

MARKETING MANAGEMENT

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Third Edition

MARKETING MANAGEMENT

A RELATIONSHIP APPROACH

Svend Hollensen



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GUIDED TOUR



PART III

Developing marketing strategies

PART III CONTENTS

Part III Video case study
Nivea: segmentation of the sun-care market

Introduction to Part III

7 SWOT analysis, strategic marketing planning and portfolio analysis

8 Segmentation, targeting, positioning and competitive strategies

9 CSR strategy and the sustainable global value chain

Each **Part introduction** lists the chapters and case studies within the part. It also includes a structure map that allows you to get a clearer picture of how the part relates to the other sections in the book.

PART III VIDEO CASE STUDY

Nivea: segmentation of the sun-care market

Hamburg-based Beiersdorf AG can trace its origins back to a patent received for medical plasters in 1882 by the pharmacist Paul C. Beiersdorf. The business did not remain focused on this area alone: the first Labeller lip-care stick was sold almost 100 years ago. In 1911, Nivea Creme (which literally means 'snow white') – the first stable, oil- and water-based cream – was created. From early on, the company was looking abroad. Already by 1913 the company generated 42 per cent of its sales abroad.

The 1950s saw the start of Nivea's systematic expansion into an umbrella brand. Today, the process is regarded internationally as a classic example of successful brand development. Brand trust has been extended to a wide range of products: men's care, hair care, body care, face care, hand care, sun protection, bath and shower care, deodorants and make-up. Thanks to Nivea Sun, Beiersdorf is not just the European market leader for sun-care products; it was also the catalyst for the introduction of a sun protection factor as a new global standard.

For a long time, Beiersdorf was active in four business areas: cosmetics, toiletries, medicinal and pharmaceutical products. Since the 1990s, Beiersdorf has focused consistently on the growing market of skin and beauty care – a strategic decision that has now made Beiersdorf Germany's largest cosmetics company.

Today the company's skin-care products are sold in more than 100 countries.

Sales of the first full-spectrum range of men-care products for the mass market began in 1993. Today Nivea for Men also has a strong position on the global market and is consistently gaining market share.

The global market of cosmetics and toiletries totalled €200 billion in 2008. In the same year, Beiersdorf had total sales of nearly €6 billion, and €480 million in net income. The company had 21,700 employees as of 31 December 2008.

Nivea sun care

The Nivea Sun brand portfolio has grown to over 40 products, which can be characterised in four different categories:

- 1 Sun protection

It is vital that skin is adequately protected against the sun's harmful effects (although no sunscreen can provide total

Source: Courtesy of Beiersdorf AG

protection). Nivea Sun provides products that enable people to be as safe as possible. Nivea Sun also encourages the use of other forms of protection (e.g. wearing a sun hat and avoiding midday sun). Protection is the largest segment in the sun-care market.

- 2 After-sun

Providing cooling and refreshing effects for the skin after a whole day in the sun.

- 3 Self-tan

In contrast to protection and after-sun, the self-tan category is concerned mostly with cosmetic appeal. Many adults use self-tan to have an all-year-round sun-kissed glow.

- 4 Whitening products

The popularity of whitening products in Asia is based on the old Asian belief that 'white skin conceals facial defects' – a philosophy passed on for generations, and it reflects the traditional criteria for beauty.

The choice of product depends on usage occasion (when) – e.g. holiday, outdoor sports, gardening, working. This relates to the Sun Protection Factor (SPF) required, e.g. the SPF required for a holiday in Egypt differs greatly to outdoor work in the UK. This is one of the reasons why Nivea Sun includes a wide range of sun protection, from SPF 4 to 50+.

Sun protection is the primary benefit, but the preference by which this is delivered will vary by segment, e.g. convenience is important to men (so they choose spray applicators). Parents want to provide maximum protection for children (high SPFs and coloured products are therefore important).

Women are the main purchasers of sun care for the family. This is reflected in above-the-line (advertising) communications, generally targeted towards a female audience.

Children are not purchasers of sun care. However, Nivea Sun recognises it can play an important part in educating children from a young age to be safer when in the sun.

In Asia, Nivea has considerable success with a combination of sun-care and whitening products in face care. While there may be a market for bleaching products in these zones, Nivea sticks to gentle formulas. In 2005, Nivea was the world's first brand to introduce whitening products for men in Thailand.

Source: Courtesy of Beiersdorf AG

Source: Courtesy of Beiersdorf AG

Following each part introduction, you will find a **video case study** from a leading international company. Read the case study, watch the video, which is available on the companion website at www.pearsoned.co.uk/hollensen, and then answer the questions.

CHAPTER 3

Development of the firm's competitive advantage



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- 3.1 Introduction
- 3.2 General sources of competitive advantage
- 3.3 Introduction of a holistic model of competitiveness: from macro to micro level
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 - Questions for discussion
 - References

LEARNING OBJECTIVES

After studying this chapter you should be able to:

- define the concept 'international competitiveness' in a broader perspective from a macro level to a micro level
- discuss the basic sources of competitive advantages
- explain how 'economies of speed' can be used as a competitive advantage
- explain how Porter's traditional competitive-based five forces can be extended to a relationship (five sources) model
- define the steps in competitive benchmarking and explain how these steps are related to the outsourcing decision process
- explain the purposes and motives for outsourcing activities
- discuss the advantages and disadvantages of outsourcing

Each chapter begins with a set of **learning objectives** that will enable you to focus on what you should have achieved by the end of the chapter.

7.1 Introduction

A strategic approach to marketing has a number of advantages. First, a strategic emphasis helps organisations orientate themselves towards key external factors such as consumers and competition. Instead of just projecting past trends, the goal is to build market-driven strategies that reflect customer concerns. Strategic plans also tend to anticipate changes in the environment rather than just react to competition. Another reason strategic marketing is important is that it forces you to take a long-term view.

