

marketing

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the sum of activities involved in directing the flow of goods and services from producers to consumers.

Marketing's principal function is to promote and facilitate exchange. Through marketing, individuals and groups obtain what they need and want by exchanging products and services with other parties. Such a process can occur only when there are at least two parties, each of whom has something to offer. In addition, exchange cannot occur unless the parties are able to communicate about and to deliver what they offer. Marketing is not a coercive process: all parties must be free to accept or reject what others are offering. So defined, marketing is distinguished from other modes of obtaining desired goods, such as through self-production, begging, theft, or force.

Marketing is not confined to any particular type of economy, because goods must be exchanged and therefore marketed in all economies and societies except perhaps in the most primitive. Furthermore, marketing is not a function that is limited to profit-oriented business; even such institutions as hospitals, schools, and museums engage in some forms of marketing. Within the broad scope of marketing, merchandising is concerned more specifically with promoting the sale of goods and services to consumers (*i.e.*, retailing) and hence is more characteristic of free-market economies.

Based on these criteria, marketing can take a variety of forms: it can be a set of functions, a department within an organization, a managerial process, a managerial philosophy, and a social process.

The evolving discipline of marketing

The marketing discipline had its origins in the early 20th century as an offspring of economics. Economic science had neglected the role of middlemen and the role of functions other than price in the determination of demand levels and characteristics. Early marketing economists examined agricultural and industrial markets and described them in greater detail than the classical economists. This examination resulted in the development of three approaches to the analysis of marketing activity: the commodity, the institution, and the function.

Commodity analysis studies the ways in which a product or product group is brought to market. A commodity analysis of milk, for

example, traces the ways in which milk is collected at individual dairy farms, transported to and processed at local dairy cooperatives, and shipped to grocers and supermarkets for consumer purchase. Institutional analysis describes the types of businesses that play a prevalent role in marketing, such as wholesale or retail institutions. For instance, an institutional analysis of clothing wholesalers examines the ongoing concerns that wholesalers face in order to ensure both the correct supply for their customers and the appropriate inventory and shipping capabilities. Finally, a functional analysis examines the general tasks that marketing performs. For example, any marketing effort must ensure that the product is transported from the supplier to the customer. In some industries, this transportation function may be handled by a truck, while in others it may be done by mail, facsimile, television signal, or airline. All these institutions perform the same function.

As the study of marketing became more prevalent throughout the 20th century, large companies—particularly mass consumer manufacturers—began to recognize the importance of market research, better product design, effective distribution, and sustained communication with consumers in the success of their brands. Marketing concepts and techniques later moved into the industrial-goods sector and subsequently into the services sector. It soon became apparent that organizations and individuals market not only goods and services but also ideas (social marketing), places (location marketing), personalities (celebrity marketing), events (event marketing), and even the organizations themselves (public relations).

Roles of marketing

As marketing developed, it took a variety of forms. It was noted above that marketing can be viewed as a set of functions in the sense that certain activities are traditionally associated with the exchange process. A common but incorrect view is that selling and advertising are the only marketing activities. Yet, in addition to promotion, marketing includes a much broader set of functions, including product development, packaging, pricing, distribution, and customer service.

Many organizations and businesses assign responsibility for these marketing functions to a specific group of individuals within the organization. In this respect, marketing is a unique and separate entity. Those who make up the marketing department may include brand and product managers, marketing researchers, sales representatives, advertising and promotion managers, pricing specialists, and customer service personnel.

As a managerial process, marketing is the way in which an

organization determines its best opportunities in the marketplace, given its objectives and resources. The marketing process is divided into a strategic and a tactical phase. The strategic phase has three components—segmentation, targeting, and positioning (STP). The organization must distinguish among different groups of customers in the market (segmentation), choose which group(s) it can serve effectively (targeting), and communicate the central benefit it offers to that group (positioning). The marketing process includes designing and implementing various tactics, commonly referred to as the “marketing mix,” or the “4 Ps”: product, price, place (or distribution), and promotion. The marketing mix is followed by evaluating, controlling, and revising the marketing process to achieve the organization's objectives (see below the section Marketing-mix planning).

The managerial philosophy of marketing puts central emphasis on customer satisfaction as the means for gaining and keeping loyal customers. Marketers urge their organizations to carefully and continually gauge target customers' expectations and to consistently meet or exceed these expectations. In order to accomplish this, everyone in all areas of the organization must focus on understanding and serving customers; it will not succeed if all marketing occurs only in the marketing department. Marketing, consequently, is far too important to be done solely by the marketing department. Marketers also want their organizations to move from practicing transaction-oriented marketing, which focuses on individual exchanges, to relationship-driven marketing, which emphasizes serving the customer over the long term. Simply getting new customers and losing old ones will not help the organization achieve its objectives.

