Express's customer service representatives are trained and empowered to resolve customer problems. Although the average Federal Express

Reader: Learning lessons from Disney

If the cleaners, canteen cooks, and shelf-packers in Pick 'n Pay's new flagship store in Johannesburg's Fourways' Crossing have a worldly look in their eyes and a special bounce to their stride, it's because they're all graduates of a rigorous course in international service training at the famed Disney Institute in Florida, USA. The course is generally reserved for middle to senior management. 'The Disney Institute thought we were nuts,' says group MD Sean Summers. 'No company in the Institute's history had brought a group this size, or this diverse.'

The 121 graduates represent the store's entire full-time staff complement, from cleaners to canteen cooks, cashiers, shelf-packers, supervisors, bakers, and fruit and veg managers. The 10-day course cost R6 million. Pick 'n Pay had previously taken two groups of 80 each, selecting staff from across the country. 'But six people going back to the whole Eastern Cape region can't really have an impact on the business,' says Summers. 'You may have switched on the lights and changed the lives of an individual, but you can't get the real knock-on as a company. So we had this crazy idea: let's take the entire store. It was just awesome to see these people grow. I saw a shelf-packer, who's functionally illiterate, sitting in a Disney Institute lecture theatre conversing eloquently with the lecturers. It restores one's faith in humanity and our ability to take this country forward. If you just see the ability of our people to grow, to see how good they are, if you take the limitations away.'

At the back of the Fourways store, Pick 'n Pay is building its own Centre of Excellence for group employees. Part of the training will be visits to the flagship store next door, observing, and getting stimulated by its galvanised staff.

Source: Lundin, J. 1998. Learning lessons from Disney, *Financial Mail*, 11 December 1998, p. 31

transaction in America costs only $16, the customer service representatives are empowered to spend up to $100 to resolve a customer problem.[34] The benefits of empowerment are:[35]

- Quicker response to customer needs
- Employees gaining a higher sense of job satisfaction
- It translates into a source of information about customer needs
- Improved customer satisfaction.

Nedbank is trying to use the empowerment of its staff as a competitive advantage says its AskOnce Campaign: 'No matter who you are, or where you bank, it's frustrating to be pushed from pillar to post to get a response. This is why Nedbank has introduced AskOnce: our commitment that the person you speak to will take responsibility for your request and ensure that the matter gets resolved.'

Empowerment gives customers the feeling that their concerns are being addressed, and gives employees the feeling that their expertise matters. The result is greater satisfaction for both employees and customers – an excellent competitive advantage if properly executed.

Teamwork as competitive advantage

Many firms that are frequently noted for delivering superior customer value and providing high levels of customer satisfaction – such as British Airway and Toyota – assign employees to teams and teach them team-building skills. Teamwork entails collaborative efforts to accomplish common objectives. Job performance, company performance, product value and customer satisfaction all improve when people in the same department or work group begin supporting and assisting each other, and emphasising co-operation.[36]

Eg

Johnson Control Automotive Ltd, a Uitenhage-based car seat manufacturer, has become the first firm in South Africa to have been awarded the sought-after VDA 6.1 Quality Management System Certification, QS 9000 Certification, and an 'A' rating in accordance with VDA 6.1 simultaneously. The firm manufactures car seats for the Volkswagen factory in Uitenhage and this achievement was due entirely to teamwork, according to the plant manager Mr Ian Dickerson. 'Everyone worked very hard to achieve this. The commitment shown by the people was phenomenal,' he said.[37]

On the other hand, it took the Dutch beer brewer Heineken six years to get to the point that Heineken beer was available in cans. What was the reason for the long delay? The production and marketing departments were practically at war at the time.

An ex-editor of the Sunday newspaper the *Sunday Times*, Mike Robertson, once admitted that continuous conflict between the editorial and advertising departments at the newspaper harmed the newspaper's performance. Once we accepted our interdependence things improved and we '… enjoyed the most profitable financial year in the newspaper's history'.[38]

Performance is enhanced when people in different areas of responsibility – such as production and sales, or sales and service – practise teamwork, with the ultimate goal of delivering superior customer value and satisfaction. In other words, it implies integrating the firm's customer need-satisfying activities, as called for by the marketing concept.

The above is not an exhaustive list of strategies that can be used to establish and maintain a competitive advantage. The list is endless, but the following can also be considered:

Cost	Shoprite-Checkers competes in the grocery market on price, which implies keeping its own costs as low as possible
Quality	A strategy used by Woolworths and Mercedes-Benz, among others
Flexibility	Some will argue that taxis in South Africa offer a flexible transport service – unaffected by bus schedules, rigid bus-stop locations or even traffic rules!
Location	A retail location in an area of high customer traffic, such as the Waterfront in Cape Town, or a Shell Ultra City can be a significant competitive advantage. Most spaza shops compete successfully for business with much larger competitors owing to their favourable location
Safety	Mercedes-Benz advertising often suggests that it is a particularly safe vehicle to drive
Image	A strategy used by many firms, including Ray-Ban sunglasses and Mont Blanc pens
Product	A strategy used by firms that believe they have a superior product. Doom insect killer is an example
Design	Schick advertising for its Protector razor says: 'The only razor with micro-fine safety wires between you and the blades, protecting you from nicks, cuts and skin irritation'
Distribution	Pick 'n Pay has enhanced the quality and freshness of the fruit and vegetables in its Gauteng stores by improving its distribution. The time it takes to move fresh fruit and vegetables from the farm to the shelf has been reduced by 50 per cent, thanks to this new distribution system.

Once a firm has identified a potential opportunity, decided that the opportunity falls within the scope of the firm's business, and determined that it will be possible to establish a competitive advantage that is both sustainable and important to the target market, then the marketing process can be initiated.

