

4TH EDITION



marketing

a practical approach

Peter Rix

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Peter Rix

Western Sydney Institute of TAFE

4TH EDITION

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PREFACE

We live in interesting times! Perhaps as never before, today's marketers face bewildering levels of change, both in their operating environments and in the techniques and tools they have available to them. And yet, in the middle of what seems to be turmoil, it is apparent that many of the fundamental principles of marketing practice remain valid, and perhaps even more critical, to organisational success.

In such demanding times, how should a textbook assist marketing teachers and their students? This fourth edition meets the challenge with its aims of:

- continuing to provide clear explanations of the core marketing terms and principles;
- taking a commonsense and considered approach to introducing the new developments and trends in the marketing field; and
- continuing with and expanding upon the features developed in previous editions, such as supporting the conceptual material with practical examples, feature articles, activities and cases.


How to use this book

The major features of this edition are described below:

- The text is divided into four parts that appropriately reflect the main learning areas in an introductory marketing course.
- The chapters' sequencing follows the way the subject is taught around Australia.
- The point-form presentation and smaller, accessible sections of material are designed specifically to meet the needs of VET students.
- The tables, figures and photographs summarise and illustrate important marketing processes.
- Key terms and concepts at the end of each chapter can be used for the revision of relevant terminology found in the text.
- The 'Learning objectives' and 'Outline of important topics' material at the beginning of each chapter are designed to help students to prepare for exams.

172 Part Two: UNDERSTANDING MARKETS

LEARNING OBJECTIVES

 This chapter covers the huge market for industrial and commercial goods and services. Many of you might already work in this market. As you read, try to form a comparison between the business market (also called the commercial or industrial market) and the consumer market. What are the similarities and differences? Do the distinctions between them help us in developing strategies on which marketers can act?

- After studying this chapter, you should be able to:
1. explain the nature and importance of the business market;
 2. analyse the main determinants and characteristics of business-market demand;
 3. consider the following behavioural aspects of the business market: buying motives, the buying process, and buying patterns; and
 4. discuss the importance of relationships in business markets.

OUTLINE OF IMPORTANT TOPICS

These topic outlines are useful for reviewing exam material.

NATURE AND IMPORTANCE OF THE BUSINESS MARKET (P. 174)

1. **Business-goods users** are organisations that buy goods and services:
 - (a) to make other goods and services;
 - (b) to sell to other business users or to consumers; and
 - (c) to conduct the organisation's operations.
2. **Business marketing** is the marketing of goods and services to business users rather than to ultimate consumers.
3. The business market in Australia is large and complex, consisting of almost one million organisations in manufacturing and service industries, and including some often overlooked markets—farms, retailers, governments and non-business markets.

MAIN CHARACTERISTICS OF MARKET DEMAND (P. 176)

1. The demand for business goods and services is often analysed by comparison with demand for consumer products. These distinctions do tend, however, to be generalisations rather than applying to every situation.
2. Business markets have four useful demand characteristics:
 - (a) The demand for business goods and services is derived from the demand for the consumer products in which the business goods or services are used.
 - (b) The demand for business goods is relatively inelastic. Total market demand for a business product tends to be unresponsive to changes in price. It is generally held, however, that this inelasticity of demand applies to the total market rather than to individual firms.
 - (c) The demand for business goods and services tends to fluctuate widely, especially demand for major capital equipment.
 - (d) Typically, business buyers are well informed about the relative merits of the products they purchase.

- The 'Test your learning' sections at the end of each chapter now contain a comprehensive range of practical student exercises and activities.

New developments and features

Emphasis in the book is given to 'real world' marketing by including the following elements:

Meet THE MARKETER

From ad man to entrepreneur

Peter Brown has run one of Australia's top advertising agencies, SBB Hamilton, since 1988. He began, however, in the agency's department of design and progressed through production, media and account services, eventually to the position of Managing Director. And then, perhaps in a further sign of the changing environment that is the subject of this chapter, Peter left the agency to set up on his own as an entrepreneur. By serving the local business community, he has now established some of the most successful agencies in the region, and is now a successful entrepreneur in his own right.