The structure of this chapter will follow the phases in the corporate marketing planning process.

7.2 Corporate mission

A formal organisation exists to serve a purpose. This purpose may take a variety of forms and may be classified in a number of ways according to the view points of a particular organisation. A well-defined organisation provides a sense of direction to employees and helps guide them towards the fulfilment of the firm's potential. Managers should ask, 'What is our business?' and 'What should it be?' The idea is to extract a purpose from a consideration of the firm's history, resources, distinctive abilities and environmental constraints. A mission statement should specify the business domains in which the organisation plans to operate, or more broadly – for example, 'we are an office productivity company'. The firm should try to find a purpose that fits its present needs and is neither too narrow nor too broad.

Determining a corporate mission that fulfils these requirements is by no means easy. Some companies spend two or three years redefining their corporate mission and still manage to produce a corporate mission statement that is not particularly useful or relevant. But what precisely is the nature of such a statement?

To be useful and relevant, a business definition should ideally fulfil a number of criteria. The following represents the more important of these criteria when thinking about how to define a business:

The definition should be neither too broad nor too narrow. Definitions such as 'we are in the business of making profits' or 'we produce pens' are not really useful. Effective mission statements should cover product line definition, market scope and growth direction. Ideally, the definition should encompass the three dimensions of what Abell (1980) refers to as the 'business domain'. These three dimensions are customer groups to be served, customer needs to be served and technologies to be utilised.

7.3 SWOT analysis

SWOT (strengths, weaknesses, opportunities and threats) analysis is a technique designed especially to help identify suitable marketing strategies for the company to follow.

A SWOT analysis encompasses both the internal and external environments of the firm. Internally, the framework addresses a firm's strengths and weaknesses on key dimensions including: financial performance and resource; human resources; production facilities and capacity; market share; customer perceptions of product quality, price and product availability; and organisational commitment. The assessment of the external environment includes information on the market (customers and competition), economic conditions, social trends, technology and government regulation. When performed correctly, a SWOT analysis can drive the process of creating a sound marketing plan. SWOT analysis can be especially useful in discovering strategic advantages that can be exploited in the firm's marketing strategy.

Short **chapter introductions** concisely introduce the themes and issues that are built upon within the chapter.

15.3 Building the marketing plan

Basically, the major functions of the marketing plan are to determine where the firm is, where it wants to go, and how it can get there.

Marketing planning is linked to planning in other functional areas and to overall corporate strategy. It takes place within the larger strategic management process of the corporation. To survive and prosper, the business marketer must properly balance the firm's resources with the objectives and opportunities of the environment. Marketing planning is a continuous process that involves the active participation of other functional areas.

The marketing plan is responsive to both corporate and business unit strategy, and formally describes all the components of the marketing strategy – markets to be served, products or services to be marketed, price schedules, distribution methods and so on. The key components of the marketing planning process are situational analysis, marketing objectives and goal, marketing strategies and programmes, budgets and implementation and control. Note that the planning process format centres on clearly defined market segments, a thorough assessment of internal and external problems and opportunities, specific goals and courses of action. Business market intelligence, **market potential** and sales forecasting (see Appendix) are fundamental in the planning process.

Market potential
The upper limit of industry demand. That is, the expected sales volume for all brands of a particular product during a given period.

At a fundamental level, the marketing plan establishes specific objectives by market segment, defines marketing strategy and actions required to accomplish these objectives and pinpoints responsibility for the implementation of these programmes. Ultimately, the marketing plan translates objectives and strategies into forecasts and budgets that provide a basis for planning by other functional areas of the firm.

A good marketing plan requires a great deal of information gathered from many sources. It is used to develop marketing strategy and tactics to reach a specific set of objectives and goals. The process is not necessarily difficult, but it does require organisation, especially if the marketer is not developing this plan by himself and is depending on others to assist or to complete parts of the plan.

Every marketing plan should have a planned structure or outline before it is started. This ensures that no important information is omitted and that the material is presented in a logical manner. One outline to recommend is this:

- 1 Title page
- 2 Table of contents
- 3 Executive summary
- 4 Introduction
- 5 Situational analysis
- 6 Marketing objectives and goals
- 7 Marketing strategies and programmes
- 8 Budgets
- 9 Implementation and control
- 10 Conclusion.

However, there are other ways to organise a marketing plan that are equally good. Let us examine each section of the marketing plan structure in further detail.

Title page

The title page provides the reader with the following essential information:

- the business unit for which the plan was prepared;
- the individual or group of individuals for whom the plan was developed;
- the names and addresses of the individuals or agencies who authored the plan;

GLOSSARY

3-D printing An additive manufacturing process that turns a computer-aided design (CAD) file, created on a computer or with a 3-D scanner, into a physical object. 3-D printing enables firms economically to build custom products in small quantities, which also allows firms profitably to serve small market segments.

4 Ps The basic elements of the marketing mix: product, place (distribution), price and promotion; also called the controllable variables of marketing, because they can be controlled and manipulated by the marketer.

above-the-line advertising Advertising in the mass media, including press, radio, television and Internet. This is normally handled by advertising agencies.

adoption process The mental and behavioural stages through which a consumer passes before making a purchase or placing an order. The stages are awareness, interest, evaluation, trial and adoption.

advertising Non-personal communication that is paid for by an identified sponsor, and involves either mass communication via newspapers, magazines, radio, television and other media (e.g. billboards, bus stop signage), or direct-to-consumer communication via direct mail.

advertising agency A marketing services firm that assists companies in planning, preparing, implementing and evaluating all or portions of their advertising programmes.

advertising objective A specific communication task to be accomplished with a specific target audience during a specific period of time.

affordable approach Setting the promotion budget at the level management thinks the company can afford.

agent A marketing intermediary who does not take title to the products but develops a marketing strategy and establishes contracts abroad.