10 The marketing process

Marketing is not a one-night stand – it is a process. Marketing managers are responsible for a variety of activities that together represent the marketing process. These include:

- Understanding the firm's business and mission and the role marketing plays in realising that mission.
- Setting marketing objectives.
- Collecting, analysing, and interpreting information about the firm's situation, including its strengths and weaknesses, as well as opportunities and threats in the environment.
- Developing a marketing strategy by deciding exactly *which* wants, and *whose* wants, the firm will try to satisfy (target market strategy), how the firm wants to be positioned relative to competing firms and by developing appropriate marketing activities (the marketing mix) to satisfy the desires of selected target markets. The marketing mix combines product, distribution, marketing communication, and pricing strategies in a way that creates exchanges that satisfy consumers' and the firm's needs.
- Implementing the marketing strategy.
- Designing marketing performance measures.
- Periodically evaluating marketing efforts, and making changes if needed.

These activities and their relationships with each other form the foundation on which the rest of the book is based.

An important concept to grasp at this stage is that of the *marketing strategy*. In broad terms, a marketing strategy is formulated to pursue a marketing opportunity. The marketing strategy will consist of an objective, a description of the market that will be targeted, the competitive advantage of the product, brand or firm, how the product, brand or firm will be positioned and how the marketing mix elements or 4Ps (product, distribution, communication/promotion, and pricing strategies) will be combined to achieve the objective of the marketing strategy.

A *marketing plan*, on the other hand, consists of a marketing strategy but has the added dimensions of allocating resources and responsibility for implementation. Control measures (how performance will be evaluated) and a time scale are also included. Another important distinguishing feature is that a marketing plan is a written document.

A *marketing programme* is a combination of several marketing plans. Unilever SA may, for instance, have a marketing plan for each of its skin care brands – Dawn, Pond's, and Vaseline – but also a combined marketing programme for skin care products as a whole.

To implement the process of marketing effectively the position and role of marketing effectively in the firm must be considered.

Reader: New category divisions at Langeberg

Category management is assuming a new meaning at Langeberg, where a new 'functional divisions' management structure is being put in place. Langeberg's managing director, Andries van Rensburg, says that at present, as in most multi-product organisations, Langeberg has a structure of 'silos'. The marketing and sales departments, for instance, look at many different strategies for all its product categories. Now, Langeberg is assembling cross-functional teams to put more resources into categories and manage them in a focused way. Langeberg is currently appointing business category managers for the categories, who will head these cross-functional teams for both the SA and international markets. They will be experts in the category – understanding their categories in production, sales, distribution, marketing, and so on.

The new category divisions are likely to be: recipe ingredients (tomato products); meal ingredients (vegetables, beans, and salads); convenience meals (pasta and soup); condiments (tomato sauce and mayonnaise); desserts; and spreads. Some of these divisions will have turnovers of hundreds of millions of rands. The new structure has been under test in Langeberg for about a year. Van Rensburg says this kind of structure has been implemented at Kraft Foods in the US.

Existing departments in Langeberg, like sales, manufacturing, finance, distribution, and human resources, will be services rendered to the category teams. Ideally, manufacturing, for instance, would be independent. If its services were more expensive than those of an outsider, Langeberg might stop manufacturing. Says Van Rensburg: 'We will still have an overall marketing function which will, for instance, guard the health of the All Gold and Koo brands across the categories. The group sales department will be a customer excellence centre.'

Source: Adapted from: New category divisions at Langeberg. *Food & Beverage Reporter Online*, no 18, Southern African edition, 23 February 1999

11 The position and role of marketing in the firm

The marketing function is one of eight business functions typically found in medium-sized and large firms (the others being production, finance, purchasing, public relations, information management, human resources, and general management). Although some would argue that marketing is the most important function of all, because of its intimate involvement with the market and consumers (see the reader: 'Why marketing should rule the financial people', on p. 28), the eight functions are typically (but not always) given equal status in an organisational chart, and all of them have to contribute realising the firm's objectives. It is important to understand, however, that irrespective of the nature of the organisational structure, the tasks that the marketing function or department is expected to perform will remain the same.

Assuming that you accept that marketing is all about satisfying consumer needs at a profit through an integrated approach, while ensuring that societal well-being is enhanced, we now turn our attention to the management tasks of marketing, namely planning, organising, leading, and control.

Planning refers to:

- Identifying marketing opportunities, e.g. Afribrand saw supplying products to street hawkers as an opportunity
- Setting marketing objectives, e.g. Volkswagen may set themselves the objective to be the market leader in the passenger vehicle market, or to raise profitability to 20 per cent return on investment
- Deciding how to use the marketing instruments (the 4Ps), e.g. Volkswagen decided to use Product and Price as key components in their strategy when they marketed the Polo Playa as a relatively inexpensive vehicle (Price) without compromising quality (Product).

Organising refers to organising and co-ordinating the activities of the marketing department. As the 'New category divisions at Langeberg' on p. 24 shows, the traditional ways of organising the marketing department are increasingly being challenged.

Leading refers to providing leadership in planning and the implementation of marketing strategies.

Control (evaluation) refers to an objective assessment of the marketing strategy against the background of the marketing objectives. In other words, did we achieve what we set out to achieve?

To summarise: Marketing will not happen by itself. It needs to be managed – by means of effective planning, organising, leading, and control.

12 Criticism of marketing

As with most other things in life, marketing is not beyond criticism. Much of this criticism has been focused on the role of intermediaries (retailers and wholesalers) in marketing, and on the role of advertising. Critics argue that intermediaries simply add costs to a final product without adding any value to the process of getting products to consumers. Advertising is criticised for making consumers buy products they do not really need, and for often being misleading and untruthful. For instance, more than one third of the complaints received by the Advertising Standards Authority of South Africa accuse advertisers of misleading claims. Others have argued that packaging and labelling are often deceptive and that packaging pollutes the environment.