"HANDS ON" THE KEY TO SUCCESS

"The key success requirements for marketers don't really change," says Peter. "You need to understand the marketplace and the needs facing your customers in their time. You have to work 'hands on' to gain this understanding; there are no short cuts. I'd also recommend that marketers learn about all of the disciplines, not just the immediate job they are doing today."

TRENDS AND CHALLENGES

Peter is able to identify several challenges in the marketing environment. He sees the first challenge as the explosion in the amount of computer-generated marketing information and the need to be able to analyse it. And, in a warning repeated by other marketers interviewed for this feature, Peter says, "We must not become too dependent on this data. As we use these new technologies, we shouldn't forget that marketing is about individual people who make individual purchasing decisions."

EMERGING MARKET SEGMENTS

For the second challenge, Peter cites the many new market segments that are taking the shape of central mass markets, as close to the target, 20 to 30-year-old people who can identify with quality coffee as a "product with a passion" and who will purchase it as an affordable luxury. The concept simply couldn't have worked until a decade ago, but now enough people are making these lifestyle purchases, influenced in part by faster access to global information from TV, magazines, and the Internet.

USING THE NEW MEDIA

First, marketers need to remain close to their customers as they try to keep abreast of the fast-changing environment. The new media such as pay-TV, Internet, and digital TV, for example, will offer low-cost and well-targeted opportunities to communicate with people, but you still need to understand exactly how your customer is going to use these new forms of media.

The other big challenge, Peter concludes, is that this mobile, well-informed and confident society increasingly demands a consistency from suppliers of goods and services. With many more choices available to them, they're very tough on firms that confuse and then don't deliver.

Use of SBB Hamilton's coffee shops. Courtesy: Peter Brown, SBB Hamilton.

- Each chapter is introduced with a new feature, 'Meet the marketer'. These are interviews with a range of marketing practitioners, each of whom describes his or her marketing role and view of the marketing field, in terms of its requirements, trends and challenges. The interviews provide many interesting insights into marketing processes, and the organisations that use them.

CHAPTER 5: Gathering marketing information 91

TEST YOUR LEARNING

A QUESTION OF ETHICS

The owner of a supermarket wants to establish how shoppers react to particular forms of promotional activity (shopper, price cards, posters and so on). She wants to know which are the most effective ways of increasing sales. She installs a hidden video camera at a point in her store that enables her to observe shoppers. Now she can find out if a particular promotion appears to catch their attention and causes them to examine the product more closely.

1. Does this situation raise ethical issues on the use of marketing research—yes or no?
2. Is it ethical for marketers to conduct observations without the knowledge or permission of respondents?
3. Does the supermarket owner have the right to use research to learn how to increase customers' purchases?

Exercises and problems

1. Why does a company need a marketing information system?
2. How does a marketing information system differ from marketing research?
3. A group of wealthy business executives regularly spend some time each winter at a popular ski resort—say, Theodora or Mt. Bachelor. They become intrigued with the possibility of forming a company to develop and operate a large ski resort in the Snowy Mountains area, adjacent to a ski area. This would be a totally new venture, one private land. It would be a complete resort with facilities appealing to middle- and upper-income markets.
 - (a) What types of information might they want to have before deciding whether or not to go ahead with the venture?
 - (b) What sources of information would be used?
4. A manufacturer of a liquid glass-cleanser, competitive with Windex, wants to determine the expected sales of its product throughout Australia. To help in this project, prepare a report that shows the following information for your state and, if possible, your city or town (carefully identify the source you use for this information, and include other sources that provide it also):
 - (a) the number of households or families;
 - (b) the income or buying power per family or per household;
 - (c) the total retail sales for this product category (in the most recent year for which you can find reliable data);
 - (d) the total annual sales of this product category through food stores, hardware stores and chemists; and
 - (e) the total number of food stores selling this product category.

