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Part One

Introduction

1 What is marketing?

Definitions – Customer driven and product led – Conscious and unconscious marketing – The organisation seen from the customer's point of view – Definitions of organisations – Typologies of organisations – SMART and C-SMART criteria – Customer chain – Motivation – The value chain – Internal and external customers – Facets of marketing – Marketing as a management activity – The marketing mix, 4/7Ps and 4Cs – Products and benefits – Products and services – Introduction to cases

Wilmhurst (1984) quotes the definition of marketing used by the professional body for marketing, the Institute of Marketing. According to the Institute, marketing is '. . . the management process responsible for identifying, anticipating and satisfying customer requirements profitably'.

This definition encompasses all that marketing is really about, i.e. finding out what the customer wants both now and in the future and being in a position to service both current and future requirements. The need to keep in contact with the customer and to seek feedback might be a useful addition to the Institute of Marketing definition. This addition is made to emphasise the point that satisfaction, in order to be of benefit to the organisation, should lead to repeat business or at least a recommendation to other potential customers.

Marketing is often thought of, simplistically, as something to do with advertising. Advertising is an important part of marketing but far from being the only facet. Consider a customer who wishes to purchase a motor car. Every newspaper and magazine will contain glossy, well–produced advertisements for such products but what is actually being sold? Is it a vehicle *per se* or a benefit – the ability to have one's personal transportation? More than likely the customer is actually acquiring the latter. There may well be factors such as convenience and image to consider but what is actually being bought is a benefit.

The customer will have a certain amount of money available with which to purchase the vehicle, money that is either cash or credit facilities, and the manufacturer will want to sell at a price that ensures that costs are met and a profit made but one that is not so high as to put off the customer by engendering a feeling of overcharging. The manufacturer can only do this if he knows exactly what the customer needs, wants and is prepared to pay. It is also important for the manufacturers and suppliers of products and services to recognise and comprehend the competitors within a particular marketplace. Price-setting etc. has to occur within a frame of reference that takes account of the actions of competitors.

For many years, up to and including the beginnings of the second half of the 20th century, less regard was paid to what the customer actually required and more to what the organisation wanted to produce/deliver. Strange as it may seem today, many organisations stayed in business by being what has become termed as **product led**. The organisation developed the product that it wanted to sell and then offered it to the marketplace. Marketplaces were perhaps more local in nature with less global competition, but even into the second half of the 20th century this was not an unusual manner of introducing a new product. In the field of transportation Ford introduced the technologically advanced Edsel (named after Henry Ford's son) in the late 1940s. A wonderful product, except that the customers didn't like it! Even later, Sinclair introduced the infamous C5 electric micro-vehicle, again technologically advanced but with little appeal to customers. In aviation the Vickers VC10 and the Convair Coronado CV 880/990 series of jet airliners were introduced without much customer analysis and both failed to make the massive sales of the Boeing 707 and Douglas DC8s of the time. Even Boeing has been criticised for not really talking to its customers to find out their requirements, until the company realised that it would lose business by offering another version of the 767 and opted instead to work with its customers to develop the 777 (Sabbach, 1995). Product led has never been a satisfactory outcome for the customer but it did give suppliers the luxury of supplying what was easiest for them. As the customer base has become much more sophisticated and global in nature, even the recent expansion of mobile telephone sales has seen manufacturers offering what they believe customers might want, e.g. WAP technology, rather than what they have stated that they need. In the UK the take-up of prepaid mobiles was appreciably higher than WAP-equipped models, perhaps indicating that this was what customers, especially parents who could control prepayments for their children, actually required.

The current perceived wisdom is that organisations should be much more **customer driven**, i.e. find out what the customer actually wants and then develop and deliver it. Finding out about customer requirements is as much a facet of marketing as is advertising.

Conscious and unconscious marketing

In biology and medicine the autonomic nervous system is that part that operates automatically, whereas the somatic nerves control limbs etc. over which individuals have, in normal circumstances, a measure of control. That the control is never absolute is demonstrated by the reflex test where the doctor taps the knee and the leg jerks, and it is only incredible will power that can override this reaction.

This book introduces two related types of marketing – conscious marketing (somatic) and unconscious marketing (autonomic). Many organisations believe that all of their marketing is carried out consciously by the marketing department. However, much of what the customer learns of the organisation may be from other staff, talks with fellow customers and suppliers, and the evidence of their eyes and ears when on the organisation's premises or using the products/

services. These messages are of vital importance to effective marketing and form the basis of Organisational Body Language. Organisations which discount the autonomic marketing functions do so at their peril because the messages that an organisation sends out without thinking are, like human body language, often stronger than the conscious messages. Telling customers that they are valued but actually ignoring their needs will produce considerable resentment. The experience nearly always wins out over the advertised message when there is a conflict between them.