Those who do appreciate the value of marketing in an economy respond by pointing out that marketing creates utility for consumers. *Utility* refers to the value being created by marketers by satisfying consumer needs that would not otherwise have been possible. They also point out that marketers overcome a number of discrepancies and separations (or gaps) in an economic system, leading to further value creation. These discrepancies and gaps are:[39]

- **Discrepancy of quantity**. To realise the benefits of economies of scale in production, producers produce products in large quantities. A bicycle factory may produce batches of 400 units at a time, but consumers obviously cannot buy them all at once. They want to buy one at a time. To overcome this discrepancy, wholesalers and retailers buy in bulk, which they 'break down' into the smaller units consumers desire.
- **Discrepancy of assortment**. Producers normally produce a narrow assortment of products. A producer of golf clubs may produce only golf clubs. Golf players, however, need more than that to play a round of golf. They also need special shoes, gloves, balls, a bag and the like. Retailers, in this case sports shops, buy different products from a variety of producers and suppliers and combine them all into a combination that consumers desire.
- **Spatial separation**. Producers produce where production cost is at its lowest, but consumers are widespread. A farmer produces milk on his farm but the consumers who drink it are far removed from the farm. He needs to get the milk to within reach of those who want to consume it. Intermediaries (wholesalers and retailers) overcome this spatial separation through the transport function. Marketers thus create *place utility* for consumers by making products available where they are needed.
- **Separation in time**. Consumers are not always ready to consume products when they have been produced or production could exceed demand at the time. Excess products or surpluses then have to be stored – a function that intermediaries perform for consumers.

For example, a farmer produces mealies that are harvested during the winter. Consumers, however, do not eat porridge only during the winter. To ensure that they can eat porridge all year round, marketers have to overcome the separation in time. By using their storage facilities, marketers are creating *time utility* for consumers.

- **Separation of information**. Consumers are often not aware that products exist that could satisfy their needs. In other words, they lack information because of an information gap. Marketers attempt to overcome the information gap by providing consumers with information on need-satisfying products through the use of, among others, advertising (*information utility*). Advertising also yield some other advantages such as encouraging competition and lower prices (see International Advertising Association advertisement).
- **Separation in ownership**. Most consumers do not own all the products that could satisfy all their needs. In other words, there is a gap between what they want (I want my own car) and what they have (I do not have my own car). Marketers try to overcome this gap by selling need-satisfying products to consumers. By overcoming the separation gap and giving consumers the opportunity to use or consume products, marketers create *possession utility*.
- **Separation in value**. Consumers often disagree on the value of a product. For example, a consumer may say that R15,00 for a two-litre Coke is too expensive, and she will not buy it. In other words, the buyer and the seller disagree about the value of the product. Marketers have to convince buyers that their products represent value (or value for the money spent), otherwise buyers simply will not buy. Also, through the pricing mechanism, marketers establish a monetary value for a product that will recover the manufacturer's production cost while also representing a realistic price that the target market will be prepared to pay. In other words, marketers establish equilibrium between manufacturers (who want as high a price as possible for their products) and buyers (who want to pay as little as possible).

Marketers also create two other forms of utility. By ensuring that they interpret consumer needs correctly, marketers help to ensure that need-satisfying products are manufactured by the firm's production department or factory. Marketers thus play a role creating *form utility*. On the other hand, *task utility* is created by marketers

Reader: The last word ... (1)

Right now, the battle for freedom of commercial speech is being fought most fiercely in Europe, where attempts to create a unified legal system have spilt over into renewed pressures to regulate advertising. In this environment, it's easy to overlook the economic and social advantages of advertising. So it's worth heeding the words of Rupert Howell, president of the Institute of Practitioners in Advertising in London, who reiterated the case for advertising at the European Advertising Association congress in Johannesburg last week. Advertising, he noted, encourages competition, allows choice, brings down prices, funds independent media, encourages product improvement, often plays a vital educative role, and fuels the economy. Howell argued that when advertising is banned, prices rise by up to 40 per cent. A case in point is children's toys. Average prices of three of the most popular toys are 36 per cent higher in Sweden, which bans advertising targeting children, than in the UK, which doesn't. But the freedom to advertise can be defended properly only if advertisers behave responsibly – keeping it legal, decent, honest, and truthful through self-regulation.

Source: Koenderman, T. 2000. The last word. *Financial Mail*, November 3, p. 90

who perform certain functions on behalf of consumers. A motor mechanic who repairs a car for a customer creates *task utility*.

In summary, those who want to defend the role of marketing in a firm or an economy will point to the value the marketing function creates for consumers by overcoming several gaps that would be impossible or prohibitively expensive for consumers to overcome themselves. Marketing thus creates utility for consumers by performing activities or functions of value on their behalf.

13 Why study marketing?

Now that you understand the meaning of the term *marketing*, why it is important to adopt a marketing orientation, and how firms implement this philosophy, you may be asking, 'What's in it for me?' or 'Why should I study marketing?' These are important questions, whether you are majoring in a business field other than marketing (such as accounting, finance, or management information systems) or a non-business field (such as journalism, economics, or agriculture). There are several important reasons to study marketing: Marketing plays an important role in society, marketing is important to businesses, marketing offers outstanding career opportunities, and marketing affects your life every day.

