MARKETING MANAGEMENT

2nd Edition

JOHANNE BRUNET | FRANÇOIS COLBERT | SANDRA LAPORTE
RENAUD LEGOUX | BRUNO LUSSIER | SIHEM TABOUBI

In collaboration with **Jean-Luc Geha**

CHENELIÈRE ÉDUCATION

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Foreword

This is the second edition of *Marketing Management*, a practical introductory work that covers the most important concepts in contemporary marketing. It aims to help students acquire a global and strategic vision of marketing and better understand the contribution of marketing to business management.

All of the content of *Marketing Management* has been reviewed and updated to reflect the evolution of marketing in recent decades, along with foreseeable trends in the years to come. This English edition remains true to the approach that has made the original five French versions of *Marketing Management* a success. Notably, this original work adopts the managerial perspective and conveys the authors' diverse areas of expertise with content that focuses on the essentials.

The perspective highlighted in this work reflects an approach that marketing managers should seriously consider. Further, the content emphasizes important marketing decisions and implementation of best practices.

Marketing Management is an original work that has been refined and improved with each edition for over 25 years. Customized to meet the needs of its market, the content fully reflects the reality in Québec and the rest of Canada, while also covering globalization and international markets.

Six marketing specialists, university professors, expert consultants and researchers have jointly written the 12 chapters of the book. *Marketing Management* is neither an encyclopedia nor a literary work, but its content is substantial. The authors have striven to be concise, and have deliberately chosen to emphasize practical information for marketing management students. Clarity, conciseness and synthesis consistently characterize this book.

Marketing Management is structured in a logical sequence. Chapter 1 covers the marketing approach and explains the fundamental marketing concepts. Chapter 2 presents the marketing process, and Chapter 3 specifies the key concepts of marketing strategy: segmentation, targeting, positioning and differentiation. Chapter 4, which concludes the first section, deals with creativity and innovation in marketing. The second section of this book, which focuses on analysis, begins with Chapter 5, which explores how organizations analyze their internal and external environments to make decisions and formulate marketing strategies according to four key concepts. Chapter 6 immerses the reader in the marketing research universe, and Chapter 7 underlines the importance of interpreting consumer behaviour correctly. Lastly, Chapters 8 to 12 examine each of the elements of the commercial mix in detail, to help businesses make concrete decisions regarding products, services, brands, marketing communication, relationship selling, distribution and price.

This second edition of the English translation of *Gestion du marketing* offers concrete examples that reflect the reality of the business world. Numerous examples have been added, and many were replaced or updated since the last edition.

The author team is made up of Johanne Brunet, François Colbert, Sandra Laporte, Renaud Legoux, Bruno Lussier and Sihem Taboubi, all professors at HEC Montréal. They thank Jean-Luc Geha, a visiting professor at HEC Montréal who collaborated in this edition, along with Karen Sherman, translator, and the publishing team at Chenelière Éducation: Sonia Choinière, editor-designer; Annie Ouellet, editor; Paul Paré, copy editor; and Laurel Sparrow, proofreader.

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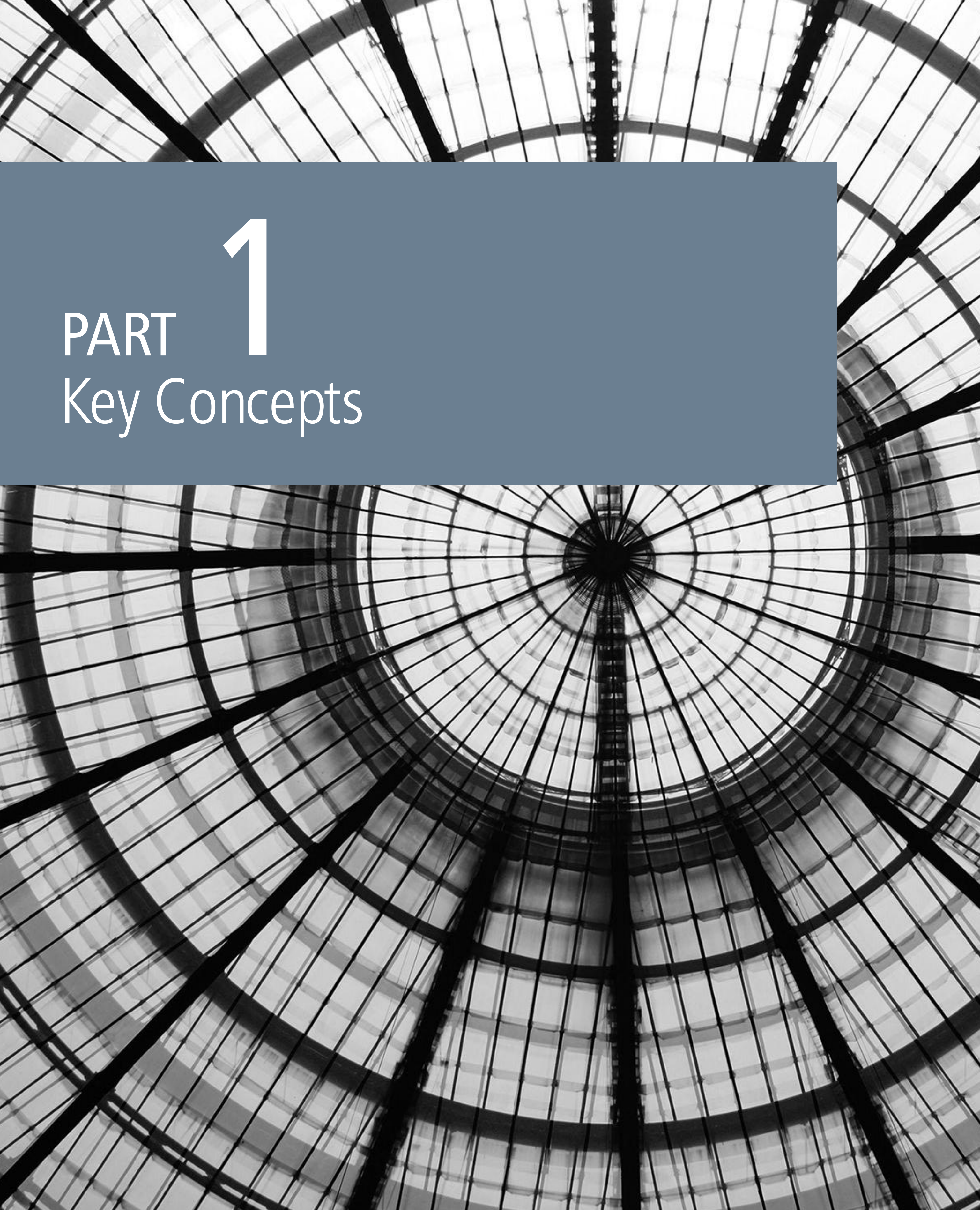
Table of contents

