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SHORTCOMINGS OF TRADITIONAL MARKETING

1.1 INTRODUCTION

In the Macmillan Dictionary of Marketing and Advertising, a number of authors are quoted in their diverse definitions of marketing. They describe marketing as follows:

- Determining and satisfying consumer demands;
- Performing business activities that direct the flow of goods and services from producer to consumer or user;
- Buying, selling, transporting and storing goods;

- Delivery of a standard of living;
- The whole business, seen from the customer's point of view. [1]

Other **definitions of marketing** are summarized in the following statement:

"It has been described by one person or another as a business activity; as a group of related business activities; as a trade phenomenon; as a frame of mind; as a coordinate, integrative function in policy making; as a sense of business purpose; as an economic process; as a structure of institutions; as a process of exchanging or transferring ownership of products; as a process of concentration, equalization, and dispersion; as a creation of time, place, and possession utilities; as a process of demand and supply adjustment; and as many other things ." [2]

From the above definitions, we can see that marketing has been defined in the nature of **"transaction"**. A transaction consists of a trade or exchange of values between two parties. A transaction involves several dimensions: at least **two things of value**, agreed-upon, specifying a time and place of agreement. Transaction is a trade phenomenon. Because of this, marketing has been defined also as **"buying, selling, transporting and storing of goods"** or as the **"process of exchanging or transferring ownership of products"**.

1.2 EXCHANGE AND TRANSACTION

Both individuals and organizations seek out goods and services obtained through **exchange transaction**. End consumers buy goods and services for their own personal use or the use of others in their immediate household. These are often called **consumers** of goods and services. Customers of business **buy goods and services** (1) for resale, (2) as input to the production of other goods or services, or (3) for use in the day-to-day operations of the organization. These are called industrial goods and services. From this point

[1] The Practice of Management, New York: Harper & Row, 1982, p.37.
[2] Marketing staff of the Ohio State University, A statement of Marketing Philosophy, Journal of Marketing, XXIX, January 1965, p, 43

of view, marketing was defined as a **"delivery of standard of living"** or performing business activities that direct the flow of goods and services from producer to customer or user or **"with a sense of business purpose"**.

1.3 NEEDS, WANTS AND DEMANDS

Needs, wants and demands are the basic forces that drive customers to act and conclude transaction activities. A **human need** is a state or feeling of deprivation or lack of some basic satisfaction. Human needs are few, their wants are many. **Human wants** are continually shaped and reshaped by social forces and institutions, e.g. schools, families, churches, and business corporations. **Demands** are wants for specific products that are supported by an ability and decision to buy.

Wants become demands when supported by purchasing power. Therefore, marketing has been defined as "determining and satisfying customer demands."

Marketers cannot create needs, nor can they can get people to buy things customers do not want. Marketers, along with other **influences** in society, influence wants. Marketers move customers in their demand by making the product appropriate, attractive, affordable, and easily available to the target consumers. In this aspect, **marketing** is seen as a "process of concentration, equalization, and dispersion as a "process of demand and supply adjustment", and as an “**economic process**".

1.4 VALUE AND SATISFACTION

People **satisfy** their needs and wants by buying or securing goods or services. A product or service product is defined as anything that can be offered to satisfy a need or want. How do consumers choose among the many products that might satisfy a given need or want? The **guiding concept** is **customer value.** The perception of **"value"** is the **customer's estimate of the product's**

overall capacity to satisfy his or her needs. Marketing, therefore, is **"the whole business"**, seen from the customer's point of view.

1.5 MARKET AND MARKET SEGMENT

To engage in a successful transaction, we need a **market**. A market consists of **all potential customers sharing a particular need or want** who **might** be willing and able to **engage** in such exchange to satisfy that need or want. Different people have different needs, wants, and demands. Also, people or organizations often seek different benefits to satisfy needs and wants from the same type of product. The total market for a given product category thus is often fragmented into several distinct **"market segments"**. Each segment consists of people who are relatively homogeneous in their needs, wants, and the products benefits they seek. Marketing, working with a particular market segment, means to actualize potential exchanges for the purpose of satisfying human needs and wants with the target groups. Hence, marketing works as a **"group of related business activities"**.