Marketing plays an important role in society

The University of South Africa's Bureau estimates the total population of South Africa at about 44,7 million. Consider how many transactions are needed each day to feed, clothe and shelter a population of this size. The number is huge. And yet it all works quite well, partly because our well-developed economic system is reasonably efficient at distributing the output of farms and factories to consumers. A typical family can consume up to 2,5 tons of food a year. Marketing makes food available when we want it, in desired quantities, at accessible locations, and in sanitary and convenient packages and forms (such as instant and frozen foods).

Marketing is important to business firms

The fundamental objectives of most firms are survival, profits, and growth. Marketing contributes directly to achieving these objectives (see the reader: 'Marketing seen as key to profitability', below). Marketing includes the following activities, which are vital to business firms: assessing the needs and wants and satisfaction of present and potential customers, designing and managing product offerings, determining prices and pricing policies, developing distribution strategies, and communicating with present and potential customers.

All businesspeople, regardless of specialisation or area of responsibility, need to be familiar with the terminology and fundamentals of accounting, finance, management, and marketing. People in all business areas need to be able to communicate with specialists in other areas. Furthermore, marketing is not just a job done by people in a marketing department. Marketing is a part of the job of everyone in the firm. As David Packard of Hewlett Packard put it: 'Marketing is too important to be left to the marketing department'.[40]

Pierre van Tonder, the Managing Director of the Spur Group describes the importance of marketing as follows: 'The importance of marketing to a company should never be underestimated. Nor should-one make the mistake of thinking that marketing is just

Reader: Marketing seen as key to profitability

European pharmaceutical companies could add up to 10 per cent to their pre-tax profits by investing in key marketing and sales operations, according to a new study by Accenture, a management consultant firm. The report, based on interviews with 77 executives from 20 Europe-based drug groups, found that marketing and sales play a crucial part in the financial success of companies. They account for 70 per cent of the difference in the return on sales between the companies studied, Accenture concludes.

The study concludes that companies should focus on just four key marketing and sales functions in order to improve their financial performance. They are: obtaining information about doctors' needs, developing a good relationship with them, improving sales force effectiveness by linking rewards to performance, and having a good mix of drugs to sell.

The study calculated that an average European pharmaceutical company with annual sales of \$300m (£210m) could add \$43m to operating revenues and up to 10 per cent in profits by improving the four marketing functions. Of the four, having effective information on doctors' needs is the most important. An improvement in this field can add up to \$19m to the operating revenues of the average European drug group. Doctor relationships came a close second, with \$13m, while the performance of the workforce could add \$8m, and products and the right mix of products \$3m.

Source: Guera, F. 2001. Marketing as seen as key to profitability. *Financial Times*, 13 August, p14

Reader: Why marketing should rule the financial people

A few years ago Coca-Cola's management made an unambiguous statement about marketing in the annual report. 'Marketing at the company is no longer a function. It is no longer: you have marketing, finance, operations, and legal. Marketing is what we do. We understand that the best way to generate consistently strong short-term results is to keep our attention riveted on the long term.' Chris Macrae, a British marketing strategist, sees in this more than just an inkling of the suggestion that marketing is top dog, and that the financial function should be accountable to it. If you subscribe to what Ted Levitt said in 1977, that 'the purpose of a business is to create and keep a customer', you will not find this concept difficult to accept. We've just taken a long time to understand what he was saying. Businesses are what they are because they sell something and people buy it. If people stop buying, there is no business. So where is the focus of what should be a business's attention? It should be on the people who buy what they sell. Not on the balance sheet and the weekly, monthly or quarterly profit and loss statements. Those are measures of the money customers spend with the company, less the cost of the sale. They are, emphatically, not the cause. We have to remember that brands are what customers buy and marketing is about building and caring for brands.

Source: Sinclair, R. 1997. Why marketing should rule the financial people. *The Sunday Independent*, 27 July

about expensive and flashy advertising and public relations campaigns – there is a marketing aspect to almost everything any company does.'[41] Therefore, a basic understanding of marketing is important to all employees and all business people.

Marketing offers outstanding career opportunities

A cursory glance at the job advertisements in the Sunday Times newspaper will show that marketing offers great career opportunities in such areas as professional selling, marketing research, advertising, retail buying, distribution management, product or brand management, merchandising, product development, and wholesaling. Marketing career opportunities also exist in a variety of non-business firms, including hospitals, museums, universities, the armed forces, and various government and social service agencies.

As the world markets becomes more challenging, all South African firms of all sizes are going to have to become better marketers as more and more overseas firms enter the South African market. For instance, in 1996 there were 20 motor vehicle brands available in South Africa. Today there are 36 different brands competing in South Africa. The number of bottled water brands increased from zero to 140 in just a few years. At least 12 foreign international banks entered the South African market in recent years. Banking is probably the industry that will face the most demanding circumstances in South Africa during the next few years. According to Danie Cronjé, the ex-chairman of the ABSA group '… competition grows almost weekly, coming from abroad, from niche banks, from non-banks, targeting the most profitable markets of all South Africa's major banks'.[42] As the levels of foreign competition increase, South Africans will have to become better marketers and marketing will become a highly valued skill (see the reader: 'The last word'…, below),

Reader: The last word… (2)

Marketing is an undervalued skill in South Africa, probably because of this country's origins as a primary producer. After all, when you produce gold, iron ore or coal, who needs to know about marketing? You have a handful of big customers around the world, you produce a commodity with zero added value, and the price is determined by factors beyond your control. It's noteworthy that the only mineral we produce that has ever been subjected to a long-term marketing campaign is diamonds. That great pay-off line, 'a diamond is for ever', helped turn it into a commodity driven by demand rather than consumer. But if South Africa is to prosper in the 21st century, we will have to realise that it's no longer good enough to wait for the world to beat a path to our door. We have to get out there and market our better mousetraps.