- The 'Marketing in a small business' features offer, for the first time, practical demonstrations of marketing strategies available to firms that do not have the resources or skills available to larger organisations.

CHAPTER 5: Understanding the consumer market 189

V Marketing in a small business

VII markets its products to other private and public organisations rather than to ultimate consumers. Many of VII's customers—holiday camps and resorts—do sell to consumers, however, so these will be used as the basis for the small business marketing activity for this chapter.

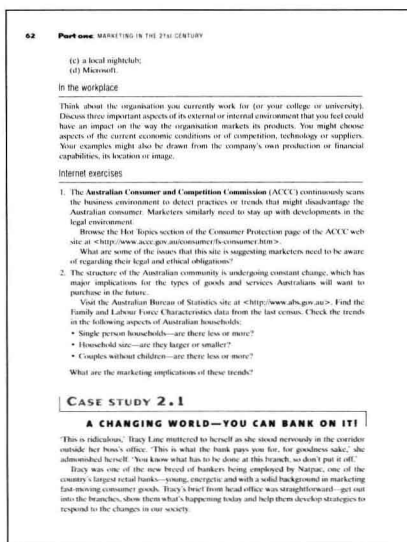
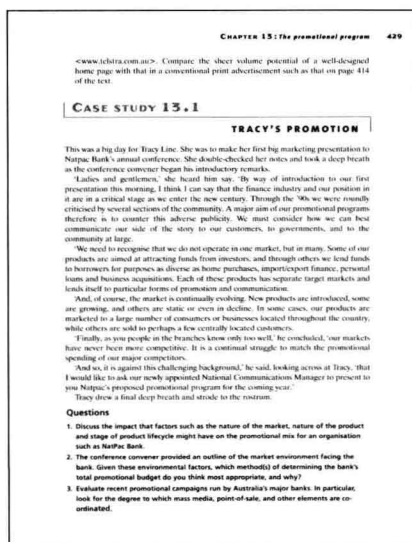
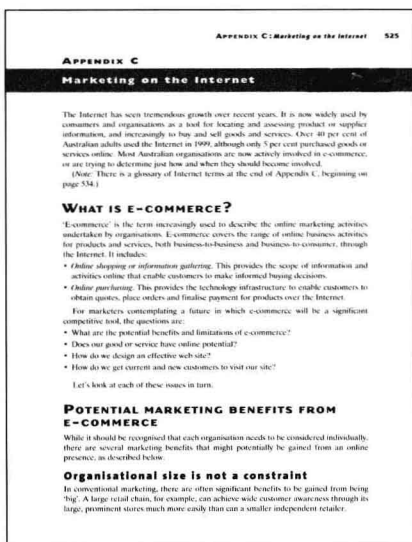
Popular resort The Lamington offers its customers tennis, golf, archery, pools and spas and a range of challenges. Courtesy: Greater Victoria Economic Development Board.

Let's say you are planning a holiday. As you work through the topics in the chapter, consider how each particular factor in consumer decision making might influence the choices you make. Try to cover each of the following:

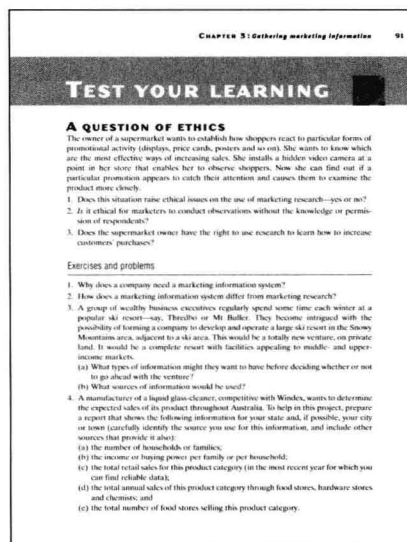
- **geographics**—where you live;
- **demographics**—your age, gender, ethnic/cultural background;
- **disposable income**—your expenditure patterns and priorities;
- **social influences**—the small reference groups you belong to, your family;
- **psychological influences**—the motivation for your holiday, your perceptions of holiday types and destinations, how you learned these, your personality; and
- **situational influences**—where, when and how you will make the final decision on your holiday.