PART 1
Key Concepts



Chapter 1

Marketing Approach

Chapter outline

1.1 **Definition of marketing**

1.2 **Milestones in the development of marketing**

1.3 **Basic marketing concepts**

1.4 **Understanding the integrated marketing model**

1.5 **The internal marketing management process**

1.6 **The future of marketing**

Learning objectives

After reading this chapter, you will be able to:

define the role of marketing within the company, along with the components of the marketing concept;

distinguish between various marketing approaches;

describe the basic marketing concepts;

understand the basic marketing model;

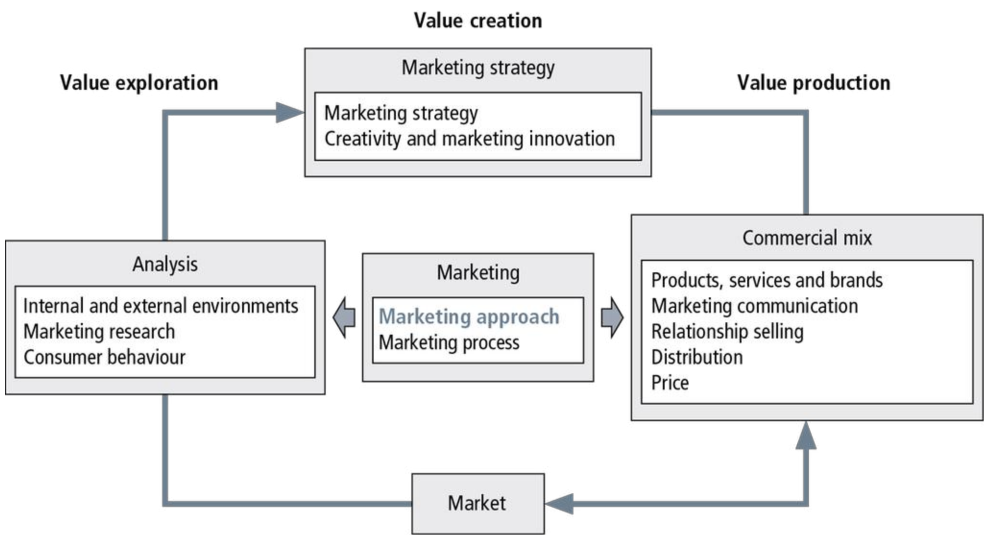
recognize the components of the marketing management process;

understand the factors that influence the future of marketing.

The modern environment is complex: increasingly sophisticated techniques are needed to bring producers and consumers together. Marketing covers not only all these techniques, but also the process of planning and managing marketing operations. Marketing serves to promote everything from products, services, ideas, candidates for election, and celebrities to social causes. Consequently, it applies to both for-profit businesses and non-profit organizations, in both the domestic market and foreign markets, and for selling to individual, industrial and organizational customers. Product manufacturers such as service companies—accounting firms, advertising agencies, head-hunters, management consultants, fashion designers—and stores and restaurants have to attract a large enough clientele to be successful. They all face the challenges of competition and globalization.

This chapter provides an overview of the marketing field and related concepts. First we define marketing and clarify its importance for a business. We then present the main milestones in the development of this discipline. Key marketing concepts such as needs, wants and demand, the market and its components, exchanges, transactions, customer relations, value, quality, satisfaction and loyalty are then described, to better understand the marketing model. We explore the internal marketing management process by discussing analysis, marketing strategy and the components of the marketing mix. Lastly, we briefly situate marketing in the history of development of trade and in management science education, to prompt reflection on the future of marketing.