1.6 MARKETING MANAGEMENT

Marketing management occurs whenever one party to an exchange transaction engages in planning, coordinating, implementing, and controlling the activities to facilitate an exchange. In 1985, the American Marketing Association used the following definition of marketing management:

Marketing management is "the process of planning and executing the conception, pricing, promotion, and distribution of goods, services, and ideas to create exchanges with target groups that satisfy customer and organizational objectives".

This definition recognizes that marketing management is "a structure of institutions", "a coordinate and integrative function in policy making", and "the creation of time, place, and possession utilities."

1.7 MARKETING FUNCTIONS

According to the nature of **transaction marketing**, marketing is the **function** entrusted with the **task of finding customers**, or selling. The selling job itself consists of a number of activities. The company has to determine its potential buyers (**marketing research**). The company's products have to be favorably impressed upon the minds of buyers (**advertising**). The company may have to call and persuade buyers personally (**personal selling**). Agreements have to be drawn up and arrangements made for shipping the goods (**pricing, negotiation, and physical distribution)**.

For a long time, these activities were carried on in different company departments. There was an advertising department, a sales department, a marketing research department, and so on. Management treated its factories, resources, and products lines as more or less fixed and held marketing responsible for ringing up sufficient sales to keep production going.

The **traditional view** of marketing can be summed up by the well-known management guru **Peter F. Drucker**:

"Because its purpose is to create a customer, the business enterprise has only two basic functions: marketing and innovation. Marketing and innovation produce results; all the rest are costs." [3] This ill-defined and misunderstood concept of marketing created the wrong marketing beliefs and behaviors for many companies, such as:

- Marketing is a science not an art, a step-by-step textbook process
- Good marketing sells or could sell any product
- The best product wins the biggest market share
- The lowest price sells the most product
- Advertising is the most effective tool in the marketing mix

[3] The Practice of Management, New York: Harper & Row, 1982, p.37.

- To be successful a product has to have mass appeal
- Marketing research can solve all marketing problems.

Because of the **intangible** nature of the marketing concept, it has caused many theorists to avoid it and concentrate instead on techniques. Marketing is no longer a management concept, but is more than just a collection of functions and techniques. Accordingly, practitioners do not see marketing as a means of solving their daily business problems.

Traditional marketing concepts have **focused on selling**. All the marketing activities such as marketing research, promotion and advertising have one ultimate goal - to capture market shares. This focus induces marketing behaviors that lead to poor business performance. Because of this, it has ignored the basic purpose of marketing which is to ensure **customer satisfaction**.

Traditional marketing concepts focus on product positioning. In all concept tests, the product scored very high in terms of customer appeal scores, because it is believed that the best product wins the biggest market share. The product-market matrix is a way of gauging the business strategy. A lot of company resources have been spent in the product development. The other critical success factors, such as quality, delivery, flexibility and process have been ignored. Marketing plan failure is so common and *"Every 7 Minutes Another Marketing Plan Dies"* in the United States. Most marketing plans break down because marketers do not consider enough alternatives and cannot choose the optimal strategy.

The concept of economic theory says that the lower the price of a product or service, the more demand there will be for it. So, salesmen **sell on price**, rather than on the real and **perceived qualities** of the attributes of a product or service. Price becomes a major concern for different parties within the company. The controller likes to see a price leading to an early return on investment. The production scheduling manager knows the price will affect the rate of sales. The purchasing manager often makes the buying decision

solely on the basis of the price-tag alone, regardless of the quality of incoming materials. The lowest tender contract might eventually turn out to be the most expensive of all proposed contracts. It is because eventually the whole production floor has to spend a lot of time and resources to solve the quality problems due to the non-quality provided by the supplier.

It is commonly believed that **advertising** can increase brand loyalty, thereby decreasing price elasticity, through differentiation in the "augmented product". In 1991, $130 billion was spent on advertising in the US. No one knows if it was worth the investment, and few people seem to want to know or even care. Advertising, however, is not the only component in the marketing mix with an uncertain contribution to sales and profits.

The **best product or service** is not necessarily the one that wins the most customer appeal. New products and services, line extensions, and repositioning efforts regularly fail because many of them fail to ignite customer requirements. Traditional trade-off analysis tends to be misleading because it focuses on the most appealing product.