Prepare a list or chart of each of these factors. Then, put yourself into the shoes of the managers of holiday resorts. If they were able to 'read your chart', what marketing strategies would they carry out to encourage you to choose their resort as your holiday destination?

- The 'Internet exercises' provide students with suggestions for a range of specially selected and useful web sites. Other important sites are referenced within the chapters.
- 'Marketing on the Internet', a new appendix, provides a practical outline of the issues and requirements of this new marketing tool. This appendix also has its own glossary, essential for an understanding of this new field.



- Short, practical and accessible cases now accompany the chapters, each with their own set of questions. These are ideal student activities at the conclusion of a class topic.
- Ethical issues, industry codes of practice, and regulatory bodies and statutes are discussed in the book. Related hypothetical dilemmas are raised in the 'A question of ethics' sections.



- All the recent and important trends in marketing, including quality management, relationship marketing and loyalty programs, database marketing, syndicated research and new media, are given increased emphasis.
- Reflecting the reality that Australia is now very much a services-based society, services marketing issues and strategies are integrated into each chapter.

Ancillary package

Recognising the need that teachers have for more and improved teaching aids and classroom activities, the ancillary package has been expanded and updated to include:

- the overhead transparency masters for each major topic;
- suggested classroom exercises;
- an additional case study for each chapter;
- the answers and commentaries for all advertisements, pictures, questions and cases; and
- a Test Bank containing more than 250 true/false questions, over 450 multiple-choice questions, over 150 short-answer questions, 30 essay questions, and 100 Internet exercises.

Acknowledgments

Many people have contributed tremendously to the evolution of this fourth edition. Firstly, I am indebted to Nick Grigoriou and Joe Rosagrata of RMIT, for their terrific work on the Instructor's Manual and PowerPoint slides and for their input on the treatment of services marketing, as well as to Bob Balderstone of Northern Melbourne Institute of TAFE, for his great efforts in developing the Computerised Test Bank to accompany the text.

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CONTENTS

Preface		xi
Acknowledgments		xiv
Part one	Marketing in the 21st century	1
Chapter 1	The field of marketing	2
	<i>Meet the marketer</i>	3
	<i>Learning objectives</i>	4
	<i>Outline of important topics</i>	4
	What is marketing?	6
	Development of marketing	9
	Marketing approach versus the selling approach	12
	Marketing concept	14
	Marketing trends	15
	Criticisms of marketing	22
	Marketing management	24
	Marketing plan	26
	<i>Test your learning</i>	31
Case study 1.1	A 'Fyne' piece of marketing?	33
	<i>Key terms and concepts</i>	34
Chapter 2	The marketing environment	36
	<i>Meet the marketer</i>	37
	<i>Learning objectives</i>	38
	<i>Outline of important topics</i>	38
	Our changing world	39
	External macro-environment	42
	Monitoring the environment	54
	External micro-environment	56
	Internal environment of an organisation	58
	Conclusion	60
	<i>Test your learning</i>	61
Case study 2.1	A changing world—You can bank on it!	62
	<i>Key terms and concepts</i>	65
Chapter 3	Gathering marketing information	66
	<i>Meet the marketer</i>	67
	<i>Learning objectives</i>	68
	<i>Outline of important topics</i>	68
	Managing marketing information	70
	What is marketing research?	71