Flow chart



1.1 Definition of marketing

The definition of **marketing** has evolved considerably. Notably, Peter Drucker (1994) asserted that the only purpose of a business (and hence marketing) is to create a customer. Guiltinan, Paul and Madden (1997) believe that the expression "creating a customer" means identifying customers' needs, pinpointing the needs that the organization can satisfy at a profit, and developing products and services that convert potential buyers into customers. McCarthy and Perreault (1984) define marketing as the philosophy whereby the organization aims all its efforts at satisfying customers, at a profit. In contrast, Kotler and Armstrong (2005) define marketing as a social and managerial process by which individuals and groups obtain what they need and want through exchanges of products and services of value with others. The definition that we will use here is that of the American Marketing Association (AMA), presented in the margin.

Marketing

"The activity, set of institutions, and processes for creating, communicating, delivering, and exchanging offerings that have value for customers, clients, partners, and society at large." (AMA 2013)

With the proliferation of supply, the concept of *value* for customers and society has become central in marketing. Consumers are demanding because they can choose from a large number of products. They can easily go to another supplier if they do not get what they want. The concept of social responsibility has also become quite important in business relationships with customers.

That is why special attention must be paid to customer service. Customers not only want a product or service: they want someone to listen to their needs and treat them as though they were important. Above all, they want to have a positive experience when consuming a product or service. Many businesses have understood this requirement and have made customer service central to their operations. They have understood that it is much easier and less costly to keep an existing client than to try to gain a new one.

1.2 Milestones in the development of marketing

Marketing has evolved in step with business philosophies and the economic context. The main orientations that make up the milestones in the development of modern marketing are the production orientation, product orientation, sales orientation and marketing orientation.

1.2.1 Production orientation

This orientation focuses on production efficiency that will lead to high quality products. It developed during the Industrial Revolution and lasted until after World War II. The most important thinkers in this field are Frederick W. Taylor

(*The Principles of Scientific Management*, 1911) and Frank and Lillian Gilbreth, who studied motion and the organization of work. They advocated and promoted efficiency and efficacy. Similarly, Henry Ford introduced standardization and specialization on his assembly line. The production orientation is particularly effective when productivity must be improved because demand exceeds supply, or when companies want to reduce the cost of a product.

1.2.2 Product orientation

Some sellers think that consumers will always buy a good product at a reasonable price, so a business only has to make the best product to automatically reap financial success. This is called product orientation. However, even if you market the very best mousetrap, a consumer who does not have a mouse problem will not run to the store to buy one, no matter how many bells and whistles it has. In any case, a consumer with a mouse problem is not buying a mousetrap, but a solution to the problem. Proponents of product orientation assume that consumers are completely informed about everything available on the market and that their purchases are always "rational," in the economic sense of the term. However, what we know about consumers indicates that they do not always buy a product or service for objective reasons: emotions and the unconscious play an important role in the buying process. At any rate, if there is no need to begin with, the chances of selling a product are nil.

1.2.3 Sales orientation

Some people think that all you need is a good sales and communication strategy to convince a consumer to buy a product. This is called the sales orientation. Once again, these people overlook the consumer's needs and presume that they can convince the consumer to buy their product by skillfully applying one of the components of their marketing strategy. It is true that in some cases it is possible to sell a product to someone who has absolutely no need for it. However, the chances of pulling off this feat a second time with the same customer are very slim.

1.2.4 Marketing orientation

Finally, the idea behind the marketing orientation is to satisfy the customer while keeping the company's goals in mind. This orientation focuses on the consumer rather than the business.

It represents a shift from a sellers' market to a buyers' market. A sellers' market is characterized by a shortage of products or services, whereas a buyers' market features an abundance of products or services. Since the end of World War II, myriad products and services have entered the market. As a result, the marketing orientation is found in all organizations whose objective is to succeed over the short and medium terms. This orientation converts needs into demand by concentrating on the benefits that products and services can offer.

1.3 Basic marketing concepts

Any business, whatever its size, performs two basic activities: producing and selling. A craftsman who works alone in his shop has first to make his product and then to find a buyer. In a large corporation, the process is more complex and requires sophisticated management functions: accounting, human resources, logistics, production, information technology, etc. It is the role of the marketing function to identify the appropriate consumers and try to sell them the **product** manufactured by the firm. The marketing function also discovers what products these consumers want, and then reports back to the production division on what it needs to produce, and in what quantity, format, etc.

Product

A manufactured product, a pure service or a clever mix of both.

The marketing function therefore plays a vital role for a business. Its work is particularly difficult when competition is plentiful and dynamic. A company that has the assurance of holding a monopoly can impose its will on customers to a certain extent, but such monopoly situations are rare. Sooner or later, competitors enter the market, and the company has to adapt quickly or perish. Barely 20 years ago, Bell Canada had a monopoly on telephone communications. The arrival of satellite and cell phone communications took away that monopoly, and Bell has had to adjust.