The organisation seen from the customer's point of view

Marketing is perhaps best described as a two-way communication process between an organisation and its customers. Even such an apparently simple statement is actually rather complex. To fully understand the concept it is necessary to consider what is meant by the terms 'organisation' and 'customer'.

Organisations

Chris Argyris (1960) has defined organisations in the following terms:

> 'Organisations are intricate human strategies designed to achieve certain objectives.'

For many organisations, the objectives may appear to be relatively straightforward. Icelandair's (the national airline of Iceland whose operations are introduced at the end of this chapter) objectives are basically to provide an efficient, safe transportation system at a profit; a local authority's objectives will centre on providing a defined set of services to those who live within its area. These services, education, social services, libraries etc. will have certain performance standards set for them and there will be financial limitations. The objectives come first; the organisation is the human response to achieving them. Sections, departments, branches etc. are part of the system that has been designed to deliver the stated objectives.

A second definition by Pugh in 1971 suggests that:

> 'Organisations are systems of inter-dependent human beings.'

Note that this definition stresses the vital role of the human resource in achieving organisational objectives.

There are a number of recognisable sectors in which organisations operate according to their objectives. These sectors can be seen throughout the world:

1. *Private sector organisations.* These organisations have the maximisation of profits as their prime objective. They can be divided into three types:
   (a) manufacturing, for example, ICI, Ford and Airbus Industrie;
   (b) supply, for example, Shell.

(c) service, for example, shops, banks, private schools, professional sports teams and transportation organisations such as British Airways, Great North Eastern Trains, Stagecoach and Icelandair.

Many private sector organisations may fit into more than one of the above categories, for example Shell is concerned not only with the supply of oil and petrol but also with retailing the product to the consumer, and thus is both a supply and a service organisation.

2. *Public sector organisations*, such as local authorities, government departments, the Health Service, Colleges and Universities.
3. *Voluntary sector organisations*, such as charities, Church organisations and amateur sports clubs.

Prior to the 1970s, the different sectors employed differing styles of management but the recent trend has been a convergence to a more 'business' orientated management style, making the differentiation between sectors more difficult to define. Examples of this can be seen in the development of local management schemes in the Education and Health Services and the Management Information Systems employed in major charities.

There are four basic typologies of organisations, defined by ownership and prime function ('for profit' and 'not for profit' as the terms are generally understood), as shown in Figure 1.1.

In terms of size, the current position in the UK is that the for-profit/private ownership and the not-for-profit/public ownership sectors are in fact by far the largest components in terms of economic activity. The former includes the majority of all commercial activities and the latter the entire public sector including national and local government, the National Health Service, education and the armed forces. Prior to the 1980s, the for-profit/public ownership sector was also very large and contained some huge monopoly or near monopoly organisations. These included the steel, coal, gas, electricity and ship building industries, British Railways, British Airways and other nationalised concerns. Under privatisation these have been moved into the for-profit/private ownership

	Public ownership	Private ownership
For profit	Nationalised industry	Commercial organisations
Not for profit	National/local government	Voluntary sector

Figure 1.1 Typologies of organisations.

quadrant and are in many cases unrecognisable in terms of culture and means of operation from their nationalised predecessors.

Pettinger (2000) states that organisations consist of individuals, groups and relationships. Objectives, structures, systems and processes are then created to give direction and order to activities and interactions.

Objectives

Given the prominence that objectives receive in organisation definitions it is prudent to consider how objectives are set. Managers have, in the past, been taught that objectives should always be written in SMART criteria, i.e. they should be:

- **Specific** – that is, laid down in clear, concise terms.
- **Measurable** – in order to see if something has been achieved it must be capable of measurement. This will have been a success if . . . etc.
- **Agreed** – those responsible for the setting of objectives and those responsible for meeting them must agree that they are applicable to the situation and actually within the capability of the organisation and its employees.
- **Realistic** – there is little point in setting unrealistic objectives, as this only leads to failure and frustration if they are too high and complacency if they are set too low.
- **Timely**, i.e. with deadlines and time scales attached.

In a companion volume to this (*Mastering Customer Relations*) the author suggested that SMART should be amended to C-SMART with the all-important *customer driven* being the most important. He quotes the example of the failure of the Ford Edsel motor car in the late 1940s and mentioned earlier in this chapter. The vehicle was well-designed and built but nobody appeared to want to buy it. Interestingly it is now highly collectable to classic car enthusiasts.

The Ford Edsel met all of the SMART criteria: there was a *Specific* project, the outputs were *Measurable*, all of the Ford executives *Agreed* to the project, it was *Realistic* and it was built on *Time*. Unfortunately it was product led and not *customer centred*, i.e. it was the car the designers wanted to build rather than the one customers wanted to buy. If only *customer centred* had been the main objective, much investment would not have been wasted.

