Responsive Healthcare

Marketing for a public service

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Preface

Public services are often slow to respond to users' demands about what services should be available, about when and where they should be provided, and about what standards of staff behaviour, information provision, accommodation and service outcomes are acceptable to the public. One would have thought that attempts to diagnose and solve this problem would form a large and central part of the literature on public management, but few works consider it in much depth. Fewer still start by considering the marketing literature and practice dealing with analogous problems and solutions in the commercial sphere. Those works that do so are frequently quite uncritical of existing marketing practice, tending to assume that public services should copy commercial marketing practice rather than learn from it. This book argues the opposite; that public services can learn from both the positive and the negative aspects of commercial marketing, but should not just copy it. The following text differs from its predecessor, *Marketing for Health Services*, in attempting to dismantle commercial marketing theory and practice more systematically; and in attempting to rebuild the components which are worth salvaging into a coherent, distinct theory suggesting how to make public services responsive to their users. Like its predecessor, this book examines some practical attempts to improve the responsiveness of publicly funded health services, as a large and distinctive part of the public sector. If this book is an improvement on its predecessor, that is due partly to this more systematic approach, and partly to the stimulus of discussion with the people acknowledged below.

Choosing marketing as a topic for study risks giving the impression that the author advocates either dismantling and privatizing the public sector or, as second best, imitating private sector management. That impression would be false. Learning how to make public services responsive is a step towards inventing better alternatives than the private corporation as the organizational basis for producing consumer services in the future.

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1 Health services, public management and users

Chapter overview

Illustrating from the British National Health Service, this chapter indicates the type of problems in service design and public image which have led people to consider applying marketing methods in public services. But what is marketing, and what relevance has it to making public services more responsive to their users? The obvious starting point are the archetypal forms of marketing which firms use in commercial settings. A model of commercial marketing provides the raw material for later chapters to adapt for publicly funded health systems.

A marketing crisis?

During January 1999, British newspapers were again criticizing National Health Service management. Patients arriving at hospital accident and emergency departments faced long waits, in some cases passing their first night in hospital on a trolley because of a bed shortage. Journalists were unsure whether to blame this 'crisis' on underfunding of the NHS; on shortages of nurses due to low salaries; on the locum GPs who cover out-of-hours services and allegedly refer many patients to hospitals; or on patients themselves for presenting with increasingly trivial illnesses (Ungoed-Thomas and Dignan 1999). Such reports of NHS unresponsiveness to patients' reasonable demands have become increasingly politically visible. *The NHS Plan* states as a principle that in future:

> The NHS will shape its services around the needs and preferences of individual patients, their families and carers.
>
> (Department of Health 2000: 4)

Many commentators on the NHS and public management generally argue that such problems have a deep-rooted cause in the way in which the NHS and other publicly funded services are structured and managed (see, for example, Osborne and Gaebler 1992). Allegedly the NHS and other publicly funded and managed systems are structured, managed and financed in ways that allow managers and professions to pursue their own interests without needing to take notice of their users' reasonable demands, let alone satisfy them. Excess demand and the fact that those who finance the system are also insulated from users' control allow staff to adopt patronizing, condescending, self-important attitudes towards consumers (Baker 1988). The 'New Public Management' and 'reforms' of the 1990s repositioned the demarcations between managers and doctors but still left publicly funded health systems relatively insensitive to users' demands (Smith *et al.* 1999). Here we are not speaking of extravagant or irrational demands, but such moderate desires as being treated within an hour of admission to an accident and emergency department, and having access to a bed without an overnight wait on a trolley in a corridor before a bed becomes available. The critics also allege that publicly funded services tend to be poor at inventing and applying new management methods and technologies. Such a critic might observe that the NHS is only now adopting automated, flexible booking systems which other producers (for example, airlines) have used for decades, or that some of the most important organizational innovations in healthcare (for example, hospices) originated outside the NHS.

In the 1980s the 'new right' proposed that the solution was to privatize public services as far as possible. But one should see the above criticisms in perspective. Whatever its other failings, the NHS and similar services have solved the market entry problem: that those who most need healthcare (education, housing and so on) tend for that very reason to be badly placed to participate in the labour or other markets to get the money to buy it. For most healthcare consumers, the 'remedy' of privatization is far worse than the original disorders of public management.

Another solution is to encourage public managers to adopt marketing methods because, marketers say:

> The marketing concept represents an 'outside-in' view of the organisation, in that a deliberate attempt is made to look at the organisation and its products and services from the viewpoint of the customer. In doing this, a far greater emphasis is placed on meeting the customer's needs, emphasising the products' benefits . . . and generally achieving a far better match between what the customers needs [sic] and what the organisation provides.
>
> (Gilligan and Lowe 1995: 18)

Marketing is much more developed outside the health sector than in it. Modern marketing originated from large firms in Germany and the USA as a refinement of selling techniques in mass markets. These commercial origins have coloured the language of marketing, not to mention marketing theory and practice. At the very least, any transfer of these marketing practices into publicly funded healthcare should be selective. Healthcare has its peculiarities. It is more technically complex than most consumer services and its workpiece is the consumer themself, mind and body. Commercial marketing practice has been criticized (see Chapter 2) on grounds that anyone contemplating healthcare marketing would be foolish to ignore. Conversely, commercial marketers may simply lack techniques which a publicly funded health system needs. For public health system purposes it may be necessary to adapt commercial marketing techniques, adding some materials and discarding others.

This text considers what that project involves and how it might be taken further, emphatically without privatizing healthcare. Whilst this book focuses on the English NHS, it tries to use that example to illuminate what marketing methods also apply to other services with post-market forms of organization (in much of Europe, education, housing, public transport and so on). It therefore starts by outlining what marketing is in its archetypal, commercial form. That outline will serve as raw material for adapting the archetype for the purposes of publicly funded health systems.

