

# **International Marketing**

Module Overview

**Author: D. Chong**

**Co-author: D. Kasturiratne**

This document was prepared for the University of London by:

- Derrick Chong, School of Management, Royal Holloway, University of London and  
Dulekha Kasturiratne, Imperial College London, University of London

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# Module Overview

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## About the Authors



### **Dr Derrick Chong**

Derrick Chong, a Senior Lecturer in Management at Royal Holloway, University of London, is interested in the various relationships between management and the arts. This is based, in part, on his academic studies in business administration (BComm Toronto and MBA McGill) and art history (MA York (Canada)). Aspects of his PhD (London), a comparative analysis of art

museums in the USA, Canada, and the UK, appeared in *Arts Management* (Routledge 2002). Publication vehicles include the *International Journal of Arts Management*; *Journal of Nonprofit and Public Sector Marketing*; *International Journal of Cultural Property*; *Museum Management and Curatorship*; and *Journal of Arts Management, Law, and Society*. Consultancy work with Sotheby's Institute of Art-London is linked to research, including chapters in books on international art markets and art business. Chong's teaching focuses on marketing, but has included postgraduate courses on general management and North American business. Ever cognizant of the English class system, he continues voice classes to cultivate an authorial mid-Atlantic accent. Chong has been a staff member at RHUL since 1992. He continues to travel between London and Toronto with a Canadian passport.



### **Dulekha Kasturiratne**

Dulekha Kasturiratne is currently completing her PhD at Imperial College London (University of London). Her thesis is titled 'Creating Value for Competitive Advantage in Supply Chain Relationships of the Sri Lankan Tea Industry'. Dulekha is also completing her Professional Post Graduate Diploma in Marketing from the

Chartered Institute of Marketing.

Some of Dulekha's consultancy work include working as a Project Manager at Unilever Ceylon Ltd. (2003), where she was responsible for establishing and coordinating a CORD (CONsumer Research & Development) Panel, investigating consumer response to specific products. She was also a Research Assistant (2002) for an EU-funded research study on 'The Impact of International Safety and Quality Standards on the Competitiveness of Mediterranean Fresh Produce'.

Her research interests focus on the fields of international marketing, foreign market entry, emerging/mature markets, brand identity, strategic alliances and organisational networks. Dulekha is

a Tutor for the Distance Learning Program at Imperial College London (University of London) and a Graduate Teaching Assistant at the same University. Her current lecturing and tutoring subjects include Strategic Marketing Management, Organisational Behaviour and Human Resource Management, Marketing Research Techniques, Applied Business Management and Strategic Marketing Management.

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## How to Approach the Module

It is commonly accepted that people learn in different ways and at different speeds and that any individual needs to find an approach to learning that suits them best. There are some broad guidelines, however, that might be useful for you to follow when studying a module such as this.

Your study materials include any text books that have been recommended for the module, plus a number of booklets such as the one you are reading from at present! Each of the remaining booklets (that is, all except this introduction) is pertinent to a particular chapter of the module; there are ten of these. The booklet for a particular chapter will contain a *commentary* on each of the topics to be studied in that chapter, plus any articles or other reading material which, together with the textbook, are essential reading for that chapter.

You will find that the chapters follow a logical progression in setting out and elaborating the subject matter, but you can move about between chapters and sections if this suits you. Learning is an iterative process. It is often useful to go back to something studied earlier. You may also find it useful to move about between different chapters according to what interests you, or according to the connections that you make between different topics. It is always important to be clear about the objectives of a particular section. What are you trying to achieve in completing the section? What are you expected to accomplish?

You will find that the module contains ten chapters and that each of these is divided into a number of sections. You can view each section as a discrete topic. However, you must always remember that the *commentary* on the topic that you find here is merely a *guide* to the literature and other materials that you also receive. It is NOT a substitute for it.

So, once you have decided which topic you are going to study today (or any other day!), you could read through the appropriate commentary and then read the associated literature, or explore the relevant websites or other resources, making appropriate notes as you do so.

As we suggested, there is no single rule about how best to learn, but you will see in the commentaries that go with each topic, that there are *activities* for you to undertake. These are very important to the learning process. They are intended as a guide for you to know whether you have appropriately understood the topic you have been studying. So, even if you think you have no difficulties with a particular topic, it's still worthwhile doing the associated activity, because you may have unwittingly misinterpreted something! A good rule to follow, then, is not to proceed to a new topic before you have **successfully** completed the activity(s) for the previous one.

There is feedback on these activities, at the end of the commentary, but you are encouraged to attempt the activities first before you go to the feedback. If you have any difficulties understanding or interpreting any of these activities or questions, **always** sort out your problems before you leave the topic:

- First of all, go back to your reading materials to check if you have misinterpreted something, or found something too difficult or obscure.
- If you still have problems, go online and seek assistance. This can be from your online tutor, or you might ask help from your fellow students. You can even ask both! But *be sure to seek help before moving on*. If you leave it until later, you may forget when you get absorbed by new topics, and find that you start your revision for examinations with a host of unresolved questions. Your tutor is there to help you, so allow him or her to do their job!

It is also important for your learning to attempt the 'short' assignments as you go through. There is a separate note here on these, but please bear in mind that they are designed to assist you in the learning process and to develop the way you think about the subject matter so that, when you take the examinations, you will be familiar with the approach required.

Finally, remember that learning is fun! Enjoy the module.



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## Module Introduction

### Module Overview

The world of marketing is a dynamic and very exciting one where decision making is at the heart of the marketing process. In recent years, one of the most talked-about trends in marketing has been the globalisation of markets for goods and services. New markets are opening and old markets are evolving, bringing with them new competitors but also alliances. Globalisation is indeed making the world a global market place.

In the first three chapters of this module, we introduce the basic concepts of marketing with an international orientation. We identify how international marketing management is linked with global aspects such as national wealth creation, international consumers and Triad nations. You will become familiar with different schools of thought on marketing which are connected with the marketing concept. Next we introduce the latter parts of the module chapters by identifying the concepts of the marketing mix and the segmentation process. The introductory chapters finish with a thorough discussion of the analysis of the firm's micro and macro environments.

After laying a solid foundation for the rest of the module through the first few chapters, we go deeper into the world of international marketing. First as marketing managers we would need to understand and satisfy the needs of international consumers. Thus we look more closely at how to identify and target potential customers. You will know perhaps through your own experience, the importance of getting the right product/service to the market at the right time. This is crucial for the success of firms competing in very aggressive markets. In this context, branding, managing product life cycles, innovation and new product development all become increasingly important and more so in the global context. This covers the 'product' element of the marketing mix, which takes us onto the other decisions firms must make in terms of promotion, place and pricing. Although firms operating in domestic markets will need to take the same decisions, in international contexts these decisions become much more complex. For example, international marketing managers will have to think about changing the product or promotion aspects to suit different markets in different countries. They will have to consider political and social influences, regulations, languages, religions, economic standings and currencies, all of which must be taken into consideration in order to make the right strategic decisions. In the excitement of looking at the product, price and promotional aspects we must not forget 'place'. In 'place' we focus on the link that bridges the gap between production and consumer and look at how goods reach the market. Thus we identify intermediaries, routes taken and difficulties faced before a product reaches its target market.