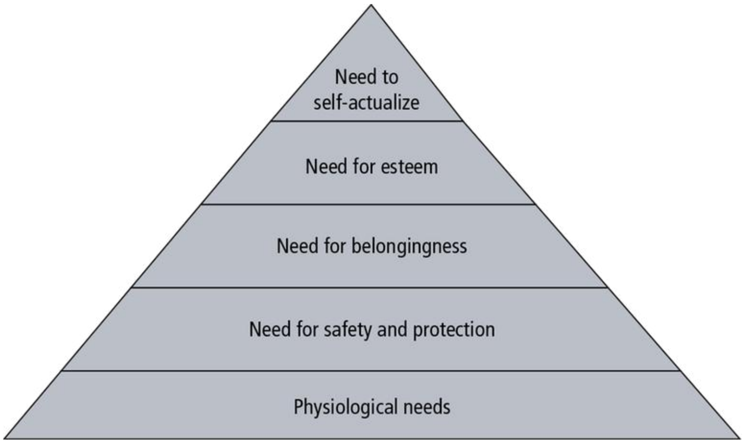
The following section presents the key basic concepts that underlie the marketing function. They consist of needs and desires, demand, the market and its components, exchange, and the result of the exchange process, including customer relations, value, quality, satisfaction and loyalty.

1.3.1 Needs and desires

One of the basic concepts underlying the market phenomenon is that of need, whether expressed or latent. If a product does not correspond to a consumer need or want, it will be difficult to market. Contrary to popular myth, marketers do not spend their time trying to create consumer needs any way they can. Certain fundamental needs already exist, and marketing merely attempts to identify them and then meet them by creating the appropriate product. Abraham Maslow (1954) asserted that human beings satisfy their needs in a sequence beginning with physiological needs (food, water, etc.). They then seek to satisfy their need for safety and protection (security), the need for belongingness (love, friendship), the need for esteem (prestige, respect from others) and lastly the need to self-actualize (see Figure 1.1, on the following page).

Self-actualization is not defined in the same way by each individual. For example, some people are drawn to scientific knowledge, others to cooking and still others to meditation. Businesses can use this pyramid to ensure that their product corresponds to the type of need that they aim to satisfy. Massimo Fumarola, vice-president of Ferrari, says that people do not need to own a Ferrari to go from point A to point B. Any other car could even be much more efficient, he adds. In fact, owning a Ferrari is a form of self-actualization—a very compelling way to position a car in this highly competitive market (Conroy, 2007).

Figure 1.1 Hierarchy of needs from Maslow



Analysis of the messages conveyed by consumer product manufacturers shows that many of them are crafted to meet consumers' real needs, but not necessarily the needs that are the products' basic reason for existing. A consumer is buying not a camera, but memories; not cosmetics, but the desire to be beautiful; not a soft drink, but a symbol of youth; not a simple piece of clothing, but a reflection of their personality.

In addition, while some products may at first glance seem frivolous, closer examination may show that they meet deep needs, sometimes irrational ones, but important enough to lead the consumer to buy them. Three typical examples are potato chips, cars and clothing.

Some may claim that potato chips have no nutritional value, that people do not eat them for nourishment and that they are useless. Has the need for them been entirely fabricated by marketers? In reality, many people associate eating potato chips with relaxing. They eat them while watching television, for instance. The product may not meet their need for nourishment, but it does satisfy their need to relax.

A car may satisfy the need for a utility vehicle, the need for prestige or the need to belong to a group.

Similarly, one could argue that the function of an automobile is strictly to convey passengers from point A to point B. If this were the case, then there would be no need for the proliferation of makes, models, colours and options. Although for some consumers an automobile is merely a means of transportation or a utility vehicle, for most people it is more than that. Many see it as a symbol of prestige, power or style. Marketers try to pinpoint these needs as accurately as they can and then ensure that their company's products meet these needs, as the Ferrari example illustrates.

Finally, in the area of clothing, fashion is an effective means of displaying personality traits in terms of taste, comfort, social standing, being part of a group, etc. Clothing is a visible symbol of who we are or who we want to be. Even people who want to be different from the rest of society at all costs, or who reject society, still display the external signs of their refusal in the way they dress. Punks are a striking example. Clothing no longer simply meets a need for protection from the cold but is also a way to differentiate oneself, or show that one belongs to a social group. It thus meets needs for a sense of identity and belonging.

These examples clearly show that it is important to distinguish between need and want. Need is a state of lacking something: being hungry, needing affection, having to earn a living, etc. A want corresponds to a way to meet this need—for example, satisfying your hunger by choosing an Italian restaurant instead of a fast food restaurant.

Of course, consumers are sometimes duped by product promotion. There are many examples of dubious or outright fraudulent practices by which unscrupulous people try to take advantage of the naïveté or vulnerability of certain consumers. Fortunately, this is not a widespread practice. The AMA has established a code of ethics for its members stipulating that "Marketers shall uphold and advance the integrity, honor and dignity of the marketing profession by being honest in serving consumers, clients, employees, suppliers, distributors, and the public" (AMA, 2003). This code also sets a guideline for each of the variables in the marketing mix, such as product safety, fraudulent advertising and price fixing. More and more businesses have their own customer service policy designed to prevent unethical conduct and to build customer loyalty.

If popular belief gives marketing experts so much power, it is because people perceive only the visible part of the marketing of a product (its advertising) and are often unaware of the commercial failure of other products.