Marketing – the commercial model

Dozens of textbooks describe the archetypal commercial forms of marketing. To use a marketing buzzword, each 'differentiates' itself by using somewhat different terminology, by subdividing the marketing cycle described below in different ways, by advocating specific techniques and in its choice of examples. Yet beneath these differences, most such models are essentially similar. They usually start by pointing out – correctly – that a firm undertakes marketing as a means of meeting its particular strategic objectives. These objectives are the criteria by which commercial marketers decide which marketing activities to undertake and develop, and which not. However, it is much rarer for marketing textbooks to point out that these objectives themselves reflect the market structures within which the firm works (see Chapter 2). Because we shall be transposing marketing into different organizational structures and using it for different objectives, we must begin by understanding how the market structure which a firm inhabits influences its objectives and thus the marketing activity by which the firm pursues those objectives.

Market structures – incentives and actors

For firms in a market economy the fundamental objective is, familiarly, profit maximization. The single term, however, covers two different imperatives. One is simply to maximize the distributable profits available to the firm's owners, or shareholders, and senior managers; in other words, to maximize stockholder value. However, to maximize stockholder value over anything but the shortest period, requires, in most markets, that a second imperative be met: that of accumulating capital to reinvest. The firm's owners and managers have little control over these intermediate objectives because they arise from the firm's 'environment', or, more precisely, from structural characteristics of the economy external to the firm. These are:

1 The firm derives its income from sales, whether to the end-users of its products or services or to intermediaries.
2 Other firms are competing to sell to these end-users or intermediaries.
3 Investment in developing new products, methods of production and indeed marketing gives a firm competitive advantage in gaining or at minimum, maintaining, sales.
4 Ultimately the only way a firm can invest is out of its own profits, whether its past profits or, if it must raise external finance, its future profits; and these profits are realized through sales of the goods or services which it produces.

The imperative to reinvest, and therefore to earn the profits from which to reinvest, results from the combination of all four.

This incentive structure does not remove all leeway for a firm's owners and managers to choose the firm's objectives and strategy, but it does constrain them. Indeed, in the medium term it constrains them absolutely, to cover the firm's day-to-day operating costs. Consequently, firms' fundamental 'corporate', i.e. company-wide, *objectives* for profit optimization (i.e. long-term profit maximization, all things considered) are usually expressed in a range of standard indicators such as:

- ROI (return on investment) or ROTA (return on total assets);
- operating margin, for example 16–20 per cent on capital employed in UK;
- dividend rates – earnings per share is a critical indicator in Britain, where firms commonly rely on external finance (Hutton 1996);
- share price;
- turnover;
- break-even period, i.e. the length of time from the start of a project until the income it generates just covers the costs to that point. This is an important indicator in high-technology sectors such as pharmaceuticals because even after a new product is patented, another 10–12 years' development may be required to make it saleable (allowing for testing, licensing and so on). Since a UK patent lasts 20 years, the product must break even in the remaining 8–10 years before competitors imitate it and drive down the price;
- ratio of profit to sales;
- ratio of sales to capital;
- ratio of sales to fixed assets;
- ratio of sales to stocks;
- sales per employee;
- profit per employee.

These conditions and objectives are so familiar and taken-for-granted, so fundamental and stable, that marketing textbooks rarely give them a second thought, although the incentive structure outlined above is of fundamental explanatory importance. For everyday practical marketing purposes it has simply to be taken as given.

Marketing textbooks pay greater attention to a second aspect of market structures – the 'channels' or 'publics' from which flow the money, resources or power on which the firm depends in order to realize its objectives – for this aspect of market structures tends to be much less stable than the incentive structures and to vary more between different sectors of the economy. A firm such as Coca-Cola producing consumer goods on an international scale is unlikely to be able or willing to sell directly to the millions of end-consumers of its products. Instead it constructs distribution channels, for instance selling its products to wholesalers or other distributors, who in turn sell its products to retailers, who in their turn sell to the eventual consumer (whether over-the-counter, by mail order etc.). There are many ways in which this can be done. Whichever the firm chooses, its marketing activity must ensure that each actor in its distribution channels is willing to buy its produce and able to sell the produce on to their own (direct) customers. Consequently, the firm's marketing activity must succeed in managing all these actors' behaviour coherently and simultaneously. Figure 1.1 shows in simplified form the channels for a firm making cookers, refrigerators, washing machines and other 'white goods'. Each of these routes for selling the product counts as one market when the time comes for situation analysis, market research and marketing planning (see below). Health insurers in the USA, for example, must influence both the employer who pays for the insurance and the worker who uses it (Helms *et al.* 1992). Further actors also influence the process, for instance the mass media, government, consumer groups and researchers (such as those involved in the controversy over genetically modified foods).