In the ten chapters of this module we try to bring together theory and practice, showing how the two feed from each other. Each of the chapters will consist of self-assessment activities at the end of the chapter as well as activities which are set at the end of each section of the chapters. Relevant answers are provided as guidelines for each of these activities. You will also be introduced to a

discussion topic at the conclusion of each chapter which will enable you to actively participate in discussions online with fellow students and tutor. One of the things we encourage is for you to look at real-life examples that relate to this module as you study it. These examples can come from a variety of sources such as newspapers, TV, from your daily food and drink or even from the work place, and will enable you to understand and apply some of the concepts of this module in a practical way.

## Module Aims

International marketing is a live and interactive process. In this module we aim to:

- Describe how awareness of global developments apply to marketing and business
- Identify marketing as influenced by internal and external factors. In other words identify that strategic marketing decisions are influenced by a firm's internal factors as well as external factors such as competitors, political, social, technological and economic trends
- Explore marketing as an integrative process and as part of a myriad of other units of a firm which must communicate effectively and work jointly towards achieving competitive advantage
- Identify marketing concepts in a global scale, keeping in mind that these are more complex and numerous when applied beyond the domestic scenario
- Explore the power, needs and wants of the global consumer. In other words, explore the difference between the global and the local consumer. What are the skills and competencies required to cater to the global consumer?

## Module Learning Objectives

By the end of this course you should be able to:

- Explain the influence of global developments on international marketing and business
- Identify external and internal factors that influence the strategic decision-making process
- Outline the segmentation process as a means of identifying the global consumer
- Describe the marketing mix as a process, and as a set of complex tools utilised to cater to the needs of the global consumer
- Demonstrate the importance of striving for customer satisfaction through a customer oriented organisation

## Resources

### Core Texts

1. Doyle, P., Stern, Philip (2006) *Marketing Management and Strategy*, 4th ed. Prentice Hall.
2. Chee, H., Harris, R. (1998) *Global Marketing Strategy*, Financial Times, Pitman Publishing.

There are also a range of case-studies that you are asked to consult at appropriate intervals in your studies.

In addition, there are recommendations for further reading that you might explore if a particular topic interests you.

## **Module Contents**

### **Chapter 1: Introduction**

- 1.1 Marketing and National Wealth Creation
- 1.2 Globalisation
- 1.3 Services Marketing and Experience Economy

### **Chapter 2: Corporate Marketing Management**

- 2.1 Introduction: Orientations & Schools of Marketing
- 2.2 The Marketing Concept
- 2.3 Segmentation, Targeting and Positioning
- 2.4 Elements of the Marketing Mix (4Ps)
- 2.5 Customer Relationship Management (CRM)

### **Chapter 3: Components of the Marketing Environment**

- 3.1 Microenvironment
- 3.2 Macro environment

### **Chapter 4: STP Marketing**

- 4.1 Market segmentation
- 4.2 Target markets
- 4.3 Positioning
- 4.4 Conjoint analysis

### **Chapter 5: Corporate Identity and Branding**

- 5.1 Identity and Image
- 5.2 Brand Equity
- 5.3 Name Development
- 5.4 Package Design
- 5.5 Battle of the Brands
- 5.6 Brand Valuation
- 5.7 Brand Development

### **Chapter 6: Products & Product Management**

- 6.1 Role of Innovation
- 6.2 Product Life Cycle (PLC)
- 6.3 New Product Developments (NPD)
- 6.4 Death and Burial of Products
- 6.5 Some International Considerations

### **Chapter 7: Communications, Sales and Client Relationships**

- 7.1 The Communications Process
- 7.2 Advertising: Standardisation versus Adaptation
- 7.3 Direct Marketing
- 7.4 Communications Mix
- 7.5 Personal Selling and Sales Cultures

## **Chapter 8: Distribution**

- 8.1 Conventional Channel Basics
- 8.2 Disintermediation
- 8.3 Delivery Systems
- 8.4 Channel Conflict
- 8.5 Marketing Distribution Systems
- 8.6 Polarity of retail Trade

## **Chapter 9: Competition and Pricing**

- 9.1 Pricing perspectives
- 9.2 Strategic Choices in Pricing
- 9.3 Economics and Pricing
- 9.4 Initiating and Responding to Price Changes
- 9.5 Some International Pricing Consideration

## **Chapter 10: Turnaround Management**

- 10.1 Turnaround Management
- 10.2 Creating a Customer-Managed Organisation
- 10.3 Setting the Context for Pan-Company Marketing

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## Module Review

### Introduction

This section describes the key learning outcomes that you should be familiar with once you have completed the module. It is for you to use as a reference point to ensure that you have understood the key parts of the module.

It can be particularly useful as an aid to your revision, although you may wish to refer to appropriate parts of the review as you go through the work, in order to consolidate your understanding and ensure that you have not missed key elements of your learning.

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Decision-making is at the heart of the marketing strategy process and all organisations now operate in competitive environments which are dynamic and complex. Markets and marketing are becoming more and more global in nature and managers around the world need to act quickly and effectively in order to stay ahead of competition and gain and sustain competitive advantage. In this module we have gone through a range of ideas, concepts and tools to understand the environment around us and enable us to think and act as strategic marketers operating in an international world. The review below looks at the module in a nutshell and draws on the important issues in each chapter.

Try the review questions at the end of this section which will help you to consolidate your understanding and draw from knowledge gained from the entire module.

### Chapter 1

This chapter emphasised how marketing objectives are fundamental to overall corporate success. We discussed the relationship between marketing and economic development, and their impact on providing high and increasing standards of living. We also raised the issue of globalisation. We looked at it as a pervasive decline in barriers to the global flow of information, ideas, technology and goods. This was followed by a debate on standardisation and adaptation. In this first chapter we also examined the managerial concerns in the marketing of services namely quality control, productivity, and the management of human resources. Finally, we glanced at the “experience economy”, its importance, and where it fits in with the concepts we have discussed in this chapter so far.

### Chapter 2

In chapter two we paid particular attention to corporate marketing management in terms of three levels within the firm, namely, marketing as culture (the marketing concept), marketing as strategy (segmentation, targeting, and positioning), and marketing as tactics (elements of the marketing mix). We also discussed the marketing mix, known as the 4Ps. For much of this chapter, the focus of our discussion was the customer and how the customer can be better served through the appropriate orientation of the

marketing mix and the best management of customer relationships. Here we also noted that marketing strategies that reap the best results are those that achieve company goals through creating value for the customer.

### **Chapter 3**

In this chapter, we looked at how firms can develop their capabilities and compete effectively in constantly changing environments. In order to best cater to the changing needs of the customer in a competitive environment, firms must constantly analyse its marketing environment. These are the firm's internal and external environments which have a significant impact on strategic marketing decisions made by the firm. We discussed how Porter's five forces and PEST analysis can be utilised for this purpose. Successful marketers collect market intelligence in order to anticipate and meet customer needs. We also looked at the political environment, developments in the economic environment and the changing trends in the socio-cultural environment which all impact on the marketing environment and strategic decision-making.