Finally, marketing is a social process that occurs in all economies, regardless of their political structure and orientation. It is the process by which a society organizes and distributes its resources to meet the material needs of its citizens. However, marketing activity is more pronounced under conditions of goods surpluses than goods shortages. When goods are in short supply, consumers are usually so desirous of goods that the exchange process does not require significant promotion or facilitation. In contrast, when there are more goods and services than consumers need or want, companies must work harder to convince customers to exchange with them.

The marketing process

The marketing process consists of four elements: strategic marketing analysis, marketing-mix planning, marketing implementation, and marketing control.

Strategic marketing analysis

Market segments

The aim of marketing in profit-oriented organizations is to meet needs profitably. Companies must therefore first define which needs—and whose needs—they can satisfy. For example, the personal transportation market consists of people who put different values on an automobile's cost, speed, safety, status, and styling. No single automobile can satisfy all these needs in a superior fashion; compromises have to be made. Furthermore, some individuals may wish to meet their personal transportation needs with something other than an automobile, such as a motorcycle, a bicycle, or a bus or other form of public transportation. Because of such variables, an automobile company must identify the different preference groups, or segments, of customers and decide which group(s) they can target profitably.

Market niches

Segments can be divided into even smaller groups, called subsegments or niches. A niche is defined as a small target group that has special requirements. For example, a bank may specialize in serving the investment needs of not only senior citizens but also senior citizens with high incomes and perhaps even those with particular investment preferences. It is more likely that larger organizations will serve the larger market segments (mass marketing) and ignore niches. As a result, smaller companies typically emerge that are intimately familiar with a particular niche and specialize in serving its needs.

Marketing to individuals

A growing number of companies are now trying to serve “segments of one.” They attempt to adapt their offer and communication to each individual customer. This is understandable, for instance, with large industrial companies that have only a few major customers. For example, The Boeing Company (United States) designs its 747 planes differently for each major customer, such as United Airlines, Inc., or American Airlines, Inc. Serving individual customers is increasingly possible with the advent of database marketing, through which individual customer characteristics and purchase histories are retained in company information systems. Even mass-marketing companies, particularly large retailers and catalog houses, compile comprehensive data on individual customers and are able to customize their offerings and communications.

Positioning

A key step in marketing strategy, known as positioning, involves creating and communicating a message that clearly establishes the company or brand in relation to competitors. Thus, Volvo

Aktiebolaget (Sweden) has positioned its automobile as the “safest,” and Daimler-Benz AG (Germany), manufacturer of Mercedes-Benz vehicles, has positioned its car as the best “engineered.” Some products may be positioned as “outstanding” in two or more ways. However, claiming superiority along several dimensions may hurt a company's credibility because consumers will not believe that any one offering can excel in all dimensions. Furthermore, although the company may communicate a particular position, customers may perceive a different image of the company as a result of their actual experiences with the company's product or through word of mouth.

Marketing-mix planning

Having developed a strategy, a company must then decide which tactics will be most effective in achieving strategy goals. Tactical marketing involves creating a marketing mix of four components—product, price, place, promotion—that fulfills the strategy for the targeted set of customer needs.

Product

Product development

The first marketing-mix element is the product, which refers to the offering or group of offerings that will be made available to customers. In the case of a physical product, such as a car, a company will gather information about the features and benefits desired by a target market. Before assembling a product, the marketer's role is to communicate customer desires to the engineers who design the product or service. This is in contrast to past practice, when engineers designed a product based on their own preferences, interests, or expertise and then expected marketers to find as many customers as possible to buy this product. Contemporary thinking calls for products to be designed based on customer input and not solely on engineers' ideas.

In traditional economies, the goods produced and consumed often remain the same from one generation to the next—including food, clothing, and housing. As economies develop, the range of products available tends to expand, and the products themselves change. In contemporary industrialized societies, products, like people, go through life cycles: birth, growth, maturity, and decline. This constant replacement of existing products with new or altered products has significant consequences for professional marketers. The development of new products involves all aspects of a business—production, finance, research and development, and even personnel administration and public relations.

Packaging and branding

Packaging and branding are also substantial components in the marketing of a product. Packaging in some instances may be as simple as customers in France carrying long loaves of unwrapped bread or small produce dealers in Italy wrapping vegetables in newspapers or placing them in customers' string bags. In most industrialized countries, however, the packaging of merchandise has become a major part of the selling effort, as marketers now specify exactly the types of packaging that will be most appealing to prospective customers. The importance of packaging in the distribution of the product has increased with the spread of self-service purchases—in wholesaling as well as in retailing. Packaging is sometimes designed to facilitate the use of the product, as with aerosol containers for room deodorants. In Europe such condiments as mustard, mayonnaise, and ketchup are often packaged in tubes. Some packages are reusable, making them attractive to customers in poorer countries where metal containers, for instance, are often highly prized.