Taken together, these actors are the target audiences or 'publics'. The firm's marketing activity has to manage their behaviour and beliefs sufficiently to

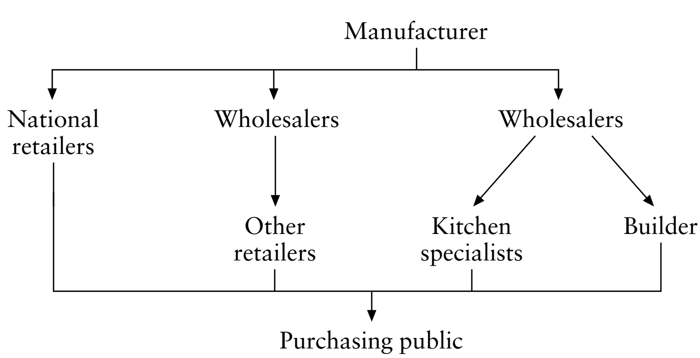

Figure 1.1 Channels for a white goods manufacturer (simplified).

achieve the firm's own, more fundamental objectives. Not all these audiences are equally influential. Marketing activity has to concentrate on those who are both critical for the firm's success and whose behaviour it cannot guarantee to control. They typically include, in descending order of influence: consumers, government, financiers, distributors, staff, media, pressure groups and the general public. A firm requires somewhat different marketing techniques for managing each of these audiences. Consequently the discipline of marketing contains the sub-specialities of industrial marketing, consumer marketing, public relations, social marketing and so on. Gilligan and Lowe (1995) suggest concentrating on the powerful and interested audiences, keeping the powerful but uninterested ones satisfied (and by implication benignly passive), the interested but powerless groups well-informed, and minimizing marketing attention for those who are both low power and uninterested.

Familiar as these points are in market contexts, they are worth spelling out because some actors that play rather marginal roles in ordinary markets (for example voluntary workers, the state) play bigger roles in quasi-markets, in the public and voluntary sectors. Conversely, some actors that dominate ordinary markets (for example financial institutions) are more marginal in the public, voluntary and quasi-market sectors whilst other agents, above all consumers, play an equally large but different role.

Situation analysis

The most important characteristics of the firm's environment that are likely to change on a year-by-year basis are not its incentive structures nor, to a lesser extent, its target audiences but the particular configuration of customers, competitors and business collaborators that the firm faces. These changes are what the firm's strategy and marketing activity have to adjust to periodically, and what pose the greatest opportunities and threats to it, for they further constrain a firm's objectives and hence its marketing objectives.

To adjust their objectives and marketing activities to these conditions many firms periodically carry out a situation analysis. One situation analysis

- Market characteristics
  - Market size
  - Market trends
  - Segments
  - Who buys
  - Buying decisions
- Competitors
- Technology
- Legal setting
- Social setting

Figure 1.2 Situation analysis – contents.

is necessary for each distinct market. The precise content, how it is organized and presented vary from firm to firm, as does the specific market research on which it is based. Generally, though, a situation analysis will contain the types of information listed in Figure 1.2.

Market size concerns trends in the growth or decline of effective demand, i.e. the number of people who are able to buy, and the amount of money they bring to the market. This information indicates which markets it might be worth entering or investing more in. Under 'who buys' one would list the main target audiences (see above), covering the whole channel including the intermediaries (wholesalers, retailers and so on) who sell the product on to the final consumer. Each target audience can often be divided into segments, each segment being a sub-population which requires a distinct set of benefits, hence different products and services, in short (to anticipate a concept explained below) a distinct marketing mix. Yankelovich (1964) and Berkowitz (1996) give the uses of segmentation as being to:

- identify profitable segments;
- allow segment-specific product design;
- give early warning of market changes;
- enable tailoring of advertisements;
- allow choice of advertising medium;
- aid the timing promotions and advertisements;
- facilitate understanding market demography;
- prevent 'cannibalization' (i.e. launching a new product which attracts one's existing customers rather than new ones);
- prevent competitors providing services more closely tailored to a given market than one's own.

A given market can be segmented in various ways. Consumer markets, for instance, can be segmented according to:

- product type – for instance vegans buy different snacks from non-vegans;
- the consumer's motivation for buying the product, reflecting the use to which they will put the product. An electronics company would thus produce different radios for young children, hi-fi enthusiasts and other adults;
- scale of purchase or distribution channel. Thus a travel company would offer different pricing regimes to individuals and to large groups (for example schools);
- psycho-social differences, for example life-cycle stage, class, adopter phase (see below), values and life styles;
- proxies for consumption patterns, for example education, car ownership;
- geographically, for example for travel, tourism;
- frequency of use, for example air travel;
- payer – car repairs often appear to be priced higher for an 'insurance job' than when the customer pays personally;
- gender, obviously important for markets such as clothing or pharmaceuticals, and in healthcare.

Marketing literature contains various disputes about what types of segmentation are most useful to firms and under which conditions. In any event, the point of segmentation is to find market segments which are measurable, accessible to the firm's marketing efforts, large, profitable and require a distinct marketing mix (see below).

It is critically necessary for firms to know on what grounds the buyer decides to buy. This depends, firstly, on who actually makes the decision to buy. It is not always the final consumer (for example in markets for toys or petfood). The other fundamental question is why they buy; that is, what benefits they are trying to obtain. To say simply that the consumer is getting the practical benefits of the good or service assumes too much in some circumstances. Many goods are valued not in themselves but only as means to an end. For instance, insurance is bound to be a waste of money for most people who buy it. They need it only as a means to (say) be allowed to drive a car. 'Distress goods' such as repair services and healthcare are largely in this category too. If possible, people would prefer not to have to use them. But in other cases it is saying too little just to point to the practical benefits or a product or service. Some goods provide more than these benefits, for instance as a mark of social position (for example the hospital consultant's Rolls-Royce), or as a means of self-expression ('lifestyle' goods such as clothes). Many products thus serve both functional and symbolic purposes for their buyers (Douglas and Isherwood 1996). Marketers use the term 'benefit' for this mixture of uses (Levitt 1976). The grounds on which customers buy determine what benefits it is necessary to persuade them that they will gain by purchasing.

Customers also decide what to buy with an eye to related markets. A firm's situation analysis typically notes changes in demand for complementary goods, because rises (or falls) in demand for them will induce (or reduce) demand for its own products. Thus activity in the housing market tends to produce a slightly lagged increase in demand for furnishings and for DIY materials; demand for house extensions is counter-synchronized (people improve their existing house instead of moving).