AIDA Awareness, interest, desire, action – the stages through which a consumer is believed to pass before purchasing a product.

allowance Promotional money paid by manufacturers to retailers in return for an agreement to feature the manufacturer's products in some way.

always-a-share customers Customers who have low switching costs and do not value long-term relationships

with suppliers, making them more suited to transaction marketing.

ambush marketing An attack from a hidden position. It occurs when a marketer works on connecting its product with a particular event in the minds of potential customers, without having paid sponsorship expenses for the event.

augmented reality A live view of a physical, real-world environment whose elements are augmented (or supplemented) by computer-generated sensory input, such as sound, video, graphics or gps data. AR technology allows consumers to interact virtually with three-dimensional product visualisations displayed on users' screens.

baby boom The major increase in the annual birth rate following the Second World War and lasting until the early 1960s. The 'baby boomers', now moving into middle age, are a prime target for marketers.

below-the-line advertising Advertising that uses less conventional methods, which are handled directly by the company itself. It includes email campaigns towards decision makers, promotions and brochures placed at point of sale. It could also involve product demos and sampling at busy places such as malls and shopping centres.

benchmarking The process of comparing the company's products and processes to those of competitors or leading firms in other industries in order to improve quality and performance.

benefit segments Dividing the market into groups according to the different benefits that consumers seek from the product.

big data Massive volume of data that is so large that it is difficult to process using traditional database and software techniques. Big data demands cost-effective, innovative forms of information processing for providing enhanced insights and better decision making.

blue oceans The unexplored market, where competitors are not yet structured and the market is relatively unknown. Here it is about avoiding head-to-head competition. See also *red oceans*.

bottom-up method A sales-forecasting method that starts with small-scale estimates (e.g. product estimates) and works up to larger-scale ones. See also *top-down method*.

Key terms are highlighted in the text with a brief explanation in the margin where they first appear. These terms are also included in the **Glossary** at the end of the book.

CASE STUDY 1.1

Hunter Boot Ltd: the iconic British brand is moving into exclusive fashions

The Hunter boot brand (www.hunter-boot.com) has become a symbol of British country life and celebrity fashion. Hunter boots, designed over 150 years ago, were originally created to deal with Britain's rugged and unpredictable weather. Today, Hunter is firmly established as a fashion brand beloved by Hollywood celebrities.

Arthur Wellesley, the first Duke of Wellington, instructed his shoemaker, Hoboy of St James Street, London, to modify his eighteenth-century boot. They designed the boots in soft calfskin leather, removed the trim and made the cut closer around the leg. It was hard to wear the new boots in battle but it was said that the Duke of Wellington wore the boots at the famous Battle of Waterloo in 1815. The boots were dubbed 'Wellingtons' or 'wellies' and the name stuck.

Wellingtons quickly caught on with patriotic British gentlemen eager to emulate their war hero. The original Wellington boots were made of leather, however, in America, where there was more experimentation in shoe-making, producers were beginning to manufacture using rubber. One such entrepreneur, Mr Henry Lee Norris, moved to Scotland in search of a suitable site to produce rubber footwear. Eventually he found it on the farm of the Castle Mill in Edinburgh. Norris began his boot-making company, the North British Rubber Company (the company changed its name to the Hunter Rubber Company in 2004). In 1856, Committed to fit, comfort, durability and performance Hunter Wellington boots bear two rare and coveted stamps of approval of the British royal family.



Source: Jeffrey Beaulieu/Harry Ramsay.

Production of the Wellington boot was dramatically boosted with the advent of World War I, due to the demand for a sturdy boot suitable for the conditions in flooded trenches. This made the wellie a functional necessity.

By the end of World War I, the North British Rubber Company had produced more than 1.8 million pairs of boots for soldiers. Shoe production ran 24 hours a day. Again the Wellington made an important contribution during World War II. At the outbreak of war in September 1939, although trench warfare was not a feature, those forces assigned the task of clearing Holland of the enemy had to work in terrible flooded conditions. By the end of the war, the Wellington had become popular among men, women and children for wear in wet weather. The boot had developed to become far roomier with a thick sole and rounded toe. Also, with the rationing of shoes at that time, labourers began to use them for daily work.

The company's most famous welly, the original Green Wellington, was made over 50 years ago in the winter of 1952. It was launched alongside the Royal Hunter – another boot that remains in Hunter's range today. From 1966 to 2005 a number of ownership changes took place, and in 2006, the Hunter Rubber Company was placed into administration as a result of cash flow problems. In spite of a reported turnover of over £5 million, accountants from KPMG said the firm suffered from high manufacturing costs, including fuel costs, and made a loss from the expansion of its business to the US. Hunter reported a loss of £600,000 from September 2003 to the end of February 2005, when it had a net debt of £2.03 million.

In 2006, a private consortium led by Lord Marland, Peter Mullen and Julian Taylor bought Hunter out of administration and Hunter Boot Ltd was born. After rapid restructuring of the company, new supply routes and distribution partners were found in the UK and the US and the Hunter portfolio was rationalised to core products exhibiting the key skills and tradition of the company.

Hunter re-established itself as a major player in the traditional country and leisure footwear market in the UK in the aftermath of the 2006 acquisition and positioned itself as a strong contender in the US – opening showrooms on

Seventh Avenue in New York and Canaby Street in London. A new management team was also put in place.