Bobby Godsell appears to have acknowledged this in the launch of Anglogold with all the hype that would previously have characterised a supermarket chain. Said he: 'Gold is more sexy than diamonds. We have to differentiate ourselves ... Jewellers are our customers too.' About time.

Source: Koenderman, T. The last word. *Financial Mail*, 28 August 1998, p. 98

which will enhance the career prospects of those who possess those skills.

Marketing affects your life every day

Marketing plays a major role in your everyday life. You participate in the marketing process as a consumer of goods and services. About half of every rand you spend pays for marketing costs, such as marketing research, product development, packaging, transportation, storage, advertising, and sales expenses. By developing a better understanding of marketing, you will become a better-informed consumer. You will better understand the buying process (including your own) and be able to negotiate more effectively with sellers. Moreover, you will be better prepared to demand satisfaction when the goods and services you buy do not meet the standards promised by the manufacturer or the marketer.

LOOKing ahead

This book is divided into 16 chapters, organised into three major parts. All the chapters are written from the marketing manager's perspective, as our ultimate goal is to equip you with the necessary skills to become an effective marketing manager. Each chapter begins with a brief list of learning outcomes followed by a short story (Marketing in Practice) about a current marketing situation faced by a firm or industry. At the end of each of these opening readers, thought-provoking questions link the story to the material discussed in the chapter.

Against the background of escalating levels of corruption and fraud in business in South Africa, marketing ethics is another important topic selected for special treatment throughout the book. Chapters include stories about firms or industries that have faced ethical dilemmas or have engaged in practices that some may consider unethical. Questions are posed to focus your thinking on the key ethical issues raised in each story.

As job creation in the formal sector of the South African economy has ground to a virtual halt it is important that entrepreneurship, small-business management, and franchising applications are also highlighted in this text. This material illustrates how entrepreneurs and small businesses can use the principles and concepts discussed in the book to enhance their marketing efforts.

End-of-chapter materials include a final comment on the chapter-opening reader (Looking Back), a summary of the major topics examined, a listing of the key concepts introduced in the chapter, and discussion and writing questions (the latter identified with an icon in the margin). All these features are intended to help you develop a more thorough understanding of marketing and add to your enjoyment of the learning process.

LOOKing back

The opening reader in this chapter reports on a study that tried to assess the impact on company performance of being customer-centric (consumer-orientated). The study found that focusing on customer need satisfaction allows these firms to increase their revenue and reduce their costs – meaning enhanced profitability.

The study found that when firms become customer-centric, a chain is set in motion, which keeps both employees and customers happy and loyal to the firm. Customer-centric firms understand their customers better, which allows them to produce and market products that optimise customer satisfaction. Being customer-centric (focused) also drives down production costs which allow these firms to minimise investments in inventory levels. Customer feedback through research also enables customer-centric firms continually to improve their products and services, which enhances customer satisfaction. The production costs of customer-centric firms are minimised because they optimise the utilisation of machines, they keep the money tied up in inventories to as low a level as possible, they have fewer parts shortages (which annoy customers), spend less money on re-doing things, and their effective production reduces their wastage.

Sadly, the report found that few South African firms are customer-centric. In other words, few South African firms accept and acknowledge that consumers do not buy products for the sake of having them, but because they believe that the products have certain features that can satisfy some of their needs. In other words, consumers buy certain products because they yield specific benefits. These consumer benefits, rather than product features, should guide marketing decision-making.

Lastly, the report points out that to become customer-centric, South African firms will have to ensure that their business activities are properly integrated – a key component of the marketing concept.

Summary

1 **The term marketing**. The ultimate goal of all marketing activity is to facilitate mutually satisfying exchanges between parties. The activities of marketing include the conception, pricing, promotion, and distribution of ideas, goods and services.
2 **The relevance of customer satisfaction and loyalty**. Customer satisfaction is the feeling that a product has met or exceeded the customer's expectations and this should be a primary aim of any marketer. Satisfactory exchange should lead to loyal customers who maintain a long-term relationship with the firm to the mutual benefit of both parties.

3 **The concept of exchange**. Satisfactory exchange between parties (a seller and a buyer) is one of the key terms in the definition of marketing. It means that people give up something of value to a seller to receive something they would rather have, using money as the medium of exchange. We 'give up' money to 'get' the goods and services we want from a seller.

4 **Marketing management philosophies**. The role of marketing and the character of marketing activities within a firm are strongly influenced by its philosophy and orientation. A *production-orientated* firm focuses on the internal capabilities of the firm rather than on the desires and needs of the consumers. A product orientation emphasises product features at the expense of customer needs. A sales orientation is based on the belief that people will buy more products if aggressive sales techniques are used, and that high sales volumes produce high profits. A *marketing-orientated* firm focuses on satisfying customer wants and needs while meeting the firm's objectives. A societal marketing orientation goes beyond a marketing orientation to include preserving or enhancing individuals' and society's long-term best interests. A relationship marketing orientation is geared towards customer loyalty over the long term.

5 **Sales and marketing orientations**. First, sales-orientated firms focus on their own needs, while marketing-orientated firms focus on customers' needs and preferences. Second, sales-orientated firms consider themselves to be deliverers of goods and services, whereas marketing-orientated firms view themselves as satisfiers of customers. Third, sales-orientated firms direct their products at everyone, while marketing-orientated firms aim at specific segments of the population. Fourth, although the primary goal of both types of firms is profit, sales-orientated firms pursue maximum sales volume through intensive promotion, whereas marketing-orientated firms pursue customer satisfaction through co-ordinated marketing activities.