### **Chapter 4**

Here we looked at aspects of segmenting, targeting and positioning in more detail. We also introduced conjoint analysis as a method of market research used to determine the perceived value of a range of potential features of a new product offering. We discussed the importance of dividing markets into relevant, manageable and targetable segments in order to provide better tailored offerings to customers. In this chapter we examined how marketers can reap many benefits from appropriate and efficient segmentation. However, it is also important to remember the possible dangers and pitfalls in carrying out this process.

### **Chapter 5**

In this chapter we focus on the current and widely spoken about topic of branding. Branding can be viewed as a source of strategic competitive advantage for a firm. It helps buyers identify and evaluate products, helps sellers facilitate repeat purchasing, and fosters brand loyalty. In this chapter we discovered various aspects of branding such as corporate identity, brand equity, development of brand name and brand valuation, and their role in strategic international marketing. We also discussed issues about brand identity and image, as well as package design, brand valuation and development of brands in local and global markets.

## **Chapter 6**

Here we looked at the product in more detail. We discussed the role of innovation and the product life cycle as important considerations in the management of the product. We talked about new product development in terms of strategy, diffusion in the market and how consumers adopt it. We also looked at both new product successes and failures. As international marketers it is important for us to understand these concepts in the context of a global environment. Finally we concluded the chapter by discussing the movement of products across international boundaries and possible problems associated with it.

## **Chapter 7**

Communication is a simple process which we do all the time and take for granted. In this chapter we discussed the various elements of promotion. After all, what would be the point of a wonderful brand and an innovative product if the consumer is not aware of it! So we focused on the way organisations attempt to communicate with their target audiences through advertising, personal selling, sales promotion, public relations, direct marketing and sponsorship. Finally we discussed the emergence of the internet as a significant and dominant communication tool.

## **Chapter 8**

Part of the responsibility of a marketing oriented organisation is to get the product to the customer at the right place and at the right time. Here we looked at how organisations are connected to their markets in ways that build value to the organisations as well as their customers. We discussed how the structure of the channels can vary depending on the type of market, the needs of the end consumer and the type of product. We looked at influences on channel design such as organisational objectives and resources, as well as the role of intermediaries in the channel. We discussed various forms of channel structure in terms of horizontal, vertical and multichannel competition and their impacts on organisations. It is important to note in this chapter that, in an environment where the Internet dominates all spheres of life, we as marketers need to re-evaluate distribution strategies in international markets.

## **Chapter 9**

Pricing plays a significant role in strategic marketing decision and thus requires much attention. Price is the only element of the marketing mix that directly generates revenue, can be used as a communicator, a bargaining tool and a competitive weapon. In this chapter we discussed various aspects of pricing such as pricing objectives, economic theory in pricing, influences in pricing as well as international pricing considerations. We discussed many external and internal influences on pricing as well as a host of global pricing considerations. Here we understand that pricing decisions are difficult to make and that decisions should be taken with long term objectives in mind as otherwise consequences to the firm could be detrimental.



## Chapter 10

In this chapter we focused on symptoms of decline as well as the causes. We also discussed changes required when an organisation is in decline or when decline is anticipated.

### Module Review Questions

In order to consolidate your understanding of this module, try the following questions. These will require you to draw from knowledge gained from the entire module.

1. To What extent do you think internationalisation is essential to today's organisations?
2. Discuss how an organisation of your choice incorporates corporate social responsibility in its decision-making process.
3. Imagine that company X has been criticised for sourcing ornaments from unregulated sources in China and India. There have also been complaints that the ornament manufacturers are guilty of exploitative employment practices. How should company X deal with such criticism? What measures can be taken to overcome such criticism and ensure that the company image is not tarnished?
4. Discuss the marketing mix strategies for a product of a company of your choice.
5. For an organisation of your choice, assess the current and future impact of globalisation on the business.
6. What factors affect the customer's interpretation of price?
7. How can a small firm compensate for lack of resources when competing in international markets?
8. Discuss the benefits and pitfalls of the segmentation process for a product of your choice.
9. Using examples, discuss the impact of 'country-of-origin' effect on consumers and companies.
10. How does the management of a global marketing strategy differ from the management of a domestic strategy?



# **International Marketing**

Chapter 1: Introduction

**Author: D. Chong**

**Co-author: D. Kasturiratne**

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# Chapter 1: Introduction

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## Introduction

### Overview

In this chapter we will introduce the link between corporate marketing management and national wealth creation. We will discuss how, under capitalism, consumers are posited as key decision makers with firms in competition to attract their custom, resulting in better quality products, continuous improvement and innovation, and ultimately higher standards of living. We will examine how U.S.A, Japan, the E.U. and other countries are important nations in a marketing framework, and how international and global dimensions of marketing can be exploited to the commercial advantage of firms. In this chapter we will also look at managerial concerns in the marketing of services, namely quality control, productivity, and the management of human resources. Finally, we will discuss issues relating to the "experience economy" and how this changes the tenor of what needs to be provided to customers.

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### Aims

The purpose of this chapter is to enable you to:

- review how marketing questions relate to management aims and objectives
- discuss the links between marketing, national wealth creation and economic development
- demonstrate the relationship between consumer choice and democracy
- compare and contrast consumer markets in Triad nations
- assess various marketing positions associated with the keyword "globalisation"
- identify the characteristics of "services" and distinguish the managerial concerns associated with "services"
- assess the "experience economy"

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## **Learning Outcomes**

After studying this chapter, you will be able to:

- identify the links amongst corporate marketing management, national wealth creation and economic development
- describe the impact and influence of consumers in a capitalist society on firm competition
- outline the role of various nations in marketing, and how the international and global dimensions of marketing can be exploited to the commercial advantage of firms
- identify the characteristics of services marketing and distinguish the place of 'experience economy' in marketing

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## Resources

### Essential readings

- Doyle, P., Stern, Philip (2006) *Marketing Management and Strategy*, 4th ed. Prentice Hall, Chapters 1 & 12.

Chapters 1 and 12 of Doyle cover the overall ideas discussed in this chapter of the Module. Chapter 1 talks about how rapidly changing technologies, information and global competition are presenting ever more complicated challenges in international marketing. Chapter 12 covers the services marketing aspects.

### Readings for further study

- Magretta, J. (1998) The Power of Virtual Integration: An Interview with Dell Computer's Michael Dell, *Harvard Business Review*, Vol. 76, Issue 2 (March/April), pp. 72-84.
- Wetlaufer, S. (2000), Common Sense and Conflict: An Interview with Disney's Michael Eisner, *Harvard Business Review*, Vol. 78, Issue 1 (Jan/Feb), pp. 114-124.

The two separate HBR interviews, with Michael Dell (Dell Computers) and Michael Eisner (Walt Disney), offer insights into firms considered to be leaders in consumer awareness. Dell is a pioneering New Economy firm. Disney is the epitome of an Experience Economy organisation.



## 1.1. Marketing and National Wealth Creation

In this section we will look at the link between corporate marketing management and national wealth creation. We will discuss how the consumer is at the centre of the marketing philosophy with firms competing to attract them. We will also briefly examine the triad nations and look at some international issues and managerial concerns in global marketing.