One Hunter Wellington tall boot is made from 28 individual parts. Each part is individually tailored and assembled by hand to support specific parts of the foot, calf and ankle. Hunters continue to be made and finished by hand from natural rubber. Because of this degree of 'handmade' manufacturing from Scotland to China to cut production cost, Retail prices were also increased by 20 per cent, and modern ranges in a selection of colours and textures were added.

A major breakthrough for Hunter in the realm of fashion, as opposed to farms, came in 2006 when Kate Moss was seen wearing an Original pair in black at the Glastonbury music festival. Since then, the Hunter boot has become a familiar sight among celebrities, on catwalks and on high streets, as well as in the countryside.

In September 2008, following the 2008 Olympics in Beijing, China, Hunter Boot Ltd sent specially made gold Wellington boots to every member of the Great Britain Olympic team who had won a gold medal at the Games.

In 2010 the UK Prime Minister David Cameron bought pink and purple pairs of Hunter boots for his US trip, as gifts for Barack Obama's daughters.

Hunter Boot Ltd today

Since the downturn in 2006, Hunter has expanded its sales and profits rapidly, as seen in Table 1.

Hunter has since seen strong growth with international distribution in 30 countries.

Hunter is moving into alliances with exclusive fashion designers

In January 2009, Hunter announced that it would be collaborating with London-based luxury fashion designer

Jimmy Choo for a limited-edition black Wellington boot, embossed with signature Jimmy Choo crocodile print and containing gold rivets and a leopard-print lining. Another boot was then launched in 2011. The boots cost £250 and were sold exclusively online at www.jimmychoo.com (the original version normally costs around £80).

Jimmy Choo and Hunter Boot Ltd received a tremendous reaction from customers; the online waiting list opened on 1 May and by 16 May more than 4,000 fashion-conscious customers had already joined it. Today, the luxurious Wellington boots have become a classic lifestyle item at Jimmy Choo and can be purchased regardless of the season, and not only in traditional black, but in several variations.

In March 2012, J. Mendel and Hunter – two iconic brands dating back to the nineteenth century – joined forces in a special collaboration to produce the most glamorous of Wellington boots: exclusive to North America, these limited-edition boots brought together the sumptuous look and feel of J. Mendel with the timeless functionality of Hunter Boot. The boots went on sale in November 2012 and retail at from



Source: Buzz Photo/Rea Features.

Table 1 Hunter Boot Ltd's financial performance, 2008–2010

	Millions of £		
	2010	2009	2008
Sales (% for export)	56.3 (57.9%)	25.7 (48.6%)	18.2 (48.4%)
Cost of sales	29.6	13.6	8.4
Gross profit	26.7	12.1	9.8
Pre-tax profit	15.9	4.1	3.5
Profit after tax	11.0	2.8	2.5
Number of employees	56	41	43

Source: Based on various data on www.hunter-boot.com

A case study concludes each chapter, providing a range of material for seminars and private study, by illustrating real-life applications and implications of the topics covered in the chapter. These also come with a set of questions to help you test your understanding of the case.

3-D printing has created a new generation of at-home and do-it-yourself manufacturers. Microsoft has adapted its popular Kinect device (for its Xbox games console) to make 3-D scanning easy and inexpensive. This can be used, for example, for scanning the human body in order to get the right sizes and style in clothing.

On the macro level, 3-D printing has the potential to disrupt or destroy traditional models of manufacturing, distribution, warehousing, shipping and retailing because products will be made where they are needed. Future sales will be of designs, not products, and because 3-D printing allows a product to be printed where it is needed, warehouses may be replaced with digital inventories. Lower entry barriers will allow more local and small businesses to prosper. Instead of relying on traditional manufacturing chains, people will design and print their own products or have a local service bureau print it for them. 3-D printing enables firms to build custom products economically in small quantities, which also allows firms to serve small market segments profitably.

By reducing the need to ship physical products and efficiently using raw materials, 3-D printing saves energy. By combining 3-D printing with the energy-saving efforts that most countries are undertaking, jobs can be repaired or kept at home.

3-D printing will eliminate some manufacturing jobs, but it should create others. New jobs, coupled with diminishing cost savings of offshoring and outsourcing, give 3-D printing the potential to foster a manufacturing come-back in countries with strong intellectual capital but high manufacturing and labour costs.

However, when 3-D printing of complex structures, such as electronic devices, becomes commonplace in the home, 3-D printing may place stress on the utility patent system in the same manner that the digital revolution, the Internet and file sharing have placed stress on the music industry and the copyright system. Products that are copyrightable, such as dolls, action figures and figurines and toys, are especially vulnerable to 3-D printing at home. Toys can be scanned and 3-D printed at home, and the designs can be shared peer-to-peer, thereby threatening copyright and design patent protection for such products. Trademark owners may also be affected when branded products are copied at home (Hordnick and Roland, 2013).

4.8 Summary

Consumers' decision-making processes are classified largely on the basis of high and low involvement with the product and the extensiveness of the search for information. High-involvement products or services are psychologically important to the consumer. To reduce the psychological and financial risks associated with buying a high-involvement item, consumers engage in a complex decision-making process. The five major steps in the process are problem identification, information search, evaluation of alternatives, purchase and post-purchase evaluation. The way in which these steps are carried out differs between products and services.

Most purchase decisions have low consumer involvement. Therefore, consumers do not engage in an extensive search for information or make a detailed evaluation of alternative brands. Such search-and-evaluation behaviour is more likely to occur with products than with services. Buying behaviour is strongly influenced by psychological and personal characteristics that vary across individual consumers and countries. Information and social pressures received from other people influence consumers' wants, needs, evaluations and preferences for various products and brand names.

By definition, organisational customers can be grouped into three main categories:

- 1 goods and services producers (raw materials, components, software, office supplies);
- 2 intermediates (resellers);
- 3 public organisations/government.