Traditional marketers produce **unreal measures of sales potential** reflected in a questionable track record in predicting real world sales. Neither scores on purchase probability scales nor multiple trade-off analysis utility scores address the key question: Which factors have the greatest effect on consumer behavior?

The wastage of resources on market research has never really been researched. Market researchers generally agree that as much as half of their investigations are never used. Besides, there are still many markets, many situations and many areas beyond the current capability of marketing research techniques. In many cases, marketing research uses the past to predict the future. But we are living in an era when the future almost never resembles the past.

1.8 MARKETING MYTHS

Marketing management, due to a shortage of hard facts, has frequently tended to rely on conventional wisdom in order to justify marketing plans and strategies. Many marketing plans are based almost entirely on **myth** – an ill-founded belief held uncritically by many company executives.

Myth 1: "The existence of a marketing department ensures marketing orientation."

The real fact is that marketing and selling are confused. Many companies may have a marketing department, but they are performing only a selling job.

Myth 2: "Most widely used marketing research tools today, such as concept testing, product testing, and advertising testing, have demonstrated reliability and validity."

The real fact is that most of the traditional marketing research tools neglect to test the perceived quality from the customer's point of view.

Myth 3: "Because pricing is such an important component in the marketing mix, most firms have a serious pricing strategy based on business-like pricing research."

The real fact is that often price is no longer a major factor for customer purchasing decision. Non-price factors, such as quality, delivery and flexibility have become increasingly important.

Myth 4: "The *middle market* for products or services is dying. They need to be positioned at the *high-end* or *low-end*".

The real fact is that most of the Japanese cars are positioned at the middle market, and yet they capture - with the exception of Europe - the majority of the market share.

Myth 5: "Psychographics and consumer attitudes are useful bases for segmenting markets."

The marketer must consider many different ways to segment the market while simultaneously estimating profitability, everything from simple demographics to sophisticated psychographic traits, social values, category involvement, usage patterns, and the attributes or benefits the prospects seek.

Myth 6: "Positioning strategies based on gap analysis, that is, gaps between buyer needs and product or service delivery, which is perhaps the most commonly employed positioning tool of marketing, advertising, and public opinion researchers, will be successful."

The mistake underlying the traditional gap analysis is that it takes data on individuals, converts it to aggregate numbers, and then uses these aggregate numbers to draw conclusions about individuals. Aggregate means and percentages, however, do not necessarily reflect individual behavior. Quality characteristics of a product or service are far more important than the aggregate numbers.

Myth 7: "Technology equals benefits, so a company has to spend more on technological innovation."

The real fact is that customers do buy technology if it happens to meet their needs.

Myth 8: "Advertising works best in markets where a brand is doing poorly. This is where you have the greatest opportunity to

impact sales." Advertising may not work if your products or services do not conform with the customer requirements.

Myth 9: "Market share determines profitability across all industries."

High market share does not necessarily mean effective marketing effort, and it certainly does not mean high profit. Customer complaints, reworks, warranty costs and negative word-of-mouth may increase the cost of poor quality and reduce your profit.

Myth 10: "CEOs know a great deal about marketing. They have studied it, practiced it and become adopted to it."

The real fact is that most CEOs have practiced or learned about traditional marketing concept which will not help them in today's new competitive environment.

1.9 THE END OF THE MASS MARKETING ERA

Traditional marketing concepts emerged from a less turbulent environment. Creation of marketable products and their markets were the major concerns of top management. When strategic marketing was first invented, one of the key strategy selection criteria was that new competitive strategies in the historical business field, as well as in new business, must match the historical strengths of the firm. Long-term planning was widely practiced, due to the following conditions:

1. A firm can confine its attention to its historical market-place.

2. Successive challenges are a repetition of the past.

3. Change is slower than the firm's ability to respond.

4. The future is expected to replicate the past.

Traditional marketing approach is a **“buy”** to a **“make”** approach. Typically, a traditional marketing strategy formulation process consists of the strategist's notions of strengths, weaknesses, threats and opportunities, and are comprehended by a thorough analysis of underlying strategic phenomena: customer decision making, life cycles, segmentation, positioning, market response, and competitive strategy. This traditional marketing approach is built on the assumption that "the future is expected to be predictable through extrapolation of the historical growth".