The concept of needs and wants is definitely fundamental in marketing: Backed by purchasing power, a want is transformed into demand. Market dynamics are therefore based on consumers and their needs. Consumers change over time and so do their needs and wants; the marketing analyst has to monitor these changes so that the business can adjust to them and survive. A business that does not pay attention to these changes risks finding itself in a difficult situation. This is what happened to North American carmakers that did not adjust in time; they lost crucial ground to Japanese carmakers. GM, once the world leader in the auto industry, was outpaced by Toyota, which still dominates the market (Leblanc, 2014).

The marketer's job is to identify the needs (and wants) of customers and to try to meet them with the right products, at the right price, through the right distribution network, using the right communication tools and unparalleled customer service.

1.3.2 Demand

Consumers express needs that a business tries to meet with a series of products or services. A consumer can be an individual, but also a business, government or association. We use the term *consumer* here in its broadest sense to designate all economic agents (industry, government, distribution market, etc.), not just an individual making a purchase. The term "customer" refers to the person or entity that makes the purchasing decision. For example, when it comes to dog food, the canine is the consumer, but the dog's owner is the customer.

Demand

The quantity of a good or service that economic agents buy in a given market.

Consumers buy products or services and thereby create what economists call **demand**. Marketers try to meet consumers' needs by carrying out one of the key tasks of marketing: managing demand.

Market demand is expressed in transactions carried out to acquire a product. It can be expressed in units of quantity (volume) or in monetary units (dollars or other currencies). One measure or the other will be used depending on the need and the availability of data.

Expressing demand in volume often represents reality most accurately because the results are not inflated or, on the contrary, are not underestimated because of higher or lower prices. It is therefore easy to compare data from one year to another; the basis of comparison is similar.

For instance, from 2013 to 2014, box office revenues (demand) for performing arts in Québec rose from $229 million to $238 million, a 4% increase, whereas the number of spectators climbed 2%, from 6.7 million to 6.8 million (ISQ, 2015). To be able to compare the dollar increase in sales to the rise in audience volume, you must negate the effect of inflation. An uninformed observer who considers only the demand expressed in dollars might conclude that the performing arts market had experienced a much greater increase than it actually did. When we look at the change in demand in dollars without adjusting for the change in price, we say that the measurement is done in current dollars. When we calculate the change in demand while eliminating inflation as a factor (that is, using the same reference year), we say that the measurement is done in constant dollars. If volume data are not available, every effort must be made to calculate changes in demand in constant dollars to offset changes in price and get an accurate picture of the phenomenon.

While it is often more useful to express demand in volume terms, this figure is sometimes hard to obtain, either because the data do not exist, or because the product in question is made up of a series of disparate elements. For instance, demand in the leisure and recreation market cannot be measured in volume terms because this category encompasses a number of elements that cannot be added together: theatre seats, book purchases, travel, etc.

Company demand and market demand

A distinction is usually made between company demand and market demand. Company demand is the expression, in volume or dollars, of the transactions carried out to buy a product or service from a specific company. Given that market demand for a product is made up of the sum of individual company demand values, total market demand may experience a trend that is the inverse of the trend seen in individual company demand. Demand for a product may be rising, while demand for some of its components may be falling. For example, demand for cultural products declined 10% between 1997 and 2009, yet when we look at the sectors that make up this industry, demand for newspapers plunged by 52% and demand for cinema slipped 10%, while demand for indoor shows rose by 24% (ISQ, 2012a). It is interesting to note that the arrival of new information and communications technology has transformed cultural consumption in Québec. In fact, spending to access cultural products (such as video game consoles and cellular telephone services) soared by 110% between 1997 and 2009 (ISQ, 2012b).

Sometimes several businesses or actors join forces to stimulate total market demand. They presume that it is possible to increase total demand and that each will benefit in proportion to its size in the market. For instance, milk producers encourage consumers to drink more milk through ads that do not mention any brand in particular. Similarly, the Québec government tells Americans about the advantages of a trip to the province based on the assumption that increased tourism will benefit the entire hotel industry. In these cases, a presumption is made that if none of these businesses changes its marketing mix, a campaign to increase market demand should increase each company's sales in proportion to its market share. A competitor's action may sometimes also lead to an increase in total market demand that benefits all the competitors.

Market share

Every business tries to get part of the market to consume its product and thereby capture part of the demand (see Example 1.1). In marketing, a company's *market share* refers not to the share of consumers who buy the company's products, but to the company's share of demand. While it would be more accurate to talk about *share of demand* rather than *market share,* market share is the expression used by marketing specialists. We will also use it in this sense.

Example 1.1

PS4 versus Xbox One: which brand won the console war?

November 2013 marked a new milestone in the videogame industry: two new consoles were launched only a few days apart: the Microsoft Xbox One and the Sony PS4. This is the eighth generation of consoles since the industry emerged in the late 1970s.

One month later, the PS4 had achieved the most massive console launch ever, with 2.1 million units sold worldwide, experts report. Sony thus handily conquered the next-generation console market with its PS4, which captured a 50.7% market share in first quarter 2015, versus 28% for Microsoft Xbox One, according to VG Chartz.

Source : Pieters, C. (2013, December 12). PS4 : « Le plus grand lancement connu à ce jour » pour une console. *Gameblog*. Consulted at www.gameblog.fr/news/40000-ps4-le-plus-grand-lancement-connu-a-ce-jour-pour-une-console; D'Angelo, W. (2016, July 21). PS4 vs Xbox One vs Wii U Global Lifetime Sales – June 2016 Update – Sales. *VGChartz*. Consulted at www.vgchartz.com/article/265168/ps4-vs-xbox-one-vs-wii-u-global-lifetime-salesjune-2016-update/

The different types of demand

There are two main types of demand: actual demand and potential demand. Both types of demand are measured for three time periods: past demand, present demand and future demand, also called projected demand.