An obvious determinant of demand for a firm's products are its competitors' activities. Most firms face two kinds of competitor. Direct competitors provide a similar product (for example Lufthansa and British Airways compete directly). However, the notion of benefit implies that firms face wider competition than that, because they are in effect competing also with firms who provide the same benefit by another means (usually, another technology). So British Airways faces indirect competition, inside the UK, from train operating companies. Consequently, firms use market research to identify which their competitors and substitutes are (including firms likely to enter or leave the market), their market strength, pricing and discount strategies, R&D intentions, activity levels, cost structures, profit sources, new products, what benefits they offer. The relative importance of different markets to these competitors will influence how they are likely to respond to one's own activity, for example which markets they will defend most fiercely. To make such analyses, portfolio analysis (business grids – see below) can be applied to competitors' activity besides a firm's own. Porter's (1981) 'five forces' analysis is one of the best-known ways of analysing a firm's market strength.

Behind all these determinants of demand lie larger but less direct determinants. A well-known way of enumerating these is under the headings 'political', 'economic', 'social' and 'technological'; hence, 'PEST analysis'. For most firms, the political climate matters chiefly because of possible changes in the legal framework (for example through changes in EU regulations on product safety or labelling). For some, governments are major buyers in their own right (for example the arms industry). Governments also pursue policies which expand or restrict demand for specific goods (through taxation, housing or transport policy and so on). The relevance of economic events such as levels of employment, economic growth and inflation are obvious. Social changes are relevant in so far as they influence demand patterns and buyers' requirements. Rising divorce rates create demand for small or medium-sized cars for single mothers. Technological developments are relevant in so far as they promise methods of producing new saleable benefits which can be incorporated in existing or new products, if not by one's own firm then by competitors. From this perspective, 'technology' should not be interpreted too narrowly. Organizational innovations (for example time-sharing, franchising) sometimes have similar implications.

All the foregoing methods analyse the situation outside the firm. Sometimes on the basis of a SWOT analysis (see below), many firms also make periodic internal evaluations of how competent their current marketing practice is and what factors determine its success or failure. All these are summarized as a *marketing audit*. Its purposes are to let the firm re-evaluate its objectives, the assumptions on which it has based its marketing, forecast the effects of its marketing activity, identify how it can exploit opportunities and convert its marketing weaknesses into strengths and invent 'preventative as well as curative marketing practices' (Berkowitz 1996: 373).

Again, firms differ in what content they include, the balance between items, what data are cited and the formulations used (Davidson 1987). Typically, the audit will cover each main market (or segment or product-group), under such headings as:

- Where sales and profit originate, including a 'contribution analysis' showing which products lines make the highest proportional contributions to fixed costs once the direct (variable) costs of production have been met.
- Market shares by firm and brand.
- The firm's marketing assets (brands, technologies, skills, people, physical resources including spare capacity, networks of consumers, customers and suppliers, its cost base).
- Factors causing the firm's own marketing successes or failures, such as its cost profile and the causes of any recent mis-marketing or competitive advantage.

- Public image and profile, the firms promotional and advertising effectiveness (which is especially important where public image directly promotes the product, for example The Body Shop), and the positioning (see below) of its own products and services compared with competitors'.
- Product range and quality, and its 'unique selling points' or 'unique selling propositions' (either way, USPs), including the balance between differentiated products (which give a marketing advantage) and undifferentiable 'commodity' products (such as baked beans, petrol) and how the product range compares with consumer characteristics and segmentation.
- Information – the firm's market research and forecasting competence.
- Distribution system – its reliability, costs, frequency of stockouts, calibre of salesforce.
- Innovation – the firm's capacity for R&D, its intellectual property and patents.
- Costs and effectiveness of the marketing and sales function. The ratio of marketing costs to sales varies greatly between sectors: 1.4 per cent for cars, 14 per cent for US airlines, 17.2 per cent for toys (Davidson 1987).

Some writers treat marketing audit as part of SWOT analysis (see below).

Marketing strategy and objectives

A firm's fundamental objectives are themselves determined by the wider market structures within which it operates, structures which are relatively stable and durable. Its marketing objectives and strategy articulate how it will use its marketing activity to pursue its fundamental objectives in the current market situation. Although it is possible to derive a marketing strategy directly from a situation analysis, many firms derive their marketing objectives and strategy from a situation analysis by way of a SWOT analysis, sometimes supplemented with a TOWS analysis, and a portfolio analysis ('business grid').

A situation analysis provides the raw material for a marketing strengths, weaknesses, opportunities and threats (SWOT) analysis which summarizes its practical marketing implications; indeed situation analyses and SWOT analyses are often conflated. Strengths and weaknesses are defined as strengths or weaknesses, relative to competitors, in securing customers (and thereby realizing the firm's more fundamental objectives). They are enumerated in the marketing audit. Opportunities and threats are respectively defined as potentials for the firm to make itself stronger, and for circumstances to make it weaker, in the same terms. These opportunities and threats are implications of changes in competitors' behaviour and implications of the PEST analysis outlined above. A SWOT analysis is then used to indicate marketing strategies. One way is by systematically deriving a marketing strategy for each SWOT combination in turn, resulting in a TOWS analysis (Figure 1.3).

Another way to derive a marketing strategy is by using a strategy grid (or 'matrix' or 'business grid', 'portfolio analysis') for deciding investment

	Strengths	**Weaknesses**
Opportunities	Opportunities strategies	Opportunities to reduce or correct weaknesses
Threats	Use strenths to remove threats	Avoid threats, minimize weaknesses

Figure 1.3 TOWS analysis.
Source: Gilligan and Lowe (1995).