	<i>Test your learning</i>	91
Case study 3.1	A menu full of questions	93
	<i>Key terms and concepts</i>	95
Part two	Understanding markets	97
Chapter 4	Market segmentation, targeting and positioning	98
	<i>Meet the marketer</i>	99
	<i>Learning objectives</i>	100
	<i>Outline of important topics</i>	100
	Market segmentation	101
	Benefits of market segmentation	102
	Limitations of market segmentation	103
	Effective market segmentation processes	103
	Bases (or dimensions) for segmenting markets	105
	Target-market strategies	115
	Positioning	121
	Forecasting market demand	126
	<i>Test your learning</i>	128
Case study 4.1	Ahead space	129
	<i>Key terms and concepts</i>	130
Chapter 5	Understanding the consumer market	132
	<i>Meet the marketer</i>	133
	<i>Learning objectives</i>	134
	<i>Outline of important topics</i>	134
	Understanding consumers	137
	Population—distribution and composition	138
	Consumer demographics	141
	Consumer income and its distribution	145
	Consumer decision making	148
	<i>Test your learning</i>	166
Case study 5.1	Welcome to Wangabilly!	167
	<i>Key terms and concepts</i>	168
Chapter 6	Understanding the business market	170
	<i>Meet the marketer</i>	171
	<i>Learning objectives</i>	172
	<i>Outline of important topics</i>	172
	What is the business market?	174
	Characteristics of business-market demand	179
	Influences on business-market demand	183
	Importance of relationships in business marketing	194

	<i>Test your learning</i>	196
Case study 6.1	From courting couples to corporate conferences	197
	<i>Key terms and concepts</i>	198
Appendix A	Understanding other markets	199
	Not-for-profit market	199
	International market	200
Part three	The marketing mix	205
Chapter 7	Product planning for goods and services	206
	<i>Meet the marketer</i>	207
	<i>Learning objectives</i>	208
	<i>Outline of important topics</i>	208
	Meaning of 'product'	211
	Classifications of products	212
	Services	221
	Importance of product innovation	223
	Will the new product succeed?	230
	Product lifecycle	232
	Planned obsolescence and fashion	238
	<i>Test your learning</i>	239
Case study 7.1	Fred's new strategy—quantity versus quality	240
	<i>Key terms and concepts</i>	241
Chapter 8	Product-management strategies for goods and services	244
	<i>Meet the marketer</i>	245
	<i>Learning objectives</i>	246
	<i>Outline of important topics</i>	246
	Product mix and product lines	248
	How should products be presented to customers?	252
	Selecting a good brand name	254
	Protecting a brand name	255
	Brand strategies	257
	Types of brands	259
	Branding services	263
	Packaging	264
	Labelling	268
	Other want-satisfying features of products	270
	Characteristics of service	274
	Customer retention in services marketing	276
	<i>Test your learning</i>	278
Case study 8.1	Product management—A question of style	280
	<i>Key terms and concepts</i>	281

Chapter 9	Price setting	282
	<i>Meet the marketer</i>	283
	<i>Learning objectives</i>	284
	<i>Outline of important topics</i>	284
	Meaning of 'price'	285
	Pricing is important	285
	Pricing objectives	286
	Factors influencing price setting	289
	Price-setting methods	297
	<i>Test your learning</i>	308
Case study 9.1	Is more dough nuts?	310
	<i>Key terms and concepts</i>	311
 Chapter 10	 Pricing strategies	 314
	<i>Meet the marketer</i>	315
	<i>Learning objectives</i>	316
	<i>Outline of important topics</i>	316
	Pricing strategies to be considered	317
	Price competition versus non-price competition	318
	Market-entry strategies	320
	Discounts and allowances	321
	Legal and ethical pricing: <i>Trade Practices Act 1974</i>	326
	Freight costs and geographic pricing strategies	327
	Other pricing tactics	329
	<i>Test your learning</i>	333
Case study 10.1	The price is right!?	334
	<i>Key terms and concepts</i>	337
 Chapter 11	 Selecting and managing distribution channels	 338
	<i>Meet the marketer</i>	339
	<i>Learning objectives</i>	340
	<i>Outline of important topics</i>	340
	Role of distribution	341
	Distribution channels	342
	Designing distribution channels	345
	Specifying the role of distribution	345
	Selecting the channel type	346
	Choosing the right channel	352
	Working with individual channel members	358
	<i>Test your learning</i>	367
Case study 11.1	A fashionable channel	369
	<i>Key terms and concepts</i>	370