Actual demand Actual demand corresponds to a company's actual sales or business volume at a specific point in time. The same is true of market demand: it is a measurement of demand at a specific point in time, either the current period or a previous one. By measuring changes in previous years' actual demand, a business can obtain a historical picture of its vitality and the dynamism of its sector or industry.

Potential demand Potential demand is the maximum level that demand for a product can reach in a given context. Not all consumers buy all the products available on the market, even for generally consumed staple products. It is therefore very rare for a product to reach 100% of consumers. People who do not use a product but who might do so are potential consumers. To increase sales, producers try to persuade these potential consumers to buy their products. Similarly, if a per capita increase in sales is possible among existing customers, producers will try to convince their customers to consume more.

Demand projection However, every demand has a ceiling, and this ceiling depends as much on consumers' financial means as on their tastes, interests, receptivity to a marketing strategy and environment. The marketing managers' task is then to estimate the maximum level that market demand could reach at a given time, which is the potential market demand. Potential company demand is estimated in the same way.

As in the case of actual demand, past or present potential demand for a product can be determined, and potential demand can be projected.

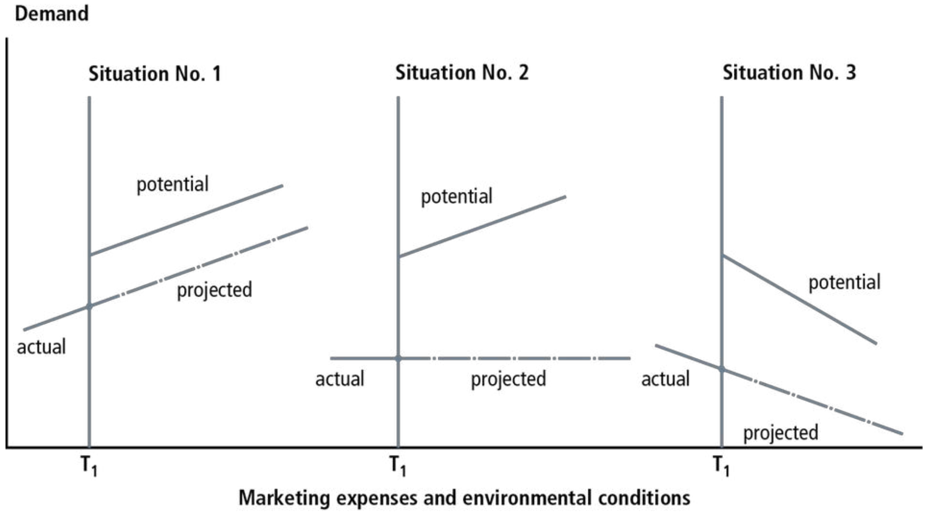
Actual demand is usually less than potential demand, which gives businesses hope that they can increase their sales or market share. When actual demand and potential demand are equal in a given market, the market can be considered to have reached its saturation level, which generally corresponds to the maturity stage in the product lifecycle.

The sales projections made by a business must take expected changes in potential demand into account. When managers expect an increase in potential demand, they can anticipate higher sales for their business. Conversely, when potential demand declines in a market, competing firms must expect to make a greater effort to maintain company demand.

The concept of the relationship between the different types of demand over time can also be applied to the market. An actual market and a potential market can be defined, and the past, present and future sizes of each of these markets can be estimated. For example, consider the market represented by retirees for certain types of products, such as tourism. Because we know the number of retirees, say in the year 2000 (past market), we can estimate the number today (present market) and in 2025, when the impact of the massive wave of retiring baby boomers will be felt (future market). In the same way, we can find out what the demand for travel among people in this category was in 2000, estimate what it is now, and forecast what it will be in 2025.

We can do a similar analysis at every step in the distribution chain, from both the producer's and the retailer's perspective. Figure 1.2 illustrates different relationships in market demand.

Figure 1.2 Market demand relationships



1.3.3 The market and its components

A business can target one or several markets. In either case, it will try to capture a share of demand in each market and will have to deal with competitors who are trying to reach the same goal.

The **market** is made up of consumer units that may represent an entire population or just part of it, depending on the product offered or the target clientele. Companies rarely target an entire population: not all individuals are interested in all the products offered in the market, except perhaps for staple foods such as milk, flour and sugar.

Market

A set of consumers, individuals or businesses that express wants and needs by buying products, services or even ideas.

When we talk about marketing, the tendency is to think only of the consumer market, while there are in fact other markets for which marketing tools can be useful. In this subsection, in addition to the consumer goods market, we will examine four other markets: the business market (for-profit and non-profit companies), distribution intermediaries market, government market, and international markets.

The consumer goods market

In 2014, the population of Canada was 35,543,658, divided into approximately 9,831,316 families who spent $1,022,345,100 that year (Statistics Canada, 2014). The **consumer goods market**

Consumer goods market

All the individuals who purchase products or services to meet their personal needs.