Marketing a service product

The same general marketing approach about the product applies to the development of service offerings as well. For example, a health maintenance organization (HMO) must design a contract for its members that describes which medical procedures will be covered, how much physician choice will be available, how out-of-town medical costs will be handled, and so forth. In creating a successful service mix, the HMO must choose features that are preferred and expected by target customers, or the service will not be valued in the marketplace.

Price

The second marketing-mix element is price. Ordinarily companies determine a price by gauging the quality or performance level of the offer and then selecting a price that reflects how the market values its level of quality. However, marketers also are aware that price can send a message to a customer about the product's presumed quality level. A Mercedes-Benz vehicle is generally considered to be a high-quality automobile, and it therefore can command a high price in the marketplace. But, even if the manufacturer could price its cars competitively with economy cars, it might not do so, knowing that the lower price might communicate lower quality. On the other hand, in order to gain market share, some companies have moved to "more for the same" or "the same for less" pricing, which means offering prices that are consistently lower than those of their competitors. This kind of discount pricing has caused firms in such industries as airlines and pharmaceuticals (which used to charge a price premium based on their past brand strength and reputation) to significantly reevaluate their marketing strategies.

Place

Place, or where the product is made available, is the third element of the marketing mix and is most commonly referred to as distribution. When a product moves along its path from producer to consumer, it is said to be following a channel of distribution. For example, the channel of distribution for many food products includes food-processing plants, warehouses, wholesalers, and supermarkets. By using this channel, a food manufacturer makes its products easily accessible by ensuring that they are in stores that are frequented by those in the target market. In another example, a mutual funds organization makes its investment products available by enlisting the assistance of brokerage houses and banks, which in turn establish relationships with particular customers. However, each channel participant can handle only a certain number of products: space at supermarkets is limited, and investment brokers can keep abreast of only a limited number of mutual funds. Because of this, some marketers may decide to skip steps in the channel and instead market directly to buyers through direct mail, telemarketing, door-to-door selling, shopping via television (a growing trend in the late 20th century), or factory outlets.

Promotion

Promotion, the fourth marketing-mix element, consists of several methods of communicating with and influencing customers. The major tools are sales force, advertising, sales promotion, and public relations.

Sales force

Sales representatives are the most expensive means of promotion, because they require income, expenses, and supplementary benefits. Their ability to personalize the promotion process makes salespeople most effective at selling complex goods, big-ticket items, and highly personal goods—for example, those related to religion or insurance. Salespeople are trained to make presentations, answer objections, gain commitments to purchase, and manage account growth. Some companies have successfully reduced their sales-force costs by replacing certain functions (for example, finding new customers) with less expensive methods (such as direct mail and telemarketing).

Advertising

Advertising includes all forms of paid, nonpersonal communication and promotion of products, services, or ideas by a specified sponsor. Advertising appears in such media as print (newspapers, magazines, billboards, flyers) or broadcast (radio, television). Print

advertisements typically consist of a picture, a headline, information about the product, and occasionally a response coupon. Broadcast advertisements consist of an audio or video narrative that can range from short 15-second spots to longer segments known as infomercials, which generally last 30 or 60 minutes.

Sales promotion

While advertising presents a reason to buy a product, sales promotion offers a short-term incentive to purchase. Sales promotions often attract brand switchers (those who are not loyal to a specific brand) who are looking primarily for low price and good value. Thus, especially in markets where brands are highly similar, sales promotions can cause a short-term increase in sales but little permanent gain in market share. Alternatively, in markets where brands are quite dissimilar, sales promotions can alter market shares more permanently. The use of promotions has risen considerably during the late 20th century. This is due to a number of factors within companies, including an increased sophistication in sales promotion techniques and greater pressure to increase sales. Several market factors also have fostered this increase, including a rise in the number of brands (especially similar ones) and a decrease in the efficiency of traditional advertising due to increasingly fractionated consumer markets.

Public relations

Public relations, in contrast to advertising and sales promotion, generally involves less commercialized modes of communication. Its primary purpose is to disseminate information and opinion to groups and individuals who have an actual or potential impact on a company's ability to achieve its objectives. In addition, public relations specialists are responsible for monitoring these individuals and groups and for maintaining good relationships with them. One of their key activities is to work with news and information media to ensure appropriate coverage of the company's activities and products. Public relations specialists create publicity by arranging press conferences, contests, meetings, and other events that will draw attention to a company's products or services. Another public relations responsibility is crisis management—that is, handling situations in which public awareness of a particular issue may dramatically and negatively impact the company's ability to achieve its goals. For example, when it was discovered that some bottles of Perrier sparkling water might have been tainted by a harmful chemical, Source Perrier, SA's public relations team had to ensure that the general consuming public did not thereafter automatically associate Perrier with tainted water. Other public relations activities include lobbying, advising management about public issues, and planning community events.