6 **The implementation of the marketing concept**. To implement the marketing concept successfully, management must enthusiastically embrace and endorse the concept and encourage its acceptance throughout the firm. Changing from a production or sales orientation to a marketing orientation often requires changes in authority and responsibility and front-line experience for management.

7 **New opportunities**. It is important that firms are constantly on the lookout for new opportunities to ensure their survival in a competitive environment and to ensure that competitors do not edge them out of a market with, for instance, a new product.

8 **The scope of the firm's business**. Marketing myopia is the term used to describe management's failure to recognise the scope of its business. Defining the scope of business too narrowly can lead to lost opportunities. Defining the scope of business too broadly can lead to the sub-optimal use of resources as the firm gets involved in business it should not (e.g. South African Breweries getting involved in retailing).

9 **Establishing and maintaining a competitive advantage**. A competitive advantage is 'something' a firm or product has that competing firms or products do not have (also called a unique selling proposition or USP). Various things can be used to establish and maintain a competitive advantage, including a unique product feature, excellent service, a well-trained sales force, and so on.

10 **The marketing process**. The marketing process includes understanding the firm's mission and the role marketing plays in fulfilling that mission, setting marketing objectives, scanning the environment, developing a marketing strategy by selecting a target market strategy, developing and implementing a marketing mix, implementing the strategy, designing performance measures, evaluating marketing efforts, and making changes if needed. The marketing mix combines product, distribution (place), promotion, and pricing strategies in a way that creates exchanges satisfying to individuals and fulfils the firm's objectives.

11 **The role of marketing in the firm**. The marketing function is one of eight functions typically found in medium-sized and large firms. The eight functions are typically (but not always) given equal status in an organisational chart and all have to contribute to the realisation of the firm's objectives. Irrespective of the nature of the organisational structure, the tasks that the marketing function or department is expected to perform will remain the same.

12 **Criticism of marketing activities**. Much of this criticism has been focused on the role of intermediaries (retailer and wholesalers) in marketing and on the role of advertising. Critics argue that intermediaries simply add costs to a final product without adding any value to the process of getting products to consumers. Advertising is criticised for making consumers buy products they do not really need and for often being misleading and untruthful. Others would argue that this criticism is unjustified if one considers the gaps that marketing must overcome and the utility that marketing creates.

13 **Reasons for studying marketing**. First, marketing affects the allocation of goods and services that influence a nation's economy and standard of living. Second, an understanding of marketing is crucial to understanding most businesses. Third, career opportunities in marketing are diverse, profitable, and expected to increase significantly. Fourth, understanding marketing makes consumers more informed.

Strategy reader: Top manufacturers in tight tussle for awards: Results of the Synovate Quality Awards 2006

Nissan has worked its way to the top of the Synovate Quality Awards in a closely-contested and high-scoring annual survey of sales and service satisfaction in South Africa's motor industry.

The brand heads the list of Synovate Gold achievers in three of the four survey categories – Customer Satisfaction when servicing a Passenger Vehicle, Customer Satisfaction when purchasing a Light Commercial Vehicle, and Customer Satisfaction when servicing a Light Commercial Vehicle.

It ties for third place in Customer Satisfaction when purchasing a Passenger Vehicle. The rankings are based on the results of Synovate's Competitive Customer Satisfaction Index (CCSI).

'Nissan gets the special Synovate Platinum for its determined and focused effort,' said Jon Salters, the global research company's Managing Director for Sub-Saharan Africa.

'This award is presented to a brand whose performance is outstanding and exceptional. Nissan hardly featured in the survey last year, so it's a remarkable move up the rankings.'

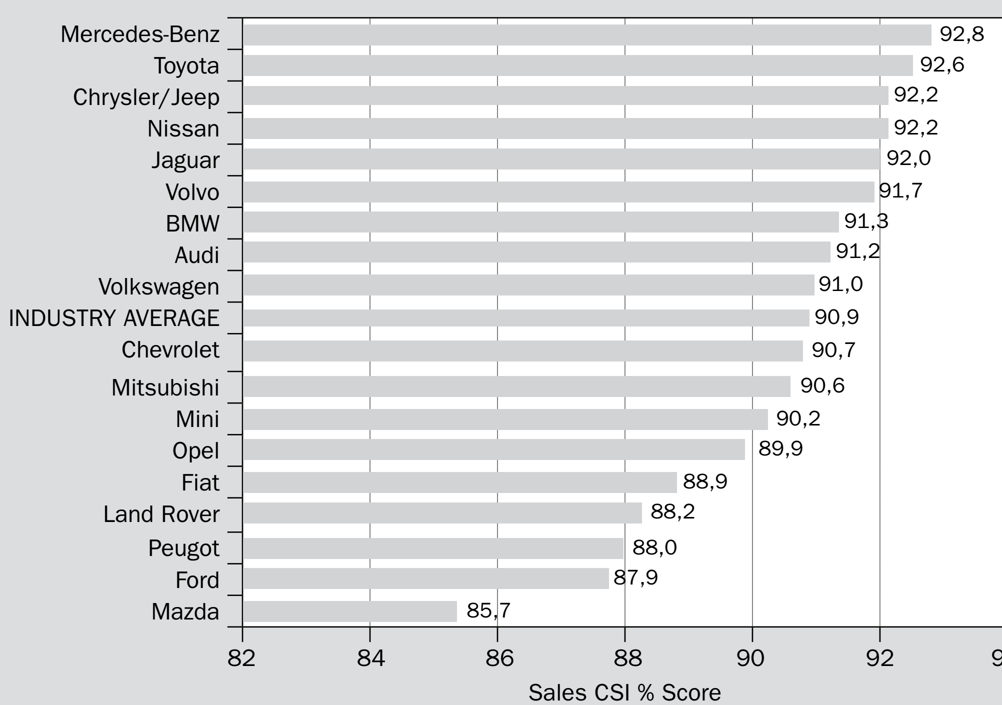
Mercedes-Benz is at the top of Synovate Gold in Customer Satisfaction when purchasing a Passenger Vehicle, with 92,8 per cent, followed by Toyota (92,6 per cent), Chrysler/Jeep (92, 2 per cent), Nissan (92,2 per cent), Jaguar (92,0 per cent), Volvo (91,7 per cent), BMW (91,3 per cent), Audi (91,2 per cent) and Volkswagen (91,0 per cent).