The consumer goods market includes all individuals old enough to buy products.

(Business-to-Consumer or B2C) is thus a vast market that offers enormous potential. One of Canada's most important characteristics for marketing strategists is the size of the territory. Compared with European countries or the United States, whose populations are both large and concentrated, marketing a product across Canada presents particular problems in the area of distribution.

Eighty-one percent of the Canadian population is urban (Statistics Canada, 2011) and lives in a strip more than 6,000 km long and over 300 km wide. Certain metropolitan areas account for half of their province's inhabitants. In 2015, Vancouver had a population of 2,504,300, or over 50.0% of the total population of British Columbia, which was 4,683,100. In addition, most of the potential buyers of consumer goods are concentrated in the two central provinces of Québec and Ontario, representing 22,055,700 people, or 61.5% of the population of Canada (Statistics Canada, 2014). Most of this population can be found in an 800-km corridor that runs from Québec City to Sault Ste. Marie.

The business market

Business market

Organizations that buy products and services in order to use them to make other goods, or to meet their internal needs. They may be the industrial suppliers of a consumer goods manufacturer, or any firm that sells to other businesses, municipalities or public organizations.

The business market, or Business-to-Business (B2B) market, represents an important sector of today's economy. The market addressed by B2B marketing does not include individual consumers. The main types of firms in this sector of the economy include processing companies, farm producers, construction industries, extraction industries and service companies.

The marketing concepts used in the marketing of consumer goods also apply to the industrial market. However, the relative weights of the variables in the marketing mix differ. To market consumer goods, the key elements in a marketing plan are generally advertising, sales promotion and merchandising, while in the case of an industrial market, more emphasis is placed on the product, price, sales and after-sales service, given that sales are an essential point of contact between the producer and the customer. This does not mean that advertising, sales promotion and merchandising are absent from the industrial market; certain specialists in this type of marketing have become experts in using promotional tools such as trade shows, movies, merchandising, bonuses, sales floor display units and posters.

Distribution intermediaries market

Distribution intermediaries market

Individuals and organizations situated between the producer and the consumer.

The **distribution intermediaries market** buys products and services with the intention of reselling them. The main types of intermediaries are retailers, wholesalers, manufacturers' agents and dealers. Given that Canada has a relatively small population spread out over a large area, intermediaries greatly facilitate product distribution.

Distribution intermediaries use marketing tools in the same way as specialists working for businesses in other sectors. Retailers apply the same marketing techniques as manufacturers that deal directly with the end consumer. As the last intermediary in the chain, the location of the retailer's business is a key success factor, particularly in the case of staple goods such as groceries. Consumers generally do not want to travel great distances to buy a good that they do not view as having significant monetary or symbolic value, such as a litre of milk. The retailer with the best location in the neighbourhood therefore has a guaranteed advantage.

For wholesalers, the marketing process is much more similar to the process used by service companies, because they do not sell a tangible product but rather a sales organization. They provide a manufacturer with access to attractive markets through a network of stores, and the owners of these stores with a reliable supply.

For all producers that do not sell their products directly to consumers, distribution intermediaries are the market to penetrate. They must convince the intermediaries to adopt their products and need to provide them with all the necessary elements so that they in turn can convince consumers to buy the products.

Government market

Federal, provincial and municipal governments—important partners in the economy—make up a considerable market, even though they represent a limited number of decision-makers (Business-to-Government or B2G). The government can become the main customer of some of these businesses. To reach this market, the use of marketing tools is more limited because governments mostly issue calls for tenders, a process in which the contract usually goes to the lowest bidder. Price is therefore the priority among the decision-making criteria, although other factors such as product quality and customer service may also be taken into consideration.

International markets

Much of the Canadian economy's vitality comes from exporting products, particularly to the United States. Governments are encouraging businesses to look abroad to find new markets and thereby counterbalance the flood of products invading the Canadian market (see Example 1.2, on the following page). International marketing is thus an important field of study. Yet marketing between countries can be a complex task because culture, government regulations and technical standards may differ greatly from one country to another.

1.3.4 Exchange

All definitions of marketing have one thing in common: the concept of exchange. This concept rests on four elements:

- the customer's need,
- the satisfaction of this need,
- a relationship between the business and the consumer,
- and the optimization of business profits.

Example 1.2

A home run for the Cirque

In 2015, the Cirque du Soleil was sold to a consortium led by the American private investment firm IPG Capital. The firm acquired 60% of the equity of the circus. The Chinese investment firm Fosun Capital Group holds 20% of the stock, the Caisse de dépôt et placement du Québec owns 10%, and cofounder Guy Laliberté kept 10%.

The controlling shareholder, which has plans to expand beyond circus shows, and Fosun Capital Group, which aims to springboard the Cirque du Soleil into the Chinese market, handed Guy Laliberté a cheque for over $1.5 billion. "I hit a home run," the Cirque du Soleil cofounder says. "I could not ask for a better future for the Cirque."

One of the conditions of sale was that the head office stay in Montréal, and that it "remain the centre of creative and artistic services." The new owners are also committed to "ensuring an important presence of Québec and Canada within the management team of the Cirque and its Board of Directors." They have also agreed to finance local cultural and community organizations.