### Learning Objectives

- Identify the links amongst corporate marketing management, national wealth creation and economic development
- Describe the impact and influence of consumers in a capitalist society on firm competition

### What is marketing?

In a book dealing with the art of creative management, Gareth Morgan cites a common view of marketers:

They're peacocks ... all show; no real substance. They look good; people like to watch; but they serve no useful purpose. Irish setters ... very good looking dogs. But not very intelligent at all. They've no real knowledge.<sup>1</sup>

<sup>1</sup> Gareth Morgan, *Imaginization: the art of creative management* (Sage, 1993), p. 24.

On the other hand, there is an argument that marketing is a source of competitive ability, economic growth, and wealth creation.

A fundamental question that we should be asking is:

If governments can no longer fix world markets, nor guarantee national market shares, who decides what the standards of quality, service and value are? Who decides who wins and loses?

The answer is obvious: the customer.

When we talk about new world competitive order it becomes obvious that customer choice, preference and demand are its exclusive driving forces. What we have come to call 'customer science' is pivotal. That, of course, is marketing. Marketing is, above all, a philosophy enshrining a long-term commitment to customer satisfaction and the deployment of a set of intense skills to achieve it. By definition, therefore, marketing is the key to profitable growth and must form part and parcel of every business operation.<sup>2</sup>

Therefore you can see that this latter perspective is based on the belief that marketing can provide a better understanding and assessment of the marketplace, including customers and competitive behaviour.

When undertaking your reading for this topic, keep in mind that the aims and objectives adopted by firms may lack sufficient attention to innovative and entrepreneurial thinking owing to attention on short-term financial results and institutionalised aversion to risk.

<sup>2</sup> Sir Colin Marshall, chairman of British Airways, in "The Marketing Council: launch speech event," (London, 24 October 1995).

### Some useful questions to be thinking of

As a complement to some of the readings in this chapter, issues related to mission determination can best be explained by

identifying several of the broad question areas often asked of the organisation. These include the following:

- What business is the company in? (A functional approach can be useful at this point. Do we sell ice cream or fun? Do we sell financial products or offer you an opportunity to lead the life you desire?)
  - Who are your company's customers? What are their needs? Why do they buy from us?
  - What are your company's resources, strengths, and weaknesses? What assets does the company have in terms of people, products, reputation, etc?
  - What are your company's major opportunities and threats? Where can the company apply its resources most profitably? What are the most vulnerable areas?
  - What rate of growth appears best for your company? This should include a clear delineation of specific numbers with regard to the rate of growth in sales, profit, and return on investment.
  - What share of market is best for your company? This opens up the question of market position.
  - What is your company's attitude to risk and stability? Seeking higher returns usually entails more risk.
- 
- Now have a look at Case Study 1.1.1\* As you read it, keep in mind the points we have reviewed so far.

\* All case studies are available in the Case Study Booklet.

### **Marketing and Economic Development**

In 1989 Francis Fukuyama, with the financial support of the RAND Corporation, a conservative think tank based in the United States, proclaimed the triumph of liberal democracy.<sup>3</sup>

3 Francis Fukuyama, "Have we reached the end of history?", *National Interest* (Summer 1989), pp. 3-18.

In the real world, the crumbling of the Berlin Wall and the dismantling of the satellite system of the Soviet Union, viewed as the synthetic result of the end of the so-called Cold War and the demise of communism, supported Fukuyama's "end of history" thesis. This post-ideological society envisioned by Fukuyama was based on a mixture of capitalism, democracy, and materialism.

In many respects, the management guru Peter Drucker put forward similar sentiments forty years earlier in an essay titled "Markets and economic development"<sup>4</sup>.

4 Peter Drucker, "Marketing and economic development," *Journal of Marketing* (January 1958), p. 253.

He says that the development of marketing makes economic integration possible, as well as the fullest utilisation of assets and productive capacity and economy possesses. It mobilises latent economic energy. In addition, Drucker says that marketing is essential in order to remedy the inequality among nations. As such it is interesting to note that marketing was viewed as the "under developed" part of the economy of under-developed nations.

- Have a look now at case study 1.1.2 about stock markets in China. It raises a similar issue.

Would you agree that economic development is the result of purposeful, responsible, risk-taking actions of individuals as managers and entrepreneurs?

If marketing is adopted and practised by individuals within firms, high standards can be set by firms in free-market competition. This type of competition and inter-firm rivalry allow firms to progress from strength to strength. Firms must give more attention to the product and customer service, and increase the freedom of choice to the consumer in a way that serves human wants. Hence we can appreciate the effectiveness of marketing as a competitive medium that benefits the public, the firms, and ultimately the national economy.

### **Some International Concerns**

On the other hand, in December 1999 a coalition of passionate environmentalists, trade union members, church groups, and organized anarchists, took part in demonstrations to disrupt the meeting of the World Trade Organization. The Seattle riots represented the latest example of a rising anti-corporation sentiment in the U.S. The people chanted "Hey, hey. Ho, ho, the WTO has to go" protesting against deforestation, genetically-modified food, labour standards in Third World countries, and the threat to the shrimp turtle. The location of Seattle was appropriate as it was the very paradigm of the so-called New Economy. Many of the protestors were its willing beneficiaries and active participants. It seems that much of the organisation of the protests was carried out over the Internet. During this time, two main groups with different grievances competed for attention: unions and other organisations that fear world trade is a plot to replace American workers with cheap foreign labour; and a host of environmental and human rights groups that see the relentless economic development represented by free trade as trampling on the poor and the Earth's dwindling resources.

### **Consumer sovereignty and free choice**

It is important for us to consider the link between consumer sovereignty and free choice, because it is a central and well-entrenched theme in marketing.<sup>5</sup>

Consumer sovereignty, of course, concerns the satisfaction of consumer needs as an ultimate aim of the entire capitalist system. Underpinning this system is the over-riding belief that the individual's needs are best known by him, and that he is in the best position to exercise this right by making actual choices. Therefore, it is not surprising that in many respects, marketers see themselves as the democrats of the business world and the supporters of the view that in the long run, business will be profitable only if they satisfy consumer needs. Yet Micklethwait and Wooldridge, who work for the *Economist*, believe that the globalisation case needs to be reiterated, stressing its link to the cause of liberty.<sup>6</sup>

<sup>5</sup> There is a view that marketing is essentially an American construct; the constitution of the U.S. offers its citizens "Life, Liberty, and the Pursuit of Happiness."

<sup>6</sup> John Micklethwait and Adrian Wooldridge, *A Future Perfect: the challenge and the hidden promise of globalisation* (William Heinemann, 2000).

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### **Activity 1.1.1**

In order to consolidate your understanding of this section, try the following exercise:

- Identify three companies which you consider to be successful and evaluate to what extent they have a customer-based approach.

Feedback: See page 22

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## 1.2 Globalisation

In the previous section we looked at how competition between firms increases the standard of products and services in the market. We also looked at the role of marketing in the economy as well as freedom of choice and sovereignty of the consumer. In this section we will try to understand the 'global consumer', and the concepts of adaptation and standardisation.