Because public relations does not always seek to impact sales or profitability directly, it is sometimes seen as serving a function that is separate from marketing. However, some companies recognize that public relations can work in conjunction with other marketing activities to facilitate the exchange process directly and indirectly. These organizations have established marketing public relations departments to directly support corporate and product promotion and image management.

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Marketing implementation

Companies have typically hired different agencies to help in the development of advertising, sales promotion, and publicity ideas. However, this often results in a lack of coordination between elements of the promotion mix. When components of the mix are not all in harmony, a confusing message may be sent to consumers. For example, a print advertisement for an automobile may emphasize the car's exclusivity and luxury, while a television advertisement may stress rebates and sales, clashing with this image of exclusivity. Alternatively, by integrating the marketing elements, a company can more efficiently utilize its resources. Instead of individually managing four or five different promotion processes, the company manages only one. In addition, promotion expenditures are likely to be better allocated, because differences among promotion tools become more explicit. This reasoning has led to integrated marketing communications, in which all promotional tools are considered to be part of the same effort, and each tool receives full consideration in terms of its cost and effectiveness.

Marketing evaluation and control

No marketing process, even the most carefully developed, is guaranteed to result in maximum benefit for a company. In addition, because every market is changing constantly, a strategy that is effective today may not be effective in the future. It is important to evaluate a marketing program periodically to be sure that it is achieving its objectives.

Marketing control

There are four types of marketing control, each of which has a different purpose: annual-plan control, profitability control, efficiency control, and strategic control.

Annual-plan control

The basis of annual-plan control is managerial objectives—that is to say, specific goals, such as sales and profitability, that are established on a monthly or quarterly basis. Organizations use five tools to monitor plan performance. The first is sales analysis, in which sales goals are compared with actual sales and discrepancies are explained or accounted for. A second tool is market-share analysis, which compares a company's sales with those of its competitors. Companies can express their market share in a number of ways, by comparing their own sales to total market sales, sales within the market segment, or sales of the segment's top competitors. Third, marketing expense-to-sales analysis gauges how much a company spends to achieve its sales goals. The ratio of marketing expenses to sales is expected to fluctuate, and companies usually establish an acceptable range for this ratio. In contrast, financial analysis estimates such expenses (along with others) from a corporate perspective. This includes a comparison of profits to sales (profit margin), sales to assets (asset turnover), profits to assets (return on assets), assets to worth (financial leverage), and, finally, profits to worth (return on net worth). Finally, companies measure customer satisfaction as a means of tracking goal achievement. Analyses of this kind are generally less quantitative than those described above and may include complaint and suggestion systems, customer satisfaction surveys, and careful analysis of reasons why customers switch to a competitor's product.

Profitability control

Profitability control and efficiency control allow a company to closely monitor its sales, profits, and expenditures. Profitability control demonstrates the relative profit-earning capacity of a company's different products and consumer groups. Companies are frequently surprised to find that a small percentage of their products and customers contribute to a large percentage of their profits. This knowledge helps a company allocate its resources and effort.

Efficiency control

Efficiency control involves micro-level analysis of the various elements of the marketing mix, including sales force, advertising, sales promotion, and distribution. For example, to understand its sales-force efficiency, a company may keep track of how many sales calls a representative makes each day, how long each call lasts, and how much each call costs and generates in revenue. This type of analysis highlights areas in which companies can manage their marketing efforts in a more productive and cost-effective manner.

Strategic control

Strategic control processes allow managers to evaluate a company's marketing program from a critical long-term perspective. This involves a detailed and objective analysis of a company's organization and its ability to maximize its strengths and market opportunities. Companies can use two types of strategic control tools. The first, which a company uses to evaluate itself, is called a marketing-effectiveness rating review. In order to rate its own marketing effectiveness, a company examines its customer philosophy, the adequacy of its marketing information, and the efficiency of its marketing operations. It will also closely evaluate the strength of its marketing strategy and the integration of its marketing tactics.

Marketing audit

The second evaluation tool is known as a marketing audit. This is a comprehensive, systematic, independent, and periodic analysis that a company uses to examine its strengths in relation to its current and potential market(s). Such an analysis is comprehensive because it covers all aspects of the marketing climate (unlike a functional audit, which analyzes one marketing activity), looking at both macro-environment factors (demographic, economic, ecological, technological, political, and cultural) and micro- or task-environment factors (markets, customers, competitors, distributors, dealers, suppliers, facilitators, and publics). The audit includes analyses of the company's marketing strategy, marketing organization, marketing systems, and marketing productivity. It must be systematic in order to provide concrete conclusions based on these analyses. To ensure objectivity, a marketing audit is best done by a person, department, or organization that is independent of the company or marketing program. Marketing audits should be done not only when the value of a company's current marketing plan is in question; they must be done periodically in order to isolate and solve problems before they arise.

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