Source: Brousseau-Pouliot, V. (2015). La meilleure décision pour l'avenir du Cirque. *La Presse*. Consulted at http://affaires.lapresse.ca/economie/quebec/201504/20/01-4862536-la-meilleure-decision-pour-lavenir-du-cirque.php

The goal of marketing is to optimize the relationship of exchange between the business and the customer and to maximize their satisfaction.

It is important to make the distinction between maximizing profit and optimizing profit. Maximizing aims to generate the largest possible profit, while optimizing seeks to obtain the largest profit while taking into consideration organizational or environmental elements such as employees' well-being, creating a good corporate image, satisfying the consumer, the company's commitment to the community, and environmental protection.

Transactions

An exchange is usually concluded with a transaction (contract or agreement that specifies the accepted terms), which constitutes a basic unit. The business chooses its payment and financing modes according to industry practices or the types of relationships it wishes to develop with its customers.

The customer relationship

Customer service

Everything that customers experience when doing business with a company.

This exchange relationship can take different forms depending on the products, services and environment of the firm. The objective is to create important economic and social ties on an ongoing basis while providing superior value. **Customer service** is closely related to customer satisfaction and customer loyalty, which have become very important in the past 20 years.

Customer service concerns a company's relationship with its customers. It consists of everything that customers experience when doing business with a company.

Managing customer service means managing all these experiences and customers' expectations. Customer service goes beyond the marketing department to encompass other departments that help forge customers' experiences in their relationship with a company.

Customer service involves a customer approach, that is, the analysis and understanding of the expectations, wants, needs and behaviours of target customers, as well as the design and implementation of actions, policies and programs intended to best satisfy customers in a cost-effective way and thus build customer loyalty. However, a customer approach is not limited to satisfying customer wants. It also means innovating to go beyond the needs and expectations explicitly formulated by customers.

First and foremost, customer service concerns a company's existing customers; its primary function is to satisfy them and build their loyalty. It also concerns prospective customers obtained through word of mouth by existing customers.

The concept of a customer includes users and deciders, buyers, gatekeepers, initiators, influencers and specifiers, as well as immediate, intermediate and end customers. It also includes a company's partners, associates, allies and distributors.

In many markets, customer service has become an indispensable tool that enables a company to stand out advantageously from its competitors and improve customer retention. The growing importance of customer service reflects the trend in contemporary marketing thinking that emphasizes building and strengthening customer relationships. In contrast, traditional marketing dealt more with customer transactions and considered its job done once a purchase had been made.

Managing this relationship implies building and maintaining profitable relations, providing superior value and ensuring a high degree of satisfaction. In fact, there are very few new customers, only those of the competition.

Customer lifetime value

To assess the profitability of its customers, a business has to look beyond the current situation because some customers that are not profitable at present may become so in the short or medium term; enough to compensate for the current non-profitability. This is why many businesses use the concept of **customer lifetime value**.

Customer lifetime value

The sum total of the present values of all the profits that can be made from a particular customer over that person's lifetime.

To calculate this value, the profits generated by the customer year after year are considered, taking into account the fact that $1 of profit in five years is not worth the same as $1 of profit in the current year. The present value of the profits generated each year is thus calculated.

Customer lifetime value represents the value of all the purchases the customer may make over his or her lifetime. It proves that it is more profitable for a business to take care of its customers than to seek out new ones. Some businesses think that it costs five times as much to attract new customers as to retain their existing ones.

Theoretically, by applying this concept, the lifetime value of a potential customer, an existing customer, a customer at risk or a lost customer can be calculated to better assess how much can be invested to acquire, retain, save or win back the customer.

This method requires the use of an accounting system that is accurate enough to compute the costs of each of the different products or services sold and of each of the various customer segments.

It also requires an analysis of a set of data contained in the customer databases (sometimes obtained through marketing research). By using the data collected on a customer's personal characteristics and past behaviour, future behaviour can be predicted if the customer becomes or remains a company customer, or is won back again.

1.3.5 The result of the exchange process

Delivering products or services of value and high quality will satisfy customers, and consequently greatly influence their future purchasing behaviours. The more satisfied the customers, the more loyal they will tend to be.

Value

Value

The benefits received minus the monetary and non-monetary costs.

The notion of **value** is important for consumers; they want to emerge a winner from the exchange process. It is therefore important for the business to clearly understand what its customers expect in terms of value, on the functional, economic, social and experiential levels.

Consumers hope to find added value in the benefits they seek. The business must be aware of these benefits and should make them a priority. It must also be able to attribute a monetary value to each of these benefits and to set the suggested retail price.

Often, consumers must deprive themselves of some things to obtain others. Businesses need to be aware of their customers' monetary sacrifices along with non-monetary costs such as psychological fatigue, effort and time. The production cost should include sales and operations expenses. A good exchange process should achieve a satisfactory result for both the consumer and the marketing manager.

Quality

Consumers also care about the quality of the product or service they procure. They expect it to be defect-free, meet the specifications and deliver superior, constant and reliable performance.

Satisfaction

Satisfaction is situated between the customers' expectations and their perception of performance (see the definition on page 200). Why worry about customer satisfaction? First of all, it is a matter of professionalism and business ethics. Satisfied consumers are also more loyal than dissatisfied ones, and loyal customers are more profitable because they tend to incur lower costs and generate higher sales per customer. It is