		Firm's market share	
		High	**Low**
Market growth	**High**	Stars – invest and promote	Problem child – Strengthen or withdraw
	Low	Cash cow – extract profits to invest elsewhere	Dog – withdraw

Figure 1.4 Boston Consulting Group grid.

and development priorities for each market that a firm serves. One can illustrate the principle with the well-known Boston grid (Boston Consulting Group 1968) – see Figure 1.4.

In the Boston grid, as most of the others, information from the situation analysis is used to position each of the firm's products or subsidiaries or markets on each axis. The corresponding cell within the grid states what business and therefore marketing strategy should be followed in such cases. Many other grids are available. Most marketing texts adumbrate Porter's (1981) Generic Strategy Model, Ansoff's (1957), Little's, the McKinsey (or General Electric or Shell) and the Profit Impact of Marketing Strategies (PIMS) grids, and others.

The precise content of a marketing strategy depends on the nature of the firm and the situation in which it is formulated. That said, a marketing strategy generally states, firstly, which markets to enter or leave. For many years British Rail tried to leave the small-consignment (one or two wagon-loads) freight business, preferring to concentrate on moving whole trainloads of single commodities (coal, china clay or whatever) – misguidedly, since EWS and others have since managed to start building this market up again. However, it is equally risky for a firm to enter markets outside its original competence, as Procter & Gamble found when it tried to enter the food market (Davidson 1987). A sounder strategy is to use a firm's existing strengths when entering new markets, for instance by 'brand stretching' or 'line extension' (as Laura Ashley did in diversifying from clothes to fabrics to interior decoration to furniture).

Another strategic decision is whether to adopt defensive (imitative) or offensive (initiative-taking) marketing. Partnerships can be used to reduce competition, or as a form of integration with firms supplying complementary products such as air travel with car hire and hotel accommodation (for example Lufthansa with Kempinski, British Airways with Hertz). A marketing strategy will also state how the firm will use market positioning and product differentiation, including whether to pursue price or non-price competition. Marketers usually reckon product differentiation and branding to be good marketing strategies. Each firm can reduce the competition it faces by positioning its products for sale to market segments which other firms cannot attract so successfully. Thus Aldi sells a limited range of foodstuffs from basic premises at low cost; Marks and Spencer sells a smaller, higher quality, more expensive range. Until the 'Asda price' campaign, Asda tended to sell a middling-to-large range of products at middling prices, and so on. Occasionally, though, differentiation is a mistake. Apple's refusal to license its operating system to other firms let Microsoft dominate the microcomputer market by distributing its operating systems (MS-DOS, Windows) widely. The opposite of differentiation is to offer 'lookalike' or 'me-too' products such as PC clones.

Marketing strategies tend to emphasize quality for one of three reasons. One is to differentiate the products, especially at the luxury end of consumer goods markets, by emphasizing the exclusiveness or prestige of the product (so that the product functions primarily as a badge of social status). Putatively high quality can then legitimate high prices which then become a further symbol – in extreme cases, a guarantee – of the product's 'exclusiveness' (for example, 'designer' clothes in the 1980s). A second use for quality strategies is in response to marketing crises or as remedial marketing, for example McDonald's marketing during the 1996 BSE scare, or Skoda cars' shift from a low-price strategy to quality competition after the Volkswagen takeover. Thirdly, competing on product quality is less financially risky than price competition, especially for firms with high costs or narrow profit margins and during times of inflation.

Although firms tend to be more wary about publicizing them, many do pursue anti-marketing ('spoiling') strategies against competitors. For instance, Davidson (1987) records:

- Mars sold a branded low-priced cat food (Katkins) to pre-empt shops' cheaper, own-label competition.
- Perverse as it may seem, it is a lesser evil for a firm to produce the own-label product itself under the shop's branding than for a genuine competitor to do so. Thus Boots own-brand indigestion tablet is Settlers under another label.

- Playtex increased its marketing spend ten-fold in Rochester (USA) to distort test marketing of new tampon by Procter & Gamble.
- 'Encirclement' strategies: one firm produces a complete range of products to 'crowd out' competitors. Toys 'R' Us has adopted this strategy. Seiko at one time marketed 2300 models of watch.

A firm's marketing strategy would include a selling strategy, whether a 'pull' strategy of getting end-users to demand the firm's products from intermediaries, or a 'push' strategy of selling the product to wholesalers, retailers and other distributors and leaving it to them to promote the product to the final consumer. US pharmaceutical firms promote their drugs to consumers, so that patients will demand their products by name from the doctor. UK pharmaceutical firms, by contrast, concentrate on getting the doctor to prescribe their products to the patient.

A firm's marketing objectives are often expressed in its business plan. Here, 'business plan' means 'plan for getting business, i.e. income' rather than (as in parts of the UK public sector) 'plan of productive activity'. For each market, segment or product (depending on case), a firm's main marketing targets are likely to be stated in terms of intended market share, sales, repeat sales, consumer mix, cost ratios (sales/costs ratios and so on). Concomitantly, it is also likely to specify what behaviours, beliefs and attitudes the firm is trying to produce in each target audience.

For public and staff consumption, a firm's mission statement usually contains a simplified and more euphemistic version of its marketing objectives. David (1989) recommends that mission statements specify customers, products or services, location, technology, economic objectives, basic aspirations of the firm, self-concept of the firm's strengths and weaknesses, desired public image, attitude towards staff.

Marketing plan

A marketing plan states what firm will do in order to realize its marketing objectives. It typically recapitulates the preceding elements but its new and essential elements are a statement of the firm's intended marketing mix and an implementation plan. The situation analysis provides the raw material and assumptions for the marketing plan. Figure 1.5 shows what a marketing plan's headings would typically be.