Under such an assumption, top management typically assumes that future performance can and should be better than in the past. Therefore, as the first step, an analysis of the firm's prospects is made by identifying trends, threats, opportunities, and singular breakthrough events, which may change the historical trends. Secondly, individual customer behaviors are aggregated into market segments. Thirdly, the aggregation of individual customers are analyzed at the product or industry level. Fourthly, convenient tools such as life-cycle analysis and BCG matrix are used to forecast long vs. short term prospects and position of the firm, in terms of market share end and sales growth. Finally, a competitive strategy will be derived which identifies the mprovement in the firm’s performance which can be obtained from present potential opportunities in the market and future strategic resources.

Today, firms are increasingly confronted with **unexpected challenges** and **frequency of changes**. The consequences of the acclamation of change are threefold:

1. An increasing difficulty in anticipating changes in advance to plan a timely response.

2. An increasing discontinuity from the past of the firm's new products / services, competitive environments, and marketing

strategies.

3. An increasing uncertainty in satisfying a basic demand for undifferentiated, reliable, unchanging products within the limits of a national market.

The **planning** of market positioning responses in an organization-wide process can last for several months and involves many levels of management. It is too slow and cumbersome to cope with unanticipated changes from competitors, breakthroughs in R&D, customer demands etc. The speed of change has increased to a point at which events surface and develop too fast to allow timely preparation of any marketing plans.

The biggest challenge to marketers nowadays is the increasingly complex, novel and **discontinuous** marketing environment. The mass marketing era raised aspirations from comfort and safety towards a movement for affluence. Satisfaction of survival needs and growth in discretionary buying power changes consumer demand patterns. Consumers become increasingly discriminating, demonstrated by an increasing demand for full disclosure about their purchases, demand for after-sales responsibility from the manufacturer, and an unwillingness to put up with ecological pollution as a by-product. Firms operating in such a marketing environment must:

1. Respond to frequent changes in a competitive environment;

2. Cope with rapid saturation of markets;

3. Take advantage of opportunities in new growing markets;

4. Timeliness of introduction of the firm's new products / services relative to new products / services which have appeared in the market.

1.10 SHARE-OF-CUSTOMER

The ultimate objective of marketing is: "**Building Relationships: One customer at a time**". Companies have to turn even the simplest products and services into collaborative ventures with individual customers to create lasting and impregnable relationships. Thanks to the new technologies, it is now possible for the mass marketers to do business with individuals, one at a time.

The **core mechanism** is straightforward: Gather as much information as you can about your customers. Then tailor the entire corporation to meet their **very personalized needs**. The theme of **micro-marketing** is to change from high-quality product to **high quality relationships**, emphasizing the **share of customer** rather than the share of market.

The **share-of-market** approach is different from the share-of-customer approach. In the share-of-market approach, tremendous foresight and effort are needed to achieve and maintain the market-share position. Thus, the market leader may have to keep building new plants even though its first plant for a product has yet to run at full capacity. It does so hoping that large-scale operations will provide a **cost advantage,** which it can utilize in the form of lower prices to customers. Lower prices in turn are supposed to lead to a higher market share. [4]

The problem with the share-of-market approach is that it is based on the assumption that "structural advantage" can give a competitive edge to a firm. Therefore, the ability to have a basic cost differential in a market sector provides the opportunity to gain a differential growth rate and a differential market share in that sector. However, a basic cost differential in a market sector can no longer guarantee the success of a firm. More and more customers have shifted their purchasing decisions to quality, on-time delivery, and customer service, rather than just on price. There are companies

[4] Bruce D. Henderson, "Market Share", Boston Consulting Group, 1978

that earn a respectable return on their equity despite low market shares, such as Union Camp, Inland Steel and Crown Cork & Seal.

Bloom and Kotler suggested that while market share should be pursued as a desirable goal, companies should opt not for share maximum, but for an optimal market share.[5]

They suggested the following procedure for figuring out the optimal point:

1. Estimate the relationship between market share and profitability
2. Estimate the amount of risk associated with each share level
3. Determine the point at which an increase in market share can no longer be expected to bring enough profit to compensate for the added risks to which the company would expose itself.