### Learning outcome

- Outline the role of various nations in marketing, and how the international and global dimensions of marketing can be exploited to the commercial advantage of firms

### The global consumer

The notion of the global consumer is based on the role of technology. In many respects the world is getting smaller, yet noticeable differences remain. Here, we will consider a working sketch of consumer markets in Germany, Japan, and the U.S.A - the wealthy triad, as proffered by McKinsey.<sup>7</sup>

<sup>7</sup> Tatsuo Ohbora, Andrew Parsons, and Hajo Riesenbeck, "Alternative routes to global marketing," *McKinsey Quarterly* (1992 / No. 3), pp. 52-74.

#### Germany

You may be aware that in Germany a few retailers hold most of the power and capture most of the surplus generated by the systems. In food, for example, the leading five German retailers control more than 40 per cent of the market—twice the level of concentration in the U.S. and eight times that of Japan. Understandably, this concentration of power is not good for consumers as these giant retailers are the only pathway between manufacturers and consumers. The sheer static power of German retailers has bred a generation of consumer companies that are slow to innovate and slow to develop new products, because it is less risky and more profitable to sell established products with proven track records of commercial appeal. Also, unfortunately, the power of established brands may be used to smother new products.

#### Japan

In Japan, distribution and retail channels are highly fragmented and extremely inefficient. For example, the U.S. has 145,000 food stores to serve a nation of 250 million, while Japan, a population of half the size, requires more than 620,000 food stores. Japanese consumers can choose from a much larger variety of goods than consumers in other cultures, but they pay for their system's lack of efficiency with considerably higher prices. The average Japanese person must work 40 per cent longer than his German or American counterpart to buy a week's supply of groceries. There are quirky inefficiencies of the Japanese system, yet the Japanese system at its most successful rests, in large part, on the dynamic that drives consumer product companies to create and introduce new products. Though this reflects the well-known passion of Japanese consumers for new products, it also reflects the manufacturers' effort for speed to market in new product development. Second, marketing in Japan

means developing and nurturing long-term relationships with those in the distribution channel (as opposed to selling in the U.S.) because channels, both wholesale and retail, are small and fragmented. For example Shiesido, the largest cosmetics company in Japan, has over 25,000 retailers.

### **United States**

Now let's look at the U.S.A. Here, the consumer system has very low barriers to entry, and its structure is extremely competitive and dynamic. The intense flurry of competition and segmentation has created an ever-widening set of options for consumers, both in terms of products they can buy and the types of stores in which they can buy them. For example, grocery stores compete against drug stores and warehouse clubs. The whole system is very open, yet this same intense competition has bred a dangerous short term mentality in which the constant drive to segment markets has left organisations awash with information, but running amuck in terms of spending for advertising and other forms of promotion.

If we look closely at the systems in these three nations, it seems highly possible that Triad nations can learn from each other. Japanese and German firms can learn product marketing strategy and advertising from American firms; German and American firms can learn rapid product development and manufacturing from Japan; and American firms can learn how to build collaborative relations to retailers from both the Japanese and Germans.

The emphasis on the so-called Triad, essentially divides the world into three affluent geographic regions of North America (U.S. and Canada), Western Europe (members states of the European Union and notable non-members like Switzerland), and Japan—as developed by Kenichi Ohmae<sup>8</sup> and current McKinsey consultants. In many respects, attention on the global consumer cannot exclude China (labelled as the Sleeping Giant, the Next Superpower and Economic Miracle), India, and the transition economies of Central and Eastern Europe, particularly led by EU enlargement.

8 Kenichi Ohmae, *Triad Power* (New York: Free Press, 1985); and Ohmae, "The Triad world view," *Journal of Business Strategy* (Spring 1987), pp 8-19.

## **Adaptation vs. Standardisation**

When we talk about marketing, it is important to note the various international dimensions to it. In 1968 Robert Bartels asked "are domestic and international markets dissimilar?" Robert Buzzell posed a similar question "can you standardise multinational marketing?"<sup>9</sup> It is interesting to note that these two prominent management writers expressed these ideas just prior to the end of the so-called American Century in the early 1970s, with the first Oil Crisis. During this time international marketing was associated with American-based consumer goods giants extending "home" strategies to non-American markets.

9 Robert Bartels, "Are domestic and international markets dissimilar," *Journal of Marketing* (July 1968), pp. 56-61; and Robert Buzzell, "Can you standardise multi-international marketing," *HBR* (Nov/Dec 1968), pp. 102-12.

### **The work of Theodore Levitt**

His celebrated *Harvard Business Review* essay, "The globalisation of markets," says that the world is becoming standardised and homogeneous, and companies should follow suit.<sup>10</sup> He explains in his globalisation thesis that at a low cost, the corporation ought to operate with resolute constancy as if the world were a single entity. In other words, the firm should make the same things on offer in

10 Theodore Levitt, "The globalisation of markets," *HBR* (May/June 1983), pp. 92-102.

the same way everywhere. This is possible because "the world's needs have been irrevocably homogenised," according to Levitt. He says that the primary agent in this system is technology:

a powerful force [which] drives the world toward a converging commonality.

Technology helps to determine human preferences. Levitt invited firms to "accept the inevitable," namely that "for better or worse technology drives consumers relentlessly toward the same common goals—alleviation of life's burden and the expansion of discretionary time and spending power." He says that among the benefits accruing to the firm via standardisation, substantial economies of scale in production and marketing come to the fore.

In 1988 Levitt reaffirmed his position:

The more powerfully homogenised and relentlessly globalised the world's communications and commerce get, the more varied its products and more numerous its consuming segments seem to become.<sup>11</sup>

11 Theodore Levitt, "The pluralisation of culture," *HBR* (May/June 1988), pp. 7-8.

### Criticisms of Levitt

However, other researchers have lodged valid criticisms of Levitt's thesis. For example, Douglas and Wind argue that standardisation is merely one option in a range of possible marketing strategies which may be used to enter foreign markets.<sup>12</sup>

12 Susan Douglas and Yoram Wind, "The myth of globalisation," *Columbia Journal of World Business* (Winter 1987), pp. 19-29.

The potential for standardisation may be greater for certain types of products such as industrial raw materials and high technology products. Of course, one cannot fail to notice the pronounced and growing homogeneity among certain groups, particularly business executives, the brand-hungry young and the wealthy. Upmarket personal items including Rolex watches, Hermes scarves, Prada handbags, and Coco Chanel perfumes are found all over the world and are undifferentiated. Mass appeal brands like Levi's, Coca-Cola, Mars and McDonald's are viewed as the exception rather than the rule. Douglas and Wind add that "opportunities for standardisation are likely to occur more frequently among industrialised nations, and especially Triad countries where consumer interests as well as market conditions are likely to be more similar than among developing countries".