Organisational buyers purchase goods and services for further production for use in operations, or for resale to other customers. In contrast, individuals and households buy for their own use

Nintendo's Wii U arise at a time when smartphones and tablet PCs are taking shares away from games consoles.

QUESTIONS

- 1 What were Microsoft's motives in entering the games console market with Xbox?
- 2 What are the competitive advantages of Microsoft's Xbox Kinect and Sony's PlayStation 3 Move?

- 3 What are the competitive advantages of the original Wii and the new Wii U?
- 4 What do you think Nintendo's chances are of creating a new 'blue ocean' with Wii U?

Source: From Global Marketing: A Market Research Approach, 2nd edn, Financial Times Prentice Hall, Harlow, 2009, p. 132. © 2009 Pearson Education Limited 2009.

Questions for discussion

- 1 Which sources of competitive advantage are the most important?
- 2 How can an analysis of national competitiveness explain the competitive advantage of a single firm?
- 3 Is it possible to identify not only national competitiveness, but also regional competitiveness? (A region is here defined as more than one country.)
- 4 In which situations should a firm consider outsourcing its activities?
- 5 What are the advantages and disadvantages of outsourcing?

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Chapter summaries reflect on what the chapter has covered and will help you to consolidate your learning and provide an important revision tool.

Questions for discussion provide a useful assessment to test your knowledge and encourage you to review and/or critically discuss your understanding of the main topics and issues covered in each chapter.

An extensive list of **references** at the end of each chapter directs you to other books, journal articles and websites, which will help you develop your understanding and inspire independent learning.

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PREFACE



The World Is Flat. This was the title of an international bestselling book by Thomas L. Friedman, published in first edition in 2005. It analyses globalisation, primarily in the early twenty-first century, and the picture has changed dramatically. The title is a metaphor for viewing the world as a level playing field in terms of commerce, where all players and competitors have an equal opportunity. We are entering a new phase of globalisation, in which there will be no single geographic centre, no ultimate model for success, no sure-fire strategy for innovation and growth. Companies from every part of the world will be competing with each other – for customers, resources, talent and intellectual capital – in every corner of the world's markets. Products and services will flow from many locations to many destinations. Friedman mentions that many companies in, for example, the Ukraine, India and China provide human-based sub-supplies for multinational companies, from typists and call centres to accountants and computer programmers. In this way these companies in emerging and developing countries are becoming integral parts of complex global supply chains for large multinational companies such as Dell, SAP, IBM and Microsoft.

As this new scene unfolds, the new global leaders increasingly will be forced to defend the ground they thought they had won and secured long ago. And their expansion into new markets will be challenged as never before. Their established processes and traditional business philosophies will be turned upside down by challengers whose experiences in new emerging markets cause them to see the world very differently and to do business in completely new ways. Many executives of developed-country companies are not prepared to deal with the massive wave of competition from skilled and determined new rivals.

As the world is becoming a flat playing field, there is also an increasing need in different industry supply chains for creating relationships between the involved companies in the industry value chains. This has important implications for the way that we look at the marketing discipline in the individual firm. The consequence is that the development of marketing theory and practice is undergoing a paradigm shift from a transactional to a relationship orientation. As many companies are still relying on the traditional marketing approach, this book will bridge the gap between **relationship marketing (RM)** and **traditional (transactional) marketing (TM)**.

In the traditional transactional approach, **marketing management** is about planning, coordinating and controlling marketing activities that are aimed at satisfying customer needs and desires – and receiving money from sales.

In recent years, marketing has been undergoing considerable self-examination and internal debate. The overriding emphasis in the 'traditional' marketing approach is on acquiring as many customers as possible. Evidence is mounting, however, that traditional marketing is becoming too expensive and is less effective.

Many leading marketing academics and practitioners have concluded that a number of the long-standing practices and operating modes in marketing need to be evaluated, and we need to move towards a relationship approach that is based on repeated market transactions and mutual gain for buyers and sellers.

The 'new paradigm' is commonly referred to as relationship marketing (RM). Relationship marketing is not a new idea. Before the advent of mass production and mass media, relationship marketing was the norm; sellers usually had first-hand knowledge of buyers, and the successful ones used this knowledge to help keep customers for life.

Relationship marketing (RM)

The process of creating, maintaining and enhancing strong long-term relationships with customers and other stakeholders through mutual exchange and trust. RM seeks to build a chain of relationships between the firm and its main stakeholders.

Transactional marketing (TM)

The major focus of the marketing programme (the 4 Ps) is to make customers buy. Independence among marketing actors ('arm's length') is considered vital for marketing efficiency..

Marketing management

The process of planning, executing and controlling marketing activities to attain marketing goals and objectives effectively and efficiently.

Relationship marketing reflects a strategy and process that integrates customers, suppliers and other partners into the company's design, development, manufacturing and sales processes.

Fundamentally, relationship marketing draws from traditional marketing principles. Marketing can be defined as the process of identifying and satisfying customers' needs in a competitively superior manner in order to achieve the organisation's objectives. Relationship marketing builds on this.

The customer is still fundamental to a marketing relationship. Marketing exists to meet efficiently the satisfaction of customer needs, as well as those of the marketing organisation. There is a considerable body of knowledge in social sciences that sheds light on the many facets of human relationships. We draw from these sources to further our understanding of consumer relationships.

Marketing exchange seeks to achieve satisfaction for the consumer and the marketing organisation (or company). In this latter group we include employees, shareholders and managers. Other stakeholders (such as competitors, financial and governmental institutions) are also important. As we shall see later, relationships can cover a wide range of organisations in the environment, for example:

- governmental institutions
- industry associations
- European Union (EU) institutions
- religious groups.