'These figures show that manufacturers are taking their customers seriously. There is little separating the top nine,' Salters comments. The percentage scores for Synovate Gold in the Customer Satisfaction when servicing a Passenger Vehicle are also very close: Nissan (83,1per cent), BMW (82,6 per cent), Toyota (82,0 per cent), Jaguar (81,2 per cent), Chevrolet (80,7 per cent).

'Clearly, manufacturers are intent on delivering customer satisfaction in both the sales and service transactions,' Salters says. He says the survey, undertaken over 12 months up until December 2005, measures the perceptions of more than 55 000 passenger car and light commercial vehicle owners.

Customer satisfaction when **Purchasing a new passenger vehicle**

Results



	Awards 2006	Awards 2005
Mercedes-Benz	Gold	Gold
Toyota	Gold	Gold
Chrysler/Jeep	Gold	Gold
Nissan	Gold	Silver
Jaguar	Gold	–
Volvo	Gold	Silver
BMW	Gold	Silver
Audi	Gold	Silver
Volkswagen	Gold	Silver
INDUSTRY AVERAGE	—	—
Chevrolet	Silver	–
Mitsubishi	Silver	Gold
Mini	Silver	Silver
Opel	Silver	Silver
Fiat	Silver	Bronze
Land Rover	Bronze	Bronze
Peugot	Bronze	–
Ford	Bronze	Silver
Mazda	Bronze	Bronze

Continued... →

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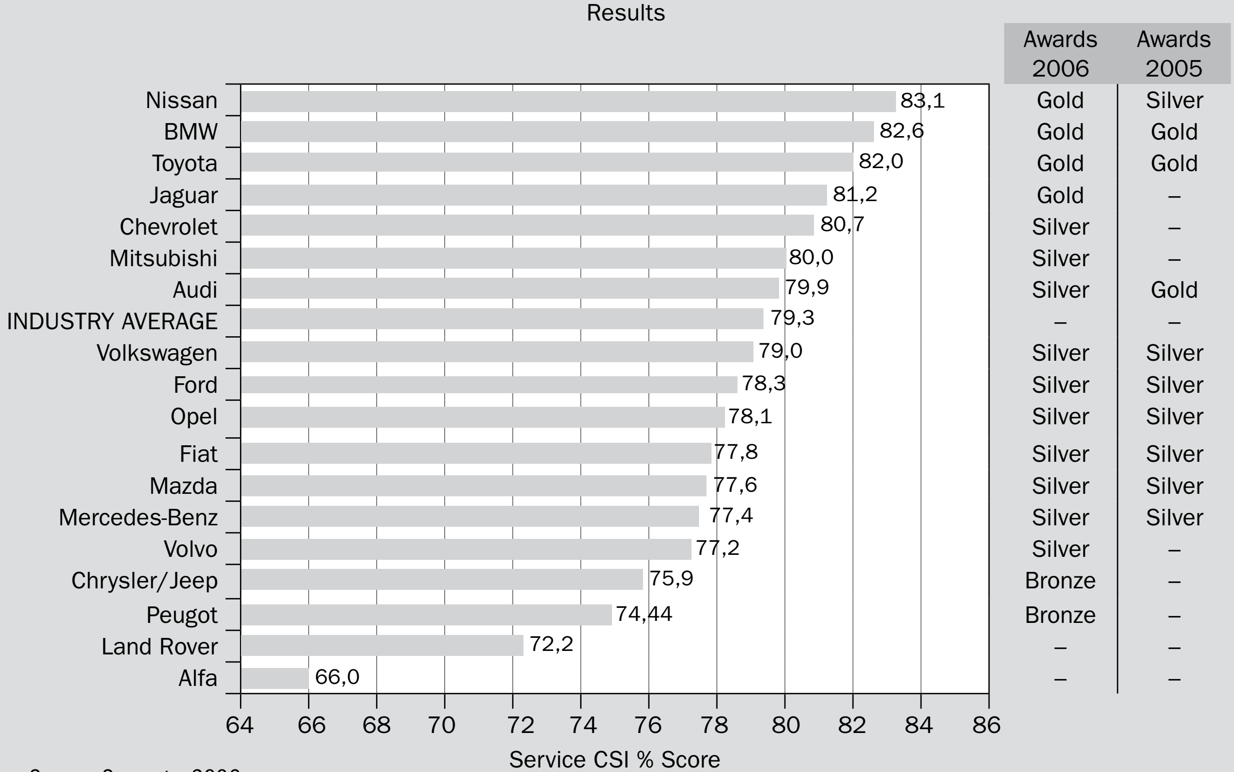
Customer satisfaction when **Servicing a passenger vehicle**
Results



Source: Synovate, 2006

Small business reader: Prestige success stories in short supply

A controversial proponent of SA's venture capital sector, Prestige Ventures, will shut its doors after raising more than R120m for a dozen weird and wonderful companies in the past three years. A spokesman for Prestige confirms the business will close down 'for the time being'. 'We are putting things on ice to give our remaining venture capital projects time to develop.'