As you can see, there are various views on the subject. But Levitt points us in the direction of some interesting ideas to think about. For example let's consider the following managerialist advice:

Arguing against a standardised approach is the old advice, when in Rome, do as the Romans. This sounds like reasonable counsel. In a competitive situation, however, there are two reasons to question it. First, if one behaves like the Romans while in their city, the Romans will probably win every time: they are very good at being Romans. Second, Rome has a lot of Romans and probably doesn't need any more. Any foreigner who tries to be a pseudo-Roman probably won't contribute much to Rome, expect more congestion. On the other hand, a foreigner who is a bit different might be more valuable to the Romans.<sup>13</sup>

### Muji as an example

Now let's look at the Japanese retailer Muji in the United Kingdom to see how adaptation vs. standardisation applies in practice. In Japan, Muji operates more than 200 outlets offering a range of anonymous goods (primarily stationery, clothing, and home furnishings), to a core market mainly of school children and young adults. Muji entered the British market in 1991 and now operates about 10 locations in London.<sup>14</sup> In Japan, buying Muji invites anonymity. In Britain customers of Muji are older and see themselves as sophisticated and stylish. Muji in the UK has been compared to an esoteric and utilitarian version of Habitat (which is itself further up the market ladder in terms of quality and style than Ikea). Muji stands for "no-brand quality goods" yet operates as a very effective brand logo and concept: "Functional Japanese minimalism for everyone." Muji was created in 1980 by three partners and grew during the hyperactivity of the bubble economy from 1985-91, a period marked by a 25 per cent increase in Japan's GNP.

Though Muji is a relatively new outfit, it can be viewed as representing an aspect of Japanese living and culture that stretches back hundreds of years. This has to do with a historical understanding on the part of the Japanese of simplicity to everyday life. Yet in London much of this has the look of a clever marketing device. For example, the company's UK director of operations believes that "when a product goes through the Muji process it becomes so simple, so Japanese people see it as Japanese. British think of it as Muji." Thus one can think of Mujification as rigid design direction and tight quality control, which means that Muji's policy of global sourcing, does not affect the Mujiness of the things on offer. Like so many product areas, from cars to clothes to comic books, one is buying into a Japanese design philosophy, rather than Japanese workmanship through one's choice of brands and products.

- Now have a look at Case Study 1.2.1. This reviews some of the issues around internationalisation.

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### Activity 1.2.1

Now try the following activity to enhance your understanding of this section:

- What do you consider to be the benefits of standardisation?

Feedback: See page 22

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- 14 In the product brochure 2000 Muji notes that its basic principles remain unchanged: the four key concepts remain good value for money, simple and functional design, basic and understated colour, and a complete lifestyle range.



## 1.3 Services Marketing & Experience Economy

In the previous sections, we considered marketing and aspects of globalisation mostly in terms of the tangible product. In this section we will look at services marketing and the experience economy and its growing importance in global marketing.

### Learning Outcome

- Identify the characteristics of services marketing and distinguish the place of 'experience economy' in marketing

### Services & Marketing

Let's look at the list below. Financial services can be classified as having the following characteristics:

- Private ownership
- Profit orientation with income from customers
- High degree of competition
- Consumer and industrial markets
- High customer contact
- Requiring professional and intensive labour skill

In marketing, as in many other fields, it helps to break things down for simplicity. Therefore, classification schemes have been very useful in marketing. Various attempts have been made by marketing theorists to classify goods into a range of categories. One of the most famous and enduring is that of Melvin Copeland from the 1920s. Goods were classified as convenience, shopping, or specialty.<sup>15</sup>

15 Melvin Copeland, "The relation of consumers' buying habits to marketing methods," *HBR* (April 1923), pp. 282-9.

You may discover through your reading that the history of corporate marketing management has been written with a focus on fast moving consumer goods (FMCG) firms like Proctor & Gamble and Coca-Cola in mind. Though the role of FMCG and consumer durables remains important to the global economy, the shift to service-based industries suggests new directions for competitive success in the longer term. Yet you may find it strange that there is no consensus in economic or social thought as to what constitutes a service.<sup>16</sup>

16 Jean-Claude Delaunay and Jean Gadrey, *Services in Economic Thought*, (Kluwer Academic, 1992).

Did you know that in Triad nations private and public services account for approximately 60 to 70 per cent of national output, and that services represent the fastest growing part of international trade? The sheer size and growth in the service sector during the latter half of the twentieth century have been documented, but the features that distinguish the service sector from the industrial or manufacturing sectors are not clear.

Many activities in manufacturing firms are bought-in services (e.g., advertising, health care, financial services) which complement international service jobs like design, marketing, and finance. Furthermore, a wide range of services exists from corporate management to "independent" professionals to the lowest-paid domestic helpers.

### Service Characteristics

It is helpful for us to think of goods-services as a continuum. Here we suggest that services are key for all firms, yet that there are sectors whose service components are greater than those in other sectors. It is helpful to consider the characteristics that increase the service component of the product offering. Let's look at each of these separately.

- *Intangible*: Here we believe that the physical nature (or tangibility) of the offering is less important to the consumer. Lovelock characterises the service act of financial services as "intangible actions directed at people's intangible assets." Owing to its abstract nature, the customer may be offered something tangible to represent the service. For example let's look at Cater Allen, an offshore bank based in Jersey and the Isle of Man. It offers those who open a High Interest Current Account (HICA) a "free" Cater Allen Gold VISA card.
- *Perishable*: Under this category, you will realise that inventories cannot be kept. In other words services cannot be saved, stored, resold or returned. Therefore, the monetary value of time needs to be considered. For example, empty seats for an English National Opera performance at the Hammersmith Apollo cannot be stored and sold for a performance at the revamped London Coliseum. As financial services firms cannot store their products to meet fluctuations in demand, managing demand becomes of vital importance.
- *Heterogeneous*: Now think about heterogeneity of services. Services are essentially "performances" and no two performances are exactly alike. The quality of a service derives in large measure from its performance and delivery. The providers of financial services face the challenge of attempting to ensure consistency and quality of services offered. Heterogeneity also results as clients of financial services differ in their demands and expectations. It is somewhat ironic that the less sophisticated consumers of financial products require a greater depth of service.
- *Inseparable*: As you will now realise, production and consumption of services take place simultaneously. Service providers are an essential ingredient in the service experience for the consumer. Essentially, the employees delivering the service frequently are the service in the eyes of the customer. For example, Singapore Airlines emphasise the attentive care of their flight attendants as a unique selling proposition that distinguishes the firm from that of other long-haul air carriers.

Now let's look at how Christopher Lovelock attempts to examine ways to analyse services by asking a series of questions.<sup>17</sup>

He asks: "*What is the nature of the service act?* A service has been described as deed, act, or performance. Two fundamental issues are at whom (or what) is the act directed, and is this act tangible or intangible in nature?"

What type of relationship does the service organisation have with its customers? Here, two sets of questions are posed:

<sup>17</sup> Christopher Lovelock, "Classifying services to gain strategic marketing insights," *Journal of Marketing* (Summer 1983), pp. 9-20.

- Is it a "membership" relationship or is there no formal relationship?
- Is the service delivered on continuous basis or is each transaction recorded and charged separately?

It is important to consider profitability and customer convenience as the central issues in deciding how to price membership services. Will the organisation generate long-term profits by tying payment explicitly to consumption, by charging a flat rate regardless of consumption, or by unbundling the components of the service and charging a flat rate for some and an incremental rate for others?