However, the main focus of this book is still on the relationships between the firm and its closest external bodies, primarily the customers.

In the transactional approach, participants focus exclusively on the economic benefits of the exchange. Even though in relational exchange the focus widens, economic benefits remain important to all of the partners in marketing relationships.

With the relationship approach in mind, an integrated view of marketing management will be presented. To do this, the latest research findings in marketing management and related disciplines are summarised. Yet, marketing management is still a very practical discipline. People still have practical needs, firms still face practical problems and solutions still have to work in real life. Most marketers cannot and should not hide in labs. Marketing is a social science based on theories and concepts, but it also requires that most marketers meet with people, observe them, talk to them and understand their activities. In essence, marketing is a dialogue between sellers (marketers) and buyers (customers). This book reflects this applied approach. Together with important concepts and theories, my experience that has been obtained through work for many years with numerous companies – large and small, domestic and international – will be drawn on.

Target audience

This book is written for people who want to know how the relationship and the traditional marketing approach (in combination) affect the development of effective and efficient marketing plans. This book is aimed primarily at students, MBA/graduate students and advanced undergraduates who wish to go into business. It will provide the information, perspectives and tools necessary to get the job done. My aim is to enable you to make better marketing decisions.

A second audience for this book is the large group of practitioners who want to build on the existing skills and knowledge already possessed. The book is of special interest to the manager who wishes to keep abreast of the most recent developments in the 'marketing management' field.

Unique features of this book

This marketing text tries to integrate the 'new' relationship approach in the traditional process of developing effective marketing plans. Compared to other marketing management books, this text will attach more importance to the following themes.

Buyer–seller relationships

The guiding principle of this text is that of building relationships between buyers and sellers. Relationships is a growing trend, and for good reason. Dramatic changes in the marketing environment are presenting immense new opportunities for companies that really build and retain relationships with customers. Relationship marketing emphasises the tremendous importance of satisfied, loyal customers. Good customer relationships happen when all employees within the organisation develop the sensitivity and desire to satisfy customers' needs and wants. It may be argued that the traditional concept of marketing (as exemplified later in Chapter 1) does not adequately reflect the recognition of the long-term value of a customer. The argument is that many of the traditional definitions of marketing, although stressing the importance of customer needs and satisfaction, are essentially concerned with maximising the profitability of each transaction. Instead they should seek to develop long-term relationships with customers that cannot easily be duplicated by competitors.

Buyer–seller interaction on a global scale

Today's companies are facing fierce and aggressive competition. Today, most firms compete not only locally and nationally, but globally as well. Companies that have never given a thought to internationalisation now also face competition in their home market from international companies. Thinking globally also requires an understanding of the international diversity in buying behaviour and the importance of cross-cultural differences in both the **B2C** and **B2B** markets. This cross-cultural approach is centred on the study of the interaction between buyers and sellers (and their companies), who have different national and/or cultural backgrounds.

Business-to-consumer (B2C)

Marketing that involves exchange relationships between a firm and its end customers, perhaps via retailers.

Business-to-business (B2B)

Marketing that involves exchange relationships between two or more business customers and suppliers.

Creating competitive advantage through relationships with other companies

Greater emphasis is given to the development of competitive advantage, and consequently to the development of resources and capabilities and competences within the organisation and with other companies. Relationship marketing seeks to build a *chain of relationships* (networks or value net) between the organisation and its main stakeholders, including customers, suppliers, distribution channel intermediaries and firms producing complementary products and services. Relationships to competitors are also considered.

Cross-functionalism

Marketing is not an isolated function. A marketer's ability to implement effectively a strategic marketing programme depends largely on the cooperation and competence of other functional areas within the organisation. Consequently, substantial attention is given to the interfunctional approach of marketing management. This includes: the concept of competitive advantages, **cross-functional teams** in the development of new products, **supply chain management**, internationalisation, quality management and ethics.

Cross-functional team

A team made up of individuals from various organisational departments, who share a common purpose.

Supply chain management

How products are moved from the producer to the ultimate consumer, with a view to achieving the most effective and efficient delivery system.

What is new in the third edition?

The main theme of this edition is how to build and retain B2B and B2C marketing relationships in the value chain, both offline but increasingly also online. Consequently, an important aspect of this edition is the strengthening of the online theme (social media, e-commerce, etc.), which is now incorporated in all the chapters and in many cases and exhibits.

The book's chapters, cases and exhibits are totally updated with the latest journal articles and company information. Besides that, the following new concepts are introduced in the single chapters:

- Chapter 2 – discusses four different strategies for closing the so-called 'marketing capability gap'. The starting point is two different dimensions: 'Inside-out' (resource-based view) versus 'Outside-in' (market orientation view) and 'Exploitation' versus 'Exploration'. Chapter 2 then analyses the way a company generates perceived value for customers (value creation) and how it captures some of this value as profit (value capture). In this chapter the concept of providing customer value through the product value chain and the service value chain is now extended by adding 'customer experiences'. The new section (2.9 Experiential marketing) builds on the trends in the 'experience economy'.
- Chapter 3 – introduces the concept of 'strategic groups'.
- Chapter 4 – discusses 3-D printing as a potential new industrial revolution in customisation.
- Chapter 9 – discusses different ways of segmenting the 'green' consumer market.
- Chapter 10 – introduces the 'consumer wheel' (in the form of the Swedish Husqvarna case) as a model for creating and retaining relationships with end-customers.
- Chapter 11 – the service-dominant logic (S-D logic) is included as a supplement to the traditional goods versus services considerations. Furthermore, crowdsourcing is discussed extensively as a measure for gaining access to new R&D resources among external users.
- Chapter 12 – discusses the total cost of ownership (TCO) from the customer perspective, meaning all the lifetime costs that follow from owning the product over its entire lifetime, including costs connected to disposal of the product. Furthermore, the 'Freemium' model is introduced as a 'loss leader' concept, in which a marketer rapidly builds a customer base when the marginal costs of adding customers and producing value for these are relatively low.
- Chapter 13 – smartphone marketing aspects in a distribution perspective are added, and location-based app services – a niche of mobile marketing – are further explained and implications for marketers are discussed.
- Chapter 14 – now contains comprehensive discussions of the following 'hot' topics: Web 2.0, social media marketing and the '6C' model. The transition of market communication from 'Bowling' to 'Pinball' is also explained.
- Chapter 16 – now contains a new section about social media metrics, both financial and non-financial.
- Appendix – introduces marketing research based on Web 2.0 (social media, such as Facebook and Twitter).