Chapter 12	Retailing and wholesaling	372
	<i>Meet the marketer</i>	373
	<i>Learning objectives</i>	374
	<i>Outline of important topics</i>	374
	Nature and importance of retailing	375
	Retailing and retailers	375
	Size of the retail market	376
	Types of retail stores	378
	Classifying by method of operation	387
	Retailing management	390
	Future of retailing	396
	Wholesaling	398
	<i>Test your learning</i>	402
Case study 12.1	Shopping, and the way we are now	403
	<i>Key terms and concepts</i>	404
Chapter 13	The promotional program	406
	<i>Meet the marketer</i>	407
	<i>Learning objectives</i>	408
	<i>Outline of important topics</i>	408
	What is promotion?	410
	Promotional methods	410
	Promotion is communication	411
	Communication process and promotion	412
	What forms of promotion should marketers use?	416
	Choosing a push or pull strategy	420
	Planning a promotional campaign	423
	How much should a business spend on promotion?	424
	Regulation of promotional activities	426
	<i>Test your learning</i>	427
Case study 13.1	Tracey's promotion	429
	<i>Key terms and concepts</i>	431
Chapter 14	Managing the promotion mix	432
	<i>Meet the marketer</i>	433
	<i>Learning objectives</i>	434
	<i>Outline of important topics</i>	434
	Managing personal selling	437
	Why use sales people?	437
	Integrating personal selling and direct marketing	440
	Personal-selling process	441
	Managing the sales team	444
	Evaluating sales people's performances	449

	Managing advertising	452
	What is advertising?	452
	Types of advertising	452
	Developing an advertising campaign	455
	Creating effective advertising	460
	Did the advertising work?	462
	Managing sales promotion	464
	Measuring a sales promotion's success	468
	Managing public relations and publicity	469
	Were the public relations and publicity activities effective?	471
	<i>Test your learning</i>	472
Case study 14.1	Trust me, your campaign is safe in our hands ...	473
	<i>Key terms and concepts</i>	474
Part four	Marketing management	477
Chapter 15	Strategic marketing management process	478
	<i>Meet the marketer</i>	479
	<i>Learning objectives</i>	480
	<i>Outline of important topics</i>	480
	Planning strategic marketing programs	482
	Implementing marketing programs	488
	Evaluating marketing activities	494
	<i>Test your learning</i>	510
Case study 15.1	Failing to plan? Plan to fail!	511
	<i>Key terms and concepts</i>	512
Appendix B	Accounting for marketers	514
	Accounting reports	514
Appendix C	Marketing on the Internet	525
	What is e-commerce?	525
	Potential marketing benefits from e-commerce	525
	Concerns and limitations about online marketing	528
	Choosing the right products for online marketing	528
	Developing an effective web site	530
	Using web sites for marketing research	531
	Glossary of online marketing terms	534
Glossary		540
Index		560



Part one >

MARKETING IN THE 21st CENTURY

An introduction to the marketing concept, the marketing management process, the marketing environment and marketing research.



1

The field of marketing

Meet

THE MARKETER



Real commitment to marketing

Through her occupation as a senior marketer, and in her position as NSW President of the Australian Marketing Institute, Caroline Trotman is making a strong commitment to the marketing profession.

'After ten years as a commercial lending manager in banking,' says Caroline, 'I became interested in the development and marketing of financial services, rather than simply in selling them. I worked my way into a marketing role, took every marketing course I could find, and finally completed an MBA.'

As Global Director of Marketing, Government, for the worldwide business services firm Andersen Consulting, Caroline is responsible for the development of integrated marketing strategy to the government sector, through a 75-person team in seven countries. Her team works to build and maintain the desired corporate image for the firm, to locate and gain access to government markets, and to develop specific business opportunities with government clients.