Lovelock states that membership relationships usually result in customer loyalty to a particular service supplier. You may appreciate that as a market strategy, many service businesses seek ways to develop formal, ongoing relations with customers in order to ensure repeat business and/or ongoing financial support. The marketing task for us to keep in mind is to determine how it might be possible to build sales and revenues through such memberships, but at the same time, avoid requiring membership when this would result in freezing out a large volume of desirable casual business.

- *How much room is there for customisation and judgment on the part of the service provider?* Lovelock says that customisation can proceed along at least two dimensions: the first concerns the extent to which the characteristics of the service and its delivery system lend themselves to customisation; the second relates to how much judgment customer contact personnel are able to exercise in defining the nature of the service received by individual consumers. There is a class of service that not only involves a high degree of customisation but also requires customer contact personnel to exercise judgment concerning the characteristics of the service and how it is delivered to each customer. These service personnel are often prescriptive: clients look to them for advice as well as for customised execution. Yet it is important for us to understand that customisation has its costs. Service management often represents an ongoing struggle between the desires of marketing managers to add value and the goals of operations managers to reduce costs through standardisation.
- *What is the nature of demand and supply for the service?* While we recognise that inventories cannot be maintained, two issues must be raised. They are - classifying services according to whether demand fluctuates widely or narrowly over time, and classify services according to whether or not capacity is sufficient to meet peak demand.
- *How is the service delivered?* Lovelock says that understanding distribution in services marketing requires for two basic issues to be addressed. The first relates to the method of delivery. Is it necessary for the customer to be in direct physical contact with the service organisation, or can transactions be completed at arm's length? The second is concerned with whether the service organisation maintains just a single outlet or whether it serves customers through multiple outlets at different sites?

## Management and Service Marketing

You may realise by now that people and relationships are heightened when it comes to marketing services. In this type of marketing it is important for us to consider three managerial concerns. These are quality control problems, productivity concerns and management of human resources.

1. *Quality control problems:* When we talk of quality control, perceived relative quality of a product (goods and services) is rated as the single most important factor determining its long-run market share and profitability. Yet the issue of quality in services is a concept that customers find difficult to articulate. The inseparability of production and consumption raises a significant point in the management of quality. For example, it is important for us to realise that customers evaluate quality not just in terms of the outcome but also in terms of the process or the manner in which the service is delivered. Therefore it is vital that managers of service organisations focus on both the quality of outcomes and the quality of the process.
  
2. *Concerns with productivity:* As you may note, not all services can be standardised, and many services resist standardisation. Yet Levitt points out that there are means by which productivity can be improved without sacrificing quality.<sup>18</sup> In some cases industrialising a service to take advantage of the economies of mass production may actually increase consumer satisfaction through speed, consistency and price savings. However, we must address certain issues.
  - Firstly, high-contact activities must be separated from low-contact activities. Also the efficiency of productivity-based low-contact activities (or backroom operations) must be maximised. In addition the effectiveness of high-contact activities which are geared towards the quality of the service must be maximised.
  - Secondly, participation by customers should be increase through familiarising them with information technology systems. This can help to reduce the service cost. Here we suggest that from the standpoint of operations, it may be desirable to get the customer to transform from a high-contact service into a low-contact one.

Let's look at online facilities in retail banking as an example. This reduces the need for tellers to handle routine transactions such as cash withdrawals. In addition customers are offered the advantage of 24-7 access. But at the same time the retail banks need to continue to monitor customer reaction to the loss of personal service.

3. *Management of human resources:* When it comes to managing services, we must consider human relations as a particular concern. This is especially so in high-contact financial services. Each transaction becomes a so-called "moment of truth" where the customer makes a decisive judgement. Here, methods of supervision and quality control associated with manufacturing are not appropriate, because an unsatisfactory service

<sup>18</sup> See, for example, Theodore Levitt, "The industrialisation of service," *HBR* (Sep/Oct 1976), pp. 63-74

transaction cannot be halted, examined and recycled before the customer sees it.

Therefore it is vital for the financial service organisation to have members of staff who adopt the service mission. For example, James Heskett describes the objective as producing a so-called "Quality Wheel" - highly motivated employees delivering high-quality services, which in turn leads to satisfied customers, more business, satisfied employees and enhanced motivation.<sup>19</sup>

19 James Heskett, "The service quality wheel," *HBR* (Mar/Apr 1987), pp. 118-26.

### Quality Strategy

When you undertake your reading for this topic, you may come across the service quality wheel. See if you understand this idea. Now let's focus on the quality strategy which involves four commitments as we will discuss next.

If we look closely at most companies, we can see the commitment of top management to quality from their quality strategy, their attention to the importance of quality approaches, and ensuring that financial support is available.

These companies have a long-term commitment to improving quality as indicated by an explicit statement of the company's quality policy, and translating these into departmental goals and measurable targets, while focusing on the needs of internal clients.

You will see that these companies have a culture which underpins quality by:

- involving everyone in continuous improvement
- adopting formal structures to support the quality strategy
- articulating well-defined quality improvement processes

Most companies use systems and techniques to monitor and control quality such as:

- job descriptions
- performance objectives
- written standards and procedures
- formal appraisal systems

### The emphasis on services

If you look at affluent societies, you will notice that services tend to provide higher marginal utility for consumers than for goods. You will discover that spending on business and industrial services has increased even faster than on consumer goods.

However, the desire of professional services providers to broaden the range of services is not always straightforward. For example, many law firms have entered into conventionally non-legal fields such as public relations, lobbying, training and software development. There is the desire to be able to advise clients in the areas of technology, media, and communications. Dot-com start-ups represent another area of interest as these firms require advice in fields such as advertising, trademarks, intellectual copyright and finance. Yet it is important to consider the risks of including a greater number of services in-house as opposed to developing links with external service advisors. Many critics claim that the law firm could be in danger of losing its focus as well as missing out on referrals from advisors with which it is competing.

### Accountancy firms

Now let's focus our attention on accountancy firms. They venture into advisory services as a means to gain non-auditing work. KLegal is a parallel organisation to KPMG, and desires to become an international leader in the provision of legal services.

Pricewaterhouse Coopers (PwC) has a VTeam to help technology entrepreneurs launch the next big Internet start-up. The VTeam coaches start-ups on how to get their first venture capital breaks. Owing to a desire to draw in start-ups that could become major clients in the future, PwC allows the VTeam to provide its services for free. Some people argue that PwC is changing the way the Big Five accountancy firms are being perceived by entrepreneurs. No longer just being approached for auditing services, PwC is showing entrepreneurs how to work through the whole financial process. However, the Securities and Exchange Commission (SEC) in the U.S. claims that selling services to clients affects audit independence. Yet it is interesting that not all the major accountancy firms are in agreement in disposing of consultancy services. For example, PwC announced its intentions to dispose of significant sectors of its business. Ernst & Young has already sold its consulting arm to Cap Gemini Yet Deloitte & Touche is rejecting the SEC position that audit independence is compromised. You may have your own views and examples on this which will help you to build your own discussion.