Venture capital is money raised through institutions and individuals to provide an alternative source of financing for start-ups. In SA, the market is small and mostly in the hands of listed private equity funds. Prestige, founded by Harry Harrington, was instrumental in raising funds for a mixed bag of venture capital contenders involved in businesses ranging from engineering and technology to leisure and liquor. They included Essential Beverages, Jabulani, John Daniel Containers, Nexus Technology, Askari Mining, Primary Paints, Penta Diamonds, and SA Organics. Two projects, Pirate Snacks and Reinet Distillers, have already gone belly-up.

Prestige's demise is a blow to SA's vulnerable venture capital sector, and shareholders who took part in Prestige's projects have taken a battering. Prestige raised money on the premise that the companies would, at some stage, be listed. Only one has made it – Essential Beverages listed last year. Its prospectus promised a global mineral-water distribution business. Today, it's trying to arrange a rescue bid. The prognosis for Prestige's other projects is less than rosy. Venture capital investors identify only a few that could work and might be able to secure a listing under tighter JSE regulations.

Source: Hasenfuss, M. 2000. Prestige success stories in short supply. *Financial Mail*, 13 October

Questions

1 What are the most important problems faced by small businesses in South Africa?
2 In your opinion, how can these problems be overcome?

Ethical reader: Breakdown in business morals and ethics

Something that worries me a lot is the evidence of quite a significant breakdown in business morals and ethics. A number of people have complained to me about this over the past year or so, and I have also personally experienced the phenomenon. It manifests itself at a number of levels. For example, people who do not return phone calls. This is reaching epidemic proportions. I also now find people returning my calls five or six days later, and not bothering to apologise for the delay.

In days gone by, if a person returned my call two days late, he would apologise for the inconvenience. Usually also the more senior the person, the more rapidly they apologised. Now I find myself telephoning someone and saying, 'I have phoned your office four times in the past month, and left messages for you to phone back, and you did not.' He replies: 'Oh!'

On a higher plane, and thus worse, are the people who verbally undertake to do something and then do not. And they do not apologise. In days gone by, I would talk to a manager and agree to fax a document to him by Friday if he would send something to me in return. It would happen. Now I send my document, and then five weeks later I find myself still trying to get the other guy to do as he promised. This costs me money! Sometimes quite a bit! People also do not answer letters, or otherwise a month later say: 'Oh yes, I remember that letter you sent me, but I do not know where it is, so please would you send me another one.'

I have turned up at scheduled meetings to find that the other person has just gone out to do something else. I had one very embarrassed secretary who phoned me at the last moment to cancel a meeting, and then admitted to me that her boss was in the pub, and he had phoned on his cellphone and instructed her to tell me that he was sick. He was a general manager. The secretary resigned the following month, and then telephoned me to bare her soul and tell me how many times the boss had done that and similar in the past months.

It is always said by lawyers that a contract is the recording of the intentions of men of goodwill. The important thing is the honour up front. It is critical to retain, and in fact grow, the belief in the sanctity of gentlemanly handshakes on an agreement. This includes telephoning back when you said you would. If this time-honoured code of conduct crumbles, it can only spell really bad times ahead for South African business and industry.

Source: Adapted from Kemm, K. 1988. Breakdown in business morals and ethics. *Engineering News*, 31 July–8 August, p. 49

Questions

1 Do you agree that the level of ethical behaviour in South Africa has declined in recent years?
2 If so, can you provide reasons for the trend?
3 What can be done to improve the ethics and ethical behaviour of South Africans?

Discussion and writing questions

1 Your CEO has decided to restructure the firm and become more market-orientated. She is going to announce the changes at an upcoming meeting. She has asked you to prepare a short speech outlining the general reasons for the new orientation.
2 A friend of yours agrees with the adage: 'People don't know what they want. They only want what they know.' Write your friend a letter expressing the extent to which you think marketers shape consumer wants.
3 Your local supermarket's slogan is 'It's your store.' However, when you asked one of the sales assistants to help you find a bag of chips, he told you it was not his job and that you should look a little harder. On your way out, you noticed a sign with an address for complaints. Draft a letter explaining why the supermarket's slogan will never be credible unless their employees carry it out.
4 Give an example of a South African firm that might be successfully following a production orientation. Why might a firm in this industry be successful in following such an orientation?

Key concepts

Customer satisfaction: the feeling that a product has met or exceeded the customer's expectations.

Customer value: the ratio of benefits to the sacrifice necessary to obtain those benefits.

Empowerment: delegation of authority and responsibility to solve customers' problems quickly – usually by the first person whom the customer notifies regarding a problem.

Exchange: idea that people give up something to receive something else they would rather have.

Marketing: the process of planning and executing the conception, pricing, promotion, and distribution of ideas, goods, and services to create exchanges that satisfy consumers' and the firm's needs (objectives).

Marketing concept: idea that the social and economic justification for a firm's existence is the satisfaction of customer needs and wants while meeting the firm's objectives.

Marketing orientation: philosophy that assumes that a sale does not depend on an aggressive sales force but rather on a customer's decision to purchase a product.

Marketing programme: a combination of several marketing plans.

Product orientation: a belief that 'good' product features and product quality will lead to success regardless of other influences.

Production orientation: philosophy that focuses on the internal capabilities of the firm rather than on the desires and needs of the consumers.

Relationship marketing: the name of a strategy that entails forging long-term partnerships with customers.

Sales orientation: the idea that people will buy more goods and services if aggressive sales techniques are used and that high sales result in high profits.

Societal marketing concept: idea that a firm exists not only to satisfy customer needs and wants and to meet the firm's objectives but also to preserve or enhance individuals' and society's long-term best interests.

Teamwork: collaborative efforts of people to accomplish common objectives.

Utility: the value created for consumers by marketers by satisfying their needs.

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