This edition presents 11 new case studies:

- 1 Part II Video case study – Müller yogurts: penetrating the US market
- 2 Part IV Video case study – Tequila Aviión: a premium tequila is introduced
- 3 Chapter 1 case study – 1.1 Hunter Boots Ltd: the iconic British brand is moving into exclusive fashion
- 4 Chapter 2 case study – 2.1 Zalando: how can the online apparel retailer turn financial losses into positive profits?
- 5 Chapter 4 case study – 4.1 Spotify: the online music-streaming company is expanding globally
- 6 Chapter 6 case study – 6.1 ARM: challenging Intel in the world market of computer chips
- 7 Chapter 8 case study – 8.1 LEGO Friends: the world's third-largest toy manufacturer is moving into the girls' domain
- 8 Chapter 11 case study – 11.1 British American Tobacco (BAT): launch of the e-cigarette 'Vype'

- 9 Chapter 13 case study – 13.1 Bosch Indego: how to build B2B and B2C relationships in a new global product market – robotic lawnmowers
- 10 Chapter 14 case study – 14.1 Orabrush Inc.: how a ‘pull’ B2C YouTube marketing strategy helped consumers to focus on the ‘bad breath’ problem.
- 11 Chapter 16 case study – 16.1 Sony Music Entertainment: new worldwide organisational structure and the marketing, planning and budgeting of Pink’s new album

Furthermore, several new exhibits have been added to the book.

Outline

The book is structured around the two main steps involved in marketing management – that is, the decision-making process regarding formulating, implementing and controlling a marketing plan:

- Step 1: Analysis of the internal and external situation (Parts I and II)
- Step 2: Planning and implementation of marketing activities (Parts III, IV and V).

The schematic outline of the book in the diagram on page [xxvi] shows how the two main steps are divided into five parts. The book has a clear structure according to the marketing planning process of the firm. Based on an analysis of the competitive advantages of the firm (Part I) and the analysis of the external situation (Part II), the firm is able to develop marketing strategies (Part III) and marketing programmes (Part IV). Finally, the firm has to implement and control its activity in the market and, if necessary, make changes in the marketing strategy (Part V). Throughout the book this marketing planning process is seen in a relationship approach, as a supplement to the transactional approach.

The market research function gives a very important input to all five phases (parts) of this decision-making process, with a possible feedback to the marketing information system (MIS). Therefore, this section of the book is an Appendix, but a very important one, as the past marketing experiences are stored in the marketing information system, which may add important contributions to new marketing decision-making processes – i.e., for making better marketing decisions.

Pedagogical/learning aids

Many aids to student learning come with the book. These include:

- Chapter learning objectives: these tell the reader what he/she should be able to do after completing each chapter.
- Case studies: there is a case study at the end of each chapter and each case study contains questions.
- Video case studies: each part starts with a video case study, which can be accessed on the book’s website (www.pearsoned.co.uk/hollensen).
- Exhibits: these examples from the real world illustrate the text and the marketing models.
- Summaries: each chapter ends with a summary of the main concepts.
- Discussion questions: at the end of each chapter the discussion issues are presented as questions.
- Marginal definitions: key concepts from the glossary are defined in the margins of the text.
- Glossary: a glossary on page [648] provides a quick reference to the key terms in the book.

Supplementary material to accompany the book can be downloaded by lecturers from www.pearsoned.co.uk/hollensen.

Tables 1 and 2 show the video case studies and the chapter case studies in this book.