A marketing mix is the set of activities which a firm can use for marketing purposes. (Some writers conflate the terms 'marketing mix' and 'marketing strategy'.) The first practical applications of the idea of marketing mix were in the US motor industry, whose marketers regarded their four marketing variables as product, price, promotions and place of sale (the 4Ps) (McCarthy 1978). Firms use their marketing mix primarily for selling purposes, but not exclusively – occasionally firms also use their marketing mix for social marketing purposes (trying to influence social attitudes and behaviour). For instance, firms sometimes undertake marketing in support of political

- Executive summary
- Situation analysis
  - Background
  - Normal forecast
  - Opportunities and threats
  - Strengths and weaknesses
- Objectives and goals
- Marketing strategy
- Action programmes
- Budgets
- Controls

Figure 1.5 Instance of marketing plan headings.
Source: Kotler and Clarke (1987: 194).

parties, for anti-marketing purposes and for demarketing. Demarketing is the use of marketing methods to discourage or divert demand for products that firms no longer wish to sell, for example making it harder for passengers to obtain or use discounted rail tickets.

Within each market (and segment within it) the marketing mix must meet the demands of each actor in the channel between producer and consumer. Consider food packaging. Supermarkets need such characteristics as tessellation (to minimize space requirements), quick availability, long product shelf-life and to minimize special storage requirements (for example refrigeration). Consumers, by contrast, might value clear labelling, handles for heavy or bulky items and child-proof openings. Manufacturers want it to be cheap and to stimulate sales.

Many firms will produce a specific marketing mix for each market or even each segment, and consider alternative plans and mixes. Majaro (1982) suggests that a specific element should appear in a marketing mix only if it represents a substantial expenditure for a firm, if customers respond to it and if it is possible to allocate responsibility for implementing it. 'Differentiated marketing' consists of using one distinct mix for each segment or product. One problem that firms face in doing this is to achieve consistency and coherence across their different markets and segments. 'Concentrated' or 'undifferentiated marketing' is the practice of using only one marketing mix without regard to segmentation.

The other element which a marketing plan usually contains is an implementation programme, whose main elements will normally be an account of how the marketing plan will be implemented through the firm's own workforce. Typically these would include:

- Specific deadlines and targets for activities (sales, advertising campaigns and so on).
- Training and other internal 'communications', with an eye to achieving consistency between these messages and the external promotions aimed at purchasers (see below).

- Resourcing – staffing, physical inputs, budgets.
- Incentives.
- Management of day-to-day working practices and any concomitant changes to organizational structure. For instance, a firm might decide to shift from a regional or functional organizational structure to one based on market segments or specific products or services ('product-line management'). Thus a chemical firm might have different divisions for producing pharmaceuticals, food additives, agricultural chemicals and so on.
- How the purchasing of inputs and any subcontracting of work will be managed so as to contribute to realizing the marketing plan. In particular, many firms (for example McDonald's) rely heavily on franchising. Independent firms or individuals pay the franchiser for being allowed to use the franchiser's marketing mix (especially the brand name, other promotions, production processes and quality specifications).
- Marketing department tasks and its budget, what salesforce is required, and how to train and reward them. One variation is to recruit customers as sellers by offering rewards for introducing new customers.

Marketing mix

The next step is to implement the plan by actually creating and using the marketing mix. Here we outline the main points of a marketing mix based on the original 4Ps (Chapter 5 expands and refines the idea of marketing mix).

Product

Product (or service) design is a fundamental marketing activity. The essential point of product design is not to design an object as such, but to design a vehicle for providing the benefits which customers want to buy. Because many consumer goods serve a symbolic besides a practical purpose, they have to be designed with both in view. This is most evident in products such as cars, whose ease of use and appearance count for more, with most customers, than technical specifications. Product design for a car would then cover not only the vehicle itself but also dealer support and customer services (providing servicing, repairs or replacements, resolving complaints). Further, the product can be designed to be differentiated from competing products, in effect reducing competition.

Marketing value analysis consists in using market research to discover what product benefits matter most to the consumer. The product can then be designed to satisfy these requirements, and specifications reduced to a minimum (if cheaper) for the others. A corollary of specifying product design is that one specifies both its quality standards and, by implication, its production process (which may have to be 're-engineered' to meet the new design and quality standards) and costs.

Marketers continually redesign firms' products, partly to gain competitive advantage, partly to create new products which will make their predecessors obsolete. This practice leads to the idea of a product life cycle, the end of