You may remember that we briefly discussed human relations in financial services before. Now let's look at how the client-supplier relationship for a financial services firm can be illustrated as a four-stage process:

1. *Find*: Client services that help to facilitate the sales process by providing customised information by client sector: identifying the target markets and updating the database of client profiles.
2. *Win*: Sales teams need to be aware of the firm's position vis-à-vis that of competitors. The differential advantage of the firm needs to be emphasised, and the presence and awareness within the industry must be given importance. Also, while global networks are viewed as essential personal care cannot be overlooked.
3. *Retain*: Gaining greater knowledge of existing clients is necessary in order to be able to provide useful and valued information on appropriate products. Tailoring information to existing clients demonstrates a commitment to providing superior service. Monitoring client satisfaction is an important first step to improving the quality of service and client relationships.
4. *Grow*: Seeking methods to reward the loyalty of long-term clients. The sponsorship of prestige events may appear superficial and unnecessary, but they can be viewed as an enjoyable and cost-effective form of corporate hospitality.

□ To conclude this part of the section, have a look at Case Study 1.3.1.

It is important for us to note that economic impact of different levels of satisfaction can be significant. In other words, satisfied customers are not all equal. Those displaying the highest levels of satisfaction are, in economic terms, significantly more attractive to the firm than those showing only moderate levels of satisfaction. Also, a customer who stays highly satisfied becomes steadily more attractive over time.<sup>20</sup>

In order to emphasise customer development, the company needs to collect information on the "Life time" value of each customer, be aware of the relative profitability of individual customers and operate a key account structure. Furthermore, the marketing programme needs to be regularly adjusted to reflect and anticipate customer needs.

20 As reported by Nicholas Carr, "Marketing : the economics of customer satisfaction," *HBR* (Mar/Apr 1999), pp. 15-18.

## Experience Economy

Previously in this section, we looked at services and its role in marketing in various sectors. In this section we focus our attention on the experience economy and where it fits in with what we have discussed so far.

Pine and Gilmore, co-founders of Strategic Horizons, an American-based consultancy firm, have argued that the "experience economy" represents the current stage of economic development in advanced nations: from extracting commodities to manufacturing goods to delivering services to staging experiences.<sup>21</sup>

21 B. Joseph Pine II and James Gilmore, "Welcome to the experience economy," *HBR* (Jul/Aug 1998), pp. 97-105.

**Table 1.3.1 Economic Distinctions**

Economic Offering	Commodities	Goods	Services	Experiences
Economy	Agrarian	Industrial	Service	Experience
Economic Function	Extract	Make	Deliver	Stage
Nature of Offering	Fungible	Tangible	Intangible	Memorable
Key Attribute	Natural	Standardised	Customised	Personal
Method of Supply	Stored in bulk	Inventoried after production	Delivered on demand	Revealed over a duration
Seller	Trader	Manufacturer	Provider	Stager
Buyer	Market	User	Client	Guest
Factors of Demand	Characteristics	Features	Benefits	Sensations

Source: Pine and Gilmore, *HBR*, 1998

A good example to consider under this topic is Walt Disney. This firm is cited as a pioneering experience economy firm. For example, the buyers of its experiences are known as "guests" and the experience strives to be "memorable." I am sure you would agree that experiences are inherently personal. Indeed each experience derives from an interaction between a staged event and the individual's state of mind. Experiences, like goods and services, have to meet a customer need; they have to work; and they have to be deliverable. Just as goods and services result from an iterative

process of research, design, and development, experiences derive from an iterative process of exploration, scripting, and staging.

When designing memorable experiences we must consider five concepts:

- Theme the experience
- Harmonize impressions with positive cues
- Eliminate negative cues
- Mix in memorabilia
- Engage all five senses

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### **Activity 1.3.1**

Now that we have looked at services and experience economy in marketing, attempt this activity to test your understanding.

- What are the important things to consider when marketing a service and when designing a memorable experience?

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Feedback: See page 22



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## Summary

This chapter emphasised how marketing objectives are fundamental to overall corporate success. We also saw the relationship between marketing and economic development, and their impact on providing high and increasing standards of living. Given the importance of firms in competition as a source for national competitive advantage, marketing strategies and technique can be used to aid firms. Also we raised the issue of globalisation and discussed how the world is becoming smaller, although still noticeable differences remain. This was followed by a debate on standardisation and adaptation. This chapter makes us think whether the practice of marketing leads to the homogenisation of nations as they become more affluent.

We also looked at how services are integral to advanced economies due to the relative decline of manufacturing and the emphasis on value-added knowledge worker. We looked at different aspects of services marketing and its role in the economy. It is important to note that marketing of services, as opposed to goods, poses certain nuances marketers need to consider. Supporters of the "experience economy" view it as a step beyond service marketing to a more holistic approach to marketing.

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### Self-Assessment Activity

To make sure you understand the material we have covered in this chapter, try the following activities.

1. Define globalisation in your own words
2. Discuss the winners and losers of globalisation
3. Recall the managerial concerns associated with marketing services

Feedback: See page 22

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### Online Discussion Topic

Post your views on the following question in the on-line forum where you can debate your findings with your tutor and fellow students:

- In your view and experience, discuss the role of marketing in national wealth creation.
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## Feedback on Activities

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### Activity 1.1.1

You may find it easier to answer this question in the form of a grid. For example, you can draw the grid with the names of the three companies at the top, and the components of a customer-based philosophy along the side. Components of the customer-based philosophy can include marketing orientation, commitment to innovation, capacity to care for the customer and create superior value for the customer. Assess the evidence for these components, and the priority given to them by each of the companies that you have stated. Then identify how these activities are being implemented by the companies. Remember that firms with a sound marketing orientation have the capacity to understand the needs of the customer in a way that superior value is provided.

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### Activity 1.2.1

Some of the arguments for the benefits of standardisation include:

- Gaining economies of scale
- The increase in customer value of a consistent image and brand
- The advantages of a simpler planning process
- Lower overall expenditure, for example in promotion

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### Activity 1.3.1

Some of the important issues to consider when marketing a service are:

- What is the market to which the service is directed?
- What type of relationship does the service organisation have with its customers?
- How much room is there for customisation and judgment on the part of the service provider?
- How is the service delivered?
- How do you want to be perceived by the customer?

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## Self-Assessment Activities

### Question 1

This is a relatively open question as many issues can be discussed under this heading. While you can give definitions from various researchers, remember that the question is looking for the definition as you see it. Your answer should include that globalisation has reduced barriers to the global flow of information, ideas, capital, skilled labour, technology and goods.

### Question 2

Your answer should include how/why globalisation has resulted in both winners and losers. Some of the good outcomes of globalisation consist of cultural interchanges, travel, improvements in living standards, more people being above the poverty line and increases in economic growth rates.

Some of the negative outcomes of globalisation include issues dealing with those who have been excluded from globalisation, those who have suffered from globalisation and those who have gained but still remain poor.

### **Question 3**

When discussing this problem, first look at why services marketing can pose different managerial concerns over other type of marketing (e.g. tangible goods marketing). You should look at issues such as:

- Quality control problems: Here it is also important for you to realise that customers evaluate quality not just in terms of the outcome but also in terms of the process or the manner in which the service is delivered. Therefore it is vital that managers of service organisations focus on both the quality of outcomes and the quality of the process.
- Concerns with productivity: Also mention here if services can/should be standardised
- Management of human resources: Here you can use high-contact financial services as a particular example