CRITICAL MARKETING SKILLS FOR THE 21ST CENTURY?

All the marketers interviewed responded to this question consistently.

Market affinity

'First, you must develop a genuine affinity with your

market,' Caroline says. 'I think of this as "investing" time and effort to understand the market you are targeting. Who are your *customers*, and what are their *situations* and *needs*? What *changes* are happening in the marketplace, and what are your *competitors* doing?'

Accountability

'Accountability is one of the hottest issues in marketing today,' says Caroline. 'Successful marketers must understand how their particular contribution is going to be *measured*, from the largest campaign down to the smallest tactical action. Marketers cannot avoid being held accountable for their strategies. The questions are, "How will this marketing strategy improve the inherent value of the business? How will it create value for our shareholders?"'

Brand! Brand! Brand!

Caroline sees the development of an effective brand as the best means of *differentiating* a firm's product or service from those of its competitors. 'Borders between markets are being broken down. The Internet is enabling even the smallest supplier to be "global". It is becoming ever more difficult to create competitive advantage through other means. So, a well-known, respected brand that

means something positive to your current and potential customers is invaluable. It leads to your product or firm being the natural choice, or the one first thought of, when a purchase is being considered.'

PROFESSIONAL SERVICES—A 'LAST FRONTIER'

Caroline sees the marketing of professional services as one of the last marketing frontiers. 'It's relatively new compared with the marketing of cars or fast foods,' she says. 'The basic principles, however, still hold true. We have to show customers that we understand their *key needs*, identified as trust, confidence and experience. Then we position ourselves to satisfy them.'



Marketers who have achieved required levels of qualification and experience can apply for registration as a Certified Practising Marketer (CPM).

COURTESY OF THE AUSTRALIAN MARKETING INSTITUTE

LEARNING OBJECTIVES



This chapter is a response to the question, 'What is marketing?' Many people might answer that it is 'advertising' or 'selling', but marketing involves much more.

After studying this chapter, you should be able to:

1. define marketing, in both its broad societal and narrower business system contexts;
2. trace the stages of the evolution of **marketing management**;
3. distinguish between the marketing and selling approaches to business development;
4. explain the meaning of the **marketing concept**;
5. discuss the broadening of the marketing concept to include an organisation's **social responsibility**;
6. identify several recent trends in marketing; and
7. outline the marketing management process.

OUTLINE OF IMPORTANT TOPICS

These topic outlines are useful for reviewing exam material.

DEFINITIONS OF MARKETING (P. 6)

1. In a general sense, marketing is any **exchange activity** intended to satisfy human wants. Marketing is practised by individuals, businesses and **non-profit organisations**.
2. In a business sense, marketing is a system of business activities aimed at achieving organisational goals by developing, pricing, distributing and promoting goods, services and ideas that will satisfy customers' wants.

DIFFERENCES BETWEEN MARKETING AND SELLING APPROACHES (P. 12)

1. A selling approach to business involves persuading consumers to buy goods and services that an organisation has already decided to produce or make available. Marketing involves identifying consumers' wants and developing goods and services to satisfy those wants.
2. In the selling approach, an organisation attempts to bend consumer demand to fit the company's supply. In marketing, an organisation bends its supply to fit consumer demand.

STAGES IN THE DEVELOPMENT OF MARKETING MANAGEMENT (P. 9)

1. Since the Industrial Revolution beginning in the 18th century, marketing management has evolved through several stages:
 - The **production-orientation stage** assumes that marketing effort is not needed to make people buy products that are well made and reasonably priced.
 - The **sales-orientation stage** calls for a substantial promotional 'hard sell' to persuade customers to buy a firm's products.
 - The **marketing-orientation stage** sees companies adopting the twin goals of customer orientation and a profitable sales volume. The companies under this orientation shift to satisfying customer wants.

The **societal marketing approach** has also emerged, which extends the marketing concept to consider societal well being.