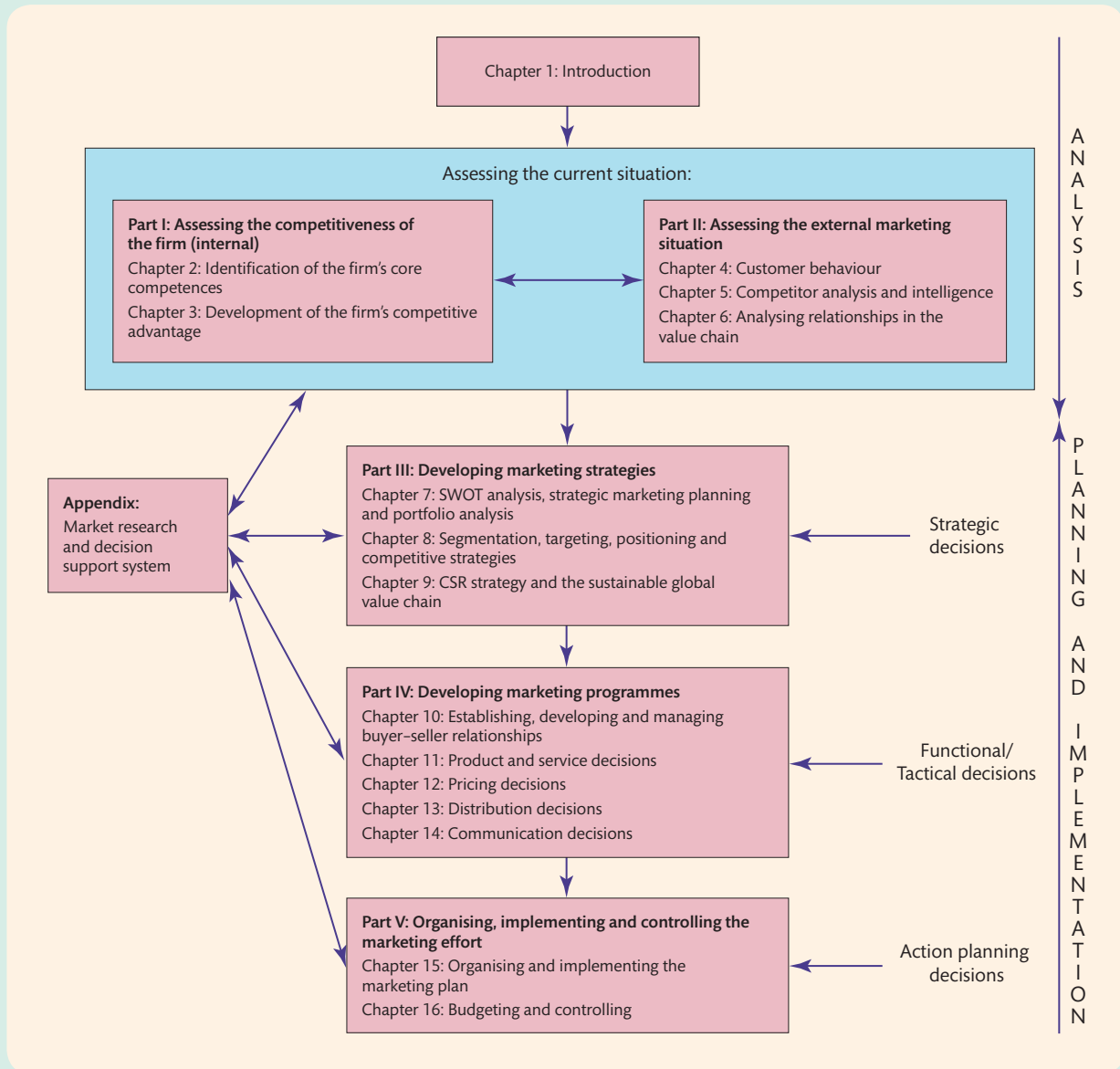


Table 1 Video case studies in the book: overview

Part	Video case study	Location of headquarters	Target market area and type
Part I Assessing the competitiveness of the firm (internal)	Tata Nano Competitiveness of the world's cheapest car	India	World B2C/B2B
Part II Assessing the external marketing situation	Müller yogurts Penetrating the US market	Germany	USA B2C/B2B
Part III Developing marketing strategies	Nivea Segmentation of the sun-care market	Germany	World B2C
Part IV Developing marketing programmes	Tequila Aviön A premium tequila is introduced	USA	USA/World B2C
Part V Organising, implementing and controlling the marketing effort	Pret A Manger How to control the expansion of an international restaurant chain	UK	UK/USA/World B2C/B2B

Table 2 Chapter case studies in the book: overview

Chapter	Chapter case study	Location of headquarters	Target market area and type
1 Introduction	1.1 Hunter Boot Ltd The iconic British brand is moving into exclusive fashions	UK	World B2C
2 Identification of the firm's core competences	2.1 Zalando How can the online apparel retailer turn financial losses into positive profits?	Sweden/ Germany	World B2C
3 Development of the firm's competitive advantage	3.1 Nintendo Wii Nintendo's Wii took the first place on the world market – but it didn't last	Japan	World B2C
4 Customer behaviour	4.1 Spotify The online music-streaming company is expanding globally	Sweden/UK	World B2B
5 Competitor analysis and intelligence	5.1 Cereal Partners Worldwide (CPW) The no. 2 world player is challenging the no. 1 – Kellogg	UK/Switzerland	World B2C
6 Analysing relationships in the value chain	6.1 ARM Challenging Intel in the world market of computer chips	UK	World B2B
7 SWOT analysis, strategic marketing planning and portfolio analysis	7.1 Red Bull The global market leader in energy drinks is considering further market expansion	Austria	World/Japan B2C/B2B
8 Segmentation, targeting, positioning and competitive strategies	8.1 LEGO Friends The world's third-largest toy manufacturer is moving into the girls' domain	Denmark	World B2C
9 CSR strategy and the sustainable global value chain	9.1 YouthAIDS Social marketing in a private, non-profit organisation	USA	World B2C/B2B
10 Establishing, developing and managing buyer-seller relationships	10.1 Dassault Falcon The private business jet, Falcon, is navigating in the global corporate business sector	France	World B2B
11 Product and service decisions	11.1 British American Tobacco (BAT) Launch of the e-cigarette 'Vype'	UK	Europe B2C
12 Pricing decisions	12.1 Harley-Davidson Is the image justifying the price level in a time of recession?	USA	World B2C
13 Distribution decisions	13.1 Bosch Indego How to build B2B and B2C relationships in a new global product market – robotic lawnmowers	Germany	World B2C/B2B
14 Communication decisions	14.1 Orabrush Inc. How a 'pull' B2C YouTube marketing strategy helped consumers to focus on the 'bad breath' problem	USA	World B2C
15 Organising and implementing the marketing plan	15.1 Triumph How to manoeuvre as a modern brand in the global underwear market	Switzerland/ Germany	World/Western Europe/USA B2C/B2B
16 Budgeting and controlling	16.1 Sony Music Entertainment New worldwide organisational structure and the marketing, planning and budgeting of Pink's new album	USA, Japan	World B2C/B2B