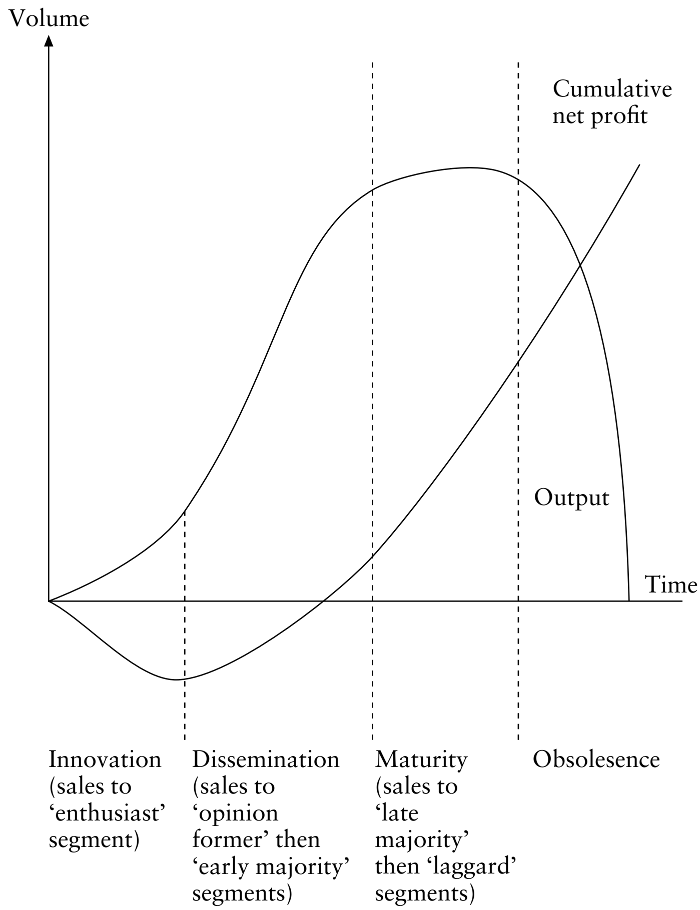

Figure 1.6 Product life cycle.

one product's life cycle resulting from the start of another's. Figure 1.6 shows its four phases, the associated level of marketing activity (and spending) usually associated with each and the names of the corresponding consumer segments. Over time, the duration of this life cycle tends to shorten – the product life cycle of microchips is a good example.

Price

In pricing its products a firm has first of all to cover its costs and normal profits, at least in the medium term. Provided this requirement is satisfied, price can be used to help sell products in various ways, most obviously by undercutting competitors' prices. Some firms, for instance grocery retailers such as Aldi and KwikSave, use price as their main marketing tool. This is most feasible for firms which have high productivity per unit of capital or labour, low overhead costs, low wages, capacity to purchase inputs cheaply, a limited product range, cheap distribution systems (for example telephone banking), and can achieve economies of scale.

In the long term this strategy will be viable only if economies of scale in production reduce average costs of production sufficiently to increase profits, and – crucially – if buyers' demand is price elastic (i.e. buyers are so price-sensitive that increased total sales more than compensate for the reduction in income for each item sold). Firms can adjust the methods and time of payment to increase sales. For instance, by providing consumers with loans, a firm can create a further profit centre (for financial services), capture future buyers (for example Ford promotions in the early 1990s based on committing customers to future part-exchanges) or divide a high-cost purchase into smaller and less daunting instalments. For certain goods, especially luxuries, a high price also is used to promote sales by suggesting a high quality or an exclusive (high-status) product.

In the shorter term, price discounting can be used to maintain sales volume and market share in a buyers' market, or to increase market share (i.e. a part of a market penetration strategy) in the middle and late dissemination stage of the product's life cycle. An indirect way of reducing prices with less risk of provoking price competition is by making 'three-for-two' and similar offers. Early in the dissemination stage it may instead be possible to set prices high, for 'cream-skimming' income from the first purchasers of new product who, as enthusiasts or fashion-conscious buyers (for consumer goods) or firms under competitive pressure (for producer goods), are likely to price-insensitive. At the maturity stage, pricing has generally to be on a cost-plus basis to recoup the initial investment, generate profit and finance future reinvestment.

Place

Place refers to the ways in which products are distributed and hence the places where they are sold. Thus a firm would select whether to distribute its products via wholesalers, retailers (supermarkets, corner-shops or specialists), brokers, franchises (for example Coca-Cola in Malta, Schweppes in UK public houses), an exclusive distributor, tenants (for example in restaurants, pubs), mail order, by a salesforce ('direct sales'), to other manufacturers or services (for example airline or train caterers), consumer networks (Tupperware, Ann Summers, pyramid selling), and so on. An unusual feature of Daewoo's marketing in the early 1990s was that it used 'place' as a marketing tool by selling its cars direct to the public, presenting this as a way of reducing prices and chicanery by 'getting rid of an obsolete component – the salesman'. Internet shopping is the biggest recent extension of 'places' of sale. The choice of outlets can be used to reinforce the product's image (for example, delicatessen rather than supermarket sales). The 1990s saw an expansion of direct selling through 'clubs' and mail order catalogues. Supermarkets are experimentally reintroducing delivery to customers' homes (which grocers abandoned in 1950s).

Promotions

Promotions are what most people understand by 'marketing'. Davidson (1987) mentions some ninety methods and more will doubtless be invented. The commonest are:

- Adverts, whose chief aim is typically to communicate the benefits of a product, using, besides direct information, such techniques as association, innuendo, cues (i.e. using a few product characteristics to indicate its overall quality, for example by emphasizing that this chocolate is Belgian).
- Branding serves as an aid to consumer recognition, a cue and a barrier to competition. One need only mention such brand names as Coca-Cola or Virgin to illustrate this, or the fad for designer labels in the 1980s.
- Free samples of products, including 'cross-ruff sampling' where one product carries a free sample of another made by the same firm.
- Merchandising, i.e. point-of-sale displays, above all packaging, for example bubble-packs, which at once display the product, give space for text and can be used to make the product look larger than it really is.
- Product placement, i.e. ensuring that one's product appears being used by characters in television programmes or films.
- Sponsorships, for instance charity promotions where the customer is promised that a proportion of their spending by credit will be donated to a good cause.
- Events (such as Hewlett-Packard's Golden Helix award for deserving healthcare projects).
- Public relations and lobbying.

Communications theory explores how these methods work (see Chapter 3). The fundamental promotional task is to develop a mix of methods (a 'promotional mix') which is capable of conveying the messages about product benefits that the firm wishes to convey, which succeeds in reaching the desired audience of potential purchasers, and which appears credible to them. Measuring the effectiveness of promotions is, however, notoriously difficult.