According to the **PIMS STUDY**,[6] in the long run, the most single important factor affecting a business unit's performance is the quality of its products and services, relative to those of competitors. The PIMS findings suggest that **“Relative Perceived Quality"** is more positively related to a company's financial performance than such thing as relative market share. Quality can be seen from two perspectives, an internal and an external one. Internal quality is based on conformance to specifications; while external quality is based on relative customer perceived value. High relative customer perceived value is built on **high quality relationships**. Instead of concentrating on market-share, companies have to turn their marketing department into a "customer-management organization". They must design around portfolios of customers arrayed according to the expected lifetime purchasing value. They must generate increasing marginal returns on sales to any individual customer, as the share of customer grows. For example,

[5] Pavl N. Bloom and Philip Kotler, “Strategies of High Market Share Companies, “Harvard Business Review, Nov-Dec 1975, p.63.

[6] Robert D. Buzzell and Bradley T. Gale, “The PIMS Principles: Linking Stategy to Performance, “The Free Press, 1987.

Kellogg, a consumer-products company, has turned the mass-marketing paradigm to micro-marketing approach. It assigns a customer manager the task of figuring out how to increase Kellogg's share of perhaps 1,800 boxes or more of dry cereal a customer will buy in his or her life-time.

1.11 WHY TRADITIONAL MARKETING FAILS?

Traditional marketing management come under increased criticism recently. The root cause of the problem is that many companies did not keep pace with the new challenges taking place in the real business environment. Several key business changes have made the traditional marketing management obsolete:

- Consumers are demanding both high quality and the lowest price of products and service, even if it means giving up a relationship with a long-famous brand name.
- The increasing clutter of advertising in all media reaching saturation, and the accompanying rise of indifference toward advertising by the consumer.
- The increasing use of information technology as a communication method provides information through direct interaction with the consumer faster than the traditional advertising and promotion.
- The movement to shorter product life cycles requires a firm to cease mass-marketing towards niche-marketing.
- The rising dominance of retailers and price wars lead to a squeeze on profit margins and advertising budgets.
- The political transformation of Eastern Europe and China, the rapid destabilization of the Far East and Latin America, and the growing economic unification of the Common Market countries require a new marketing and distribution functions to

accommodate local expectations, culture, language requirements and realities of each country.

Many marketers, are stuck in yesterday's marketing practice and way of thinking. They often fail to meet the challenges and seize the opportunities of the new marketing era. The problems of the traditional marketing management can be summarized as follows:

1. **Failure to view quality as a competitive weapon**

   They fail to shift from the traditional production and cost-based view of quality to a marketing and strategic view of quality. However, the concept of quality includes not only the product and service attributes that meet basic requirements. Quality also includes those that enhance them and differentiate them from competing offerings. Quality should be used for market positioning.

2. **Failure to view marketing as an integrated function**

   Marketing and sales function used to work in isolation with other parts of an organization. However, marketing and sales can only operate successfully in the marketplace when working in concert with other units in the organization, such as manufacturing, distribution, and operation.

3. **Failure to understand the customer requirements**

   Traditional marketers always assumed that the market as segmented by a group of homogeneous customers. They used the macro variables such as income, education and buying behavior to segment the market. They failed to recognize the real benefits of each individual customers. However, the final objective of the marketing function is to meet the needs of every individual customer. The new paradigm is to change from mass-marketing to micro-marketing or one-on-one marketing.

4. **Failure to identify the total market**

Traditional marketers focused on the market of end-customers only. They failed to identify the internal market, supplier market, labor market and the societal market. However, in a broader sense, the marketing function is to satisfy the needs of all stakeholders of an organization. In addition to the end-customer requirements, we must set up the appropriate marketing programs to satisfy the need of the stakeholders.

5. **Failure to build up a long-term relationship with all the stakeholders**

Not only do the traditional marketers failed to build up relationships with the end-customer, they failed even more to build up relationships with other stakeholders, such as the suppliers, the employees, and the society at large. To survive in the long-term, a business firm must develop partnerships with all its stakeholders.

6. **Failure to measure the true value of the products and services**

Traditional marketers used the method of management by numerical quotas to measure the success of marketing and sales. They often measured on the sales growth, market share and profitability, and used them as the performance objectives. They failed to measure the customer satisfaction, the customer value and the cost of quality. The real fact is that sales, market shares and profitability are only the final outcome of the capability of an organization.