Distribution, sale and consumption

Distribution, sale and consumption of the product occurs next. Sales is a discipline in itself, but in services a recent development is relationship marketing (Christopher *et al.* 1993), whose aim is to produce high customer commitment and contact with the provider through the provider focusing on product benefits over the long term and an emphasis on customer services (Payne 1993). This of course is intended to 'increase profitability through improved customer retention' (Payne 1993: 29).

All preceding stages in the marketing cycle are aimed at producing and managing one event: sales. In addition, the firm can include instructions to try to ensure that consumers use complex products correctly, and provide guarantees, refunds or repairs to rectify faults. Nevertheless, the sale and product consumption remain the most uncertain and unmanageable part of the marketing cycle for a firm. They are fundamentally outside the firm's direct control, always liable to disruption by changes in consumers' own preferences or circumstances (for example, changes in their personal income), by competitors' activities, not to mention the activities of governments and pressure groups, and finally by consumers themselves. By this stage, all that the firm can do is to hope that the benefit received appears to the consumer no less than the benefit which the firm promised in its promotions and no less than the benefit which the consumer was seeking.

Tracking

The last stage in the cycle is to monitor how far the marketing plan was actually implemented and to identify the causes of any success or failures. Tracking is the routine collection, by various methods, of data about the main marketing targets. Most firms have ready-made two systems for collecting data on the most important targets: the cash register (or its electronic equivalents) and the reordering system. In addition, however, many firms set up routine data collection systems to monitor the more qualitative aspects of marketing mix implementation which escape the two basic systems. Vignette 1 illustrates the tracking process of a high street supermarket.

Vignette 1.1 Tracking in a supermarket

What Somerfield checks the till operator for:

- make eye contact;
- smile;
- greet the customer;
- state total (i.e. bill);
- state change given;
- give receipt (offer savings stamps);
- offer Premier Points;
- place card in machine;
- say thank you and good-bye.

The resulting data are usually fed back to:

- managers of each shop, branch, office or other workplace;
- marketing and other functional managers responsible for implementing the marketing plan;
- in larger firms, to regional, national or international headquarters or, for franchises, to the franchiser;
- marketing and other staff responsible for preparing the next situation analysis and marketing audit.

Note that the feedback is to the situation analysis stage not the structural stage of the cycle. As noted, the fundamental structural characteristics of

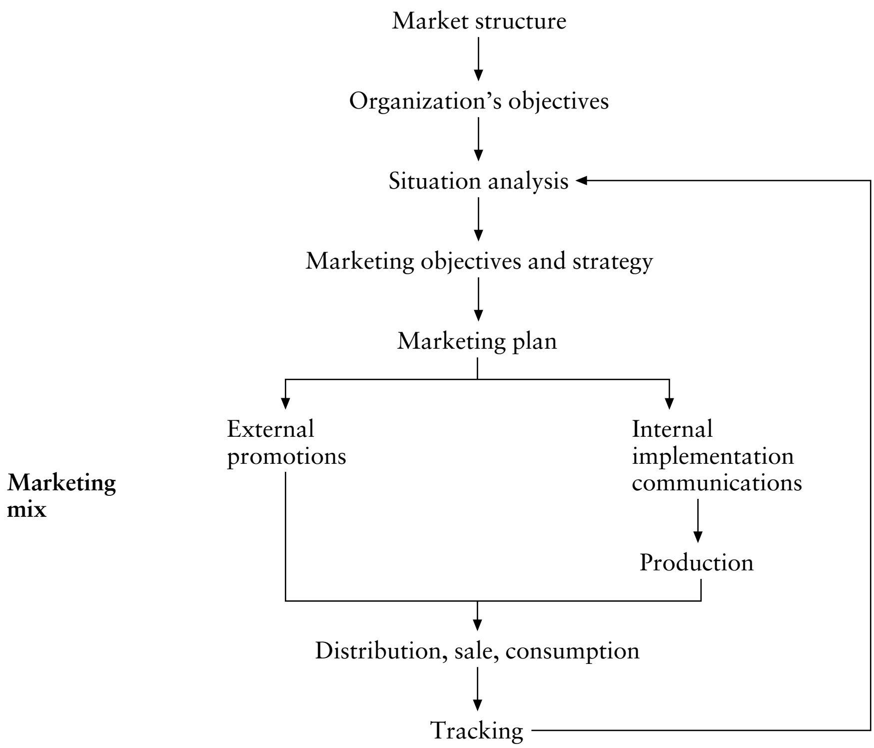

Figure 1.7 Marketing – the commercial archetype.

the market are relatively stable and taken for granted for everyday marketing purposes. What matters for those purposes is that the firm be able to recognize and respond to unforeseen changes in consumer demand and behaviour, especially those when consumers decide, despite its efforts, not to buy its products. In response to tracking feedback, or simply on a routine timetable, the firm then repeats the marketing cycle, with any necessary adaptations.

Figure 1.7 summarizes this overview of how firms go about marketing in commercial contexts.

In conclusion

Marketing is done in the interests of the organization doing the marketing. How far consumers' interests have to be accommodated depends how demand and supply balance in the market at the time. Marketing occurs on two fronts: externally to purchasers and consumers (and perhaps other audiences such as shareholders or governments), and internally to the firm's own staff. Different firms emphasize and specialize in different aspects of the marketing process, according to the nature of their products or services, and the characteristics of the markets in which they operate. Marketing is not just about selling. It also involves environmental scanning, consumer research, planning, communications and the many other activities noted above.

Questions

1 In what market conditions do firms not face the four conditions which impel them to maximize profits?
2 What does situation analysis contribute to the rest of the marketing process?
3 What is the value of portfolio analysis to firms?
4 What is marketing?

For discussion

To what extent is there a natural community of interest between marketers and 'consumerists' trying to strengthen consumers' influence over what goods are produced and how they are marketed?

Further reading

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