The next chapter of this book looks at organisations and the way they function in more detail.

Customers

A key performance criterion for most organisations is repeat business. The exceptions include health, policing and prisons where repeat customers are seldom wanted. Without customers, all endeavours of the organisation are worthless.

For those working in a retail or direct service environment, 'Who is the customer?' may appear an easy question – it is the person who is served. However, as will be shown, the true picture is more complex yet still easily

understood. What will be introduced here is the concept of a customer chain, each member of which having his or her own wants and needs. For the enterprise to be a success, all of the members of the chain need to be at least satisfied and preferably delighted.

One can distinguish between satisfied and delighted customers, as mere satisfaction *is no longer enough*, it being delighted customers who provide repeat business. To comprehend this it is necessary to consider the differences between needs and wants, two concepts that are frequently confused and sometimes treated as synonymous, which they are not.

A need is something that we cannot do without; a want is the method by which we would like the need to be satisfied, in many ways a want is a need with added value, just as delight adds value to mere satisfaction. Needs and wants receive detailed coverage in Chapter 6 of this book which examines the links between marketing management and motivation.

A customer can be defined in simple terms as:

One for whom you satisfy a need

It should also be obvious that needs are very basic and it is wants that grow in importance once basic needs are satisfied.

Unfortunately many people in organisations behave as if the definition above is enough and that all that is required is to satisfy a customer's needs. This may be true if the organisation only wants to see the customer, but most organisations want to retain their customers.

Whilst there are exceptions, once an organisation has an external customer (the difference between internal and external customers will be considered later in this chapter) they normally wish to retain that customer be it an individual or another organisation.

If you are starving, a meal, any meal, will suffice to satisfy your basic physiological need for food. Once the means (usually money) exist to choose how the need is satisfied, then it is wants that are important. 'I need breakfast, I want bacon, eggs, mushrooms and fried bread!'

It used to be thought that customers had to be satisfied, but in today's competitive world satisfaction is not enough – in order to retain customers they need to be delighted. Needs can be satisfied but to delight a customer it is necessary to understand their wants.

In modern society, basic needs are satisfied using money and money has to be earned, giving rise to what may be termed a *facilitory* need, a term first introduced in a companion volume to this, *Mastering Customer Relations.*

In order to earn money, large numbers of people *need* to travel to work (they have little or no choice) and thus transportation is a facilitory need in order to fulfil basic needs. Their preference for transportation forms their wants; they may want a motor car or for environmental or cost reasons prefer to travel on public transport. Put succinctly, they do not need a motor car but they do need transportation in order to gain the money to fulfil the basic needs of food and shelter etc.

The earlier definition of a customer can be refined to:

One for whom you satisfy a need and who you delight in respect of their wants

Organisations that follow this definition are much better placed to retain customers over the long term. Their customers are also much more likely to provide favourable comments to their friends, colleagues and relations, and as such perform an autonomic marketing function (see earlier) for the organisation.

The value chain and the customer chain

The following example is taken, with permission from *Mastering Customer Relations.* It is your child's birthday and sitting proudly in his bedroom is a new computer system bought from a major retailing chain.

In this section it is intended to use the above simple, but familiar scenario to demonstrate the importance of firstly the *value* and then the *customer chain.*

A modern home computer system consists of a number of components manufactured mainly from metal and plastic. The total cost of the metal and plastic is a very small proportion of what will have been paid for the system. What happens is that each step in the manufacturing, distribution and retailing process adds value to those bits of metal and plastic. The individual value of the materials in a memory chip may be only a few pence whilst the value of the completed chip is many times that (even though prices fell steadily throughout the 1990s). In assembling those components, value was added to them. At each stage of the assembly process, the part completed system is potentially worth more than at the preceding stage. Those who are interested in the more esoteric motor cars, boats or even aircraft know that it is possible to buy a kit of parts, a part assembled kit or a completed product, each costing more than the other to reflect the value that has been added during the various assembly processes.

By the end of assembly a diverse set of metals, plastics etc. will have made into a coherent computer system which the manufacturer/assembler can then sell to a retailer at a profit.

Profit according to accountancy practice is the situation where the book value of a company is greater at the end of an accounting period than at the beginning. That book value includes the worth of buildings, machinery, stock, cash held and monies owed. Thus it is possible to be in profit but to have no cash to pay bills. For the purposes of this chapter profit can be defined as the:

added value left when all the costs have been taken into account

When the computer leaves the factory for the retailers it will have incurred direct costs relating to the materials and labour used and the indirect costs of heating, lighting, administration, marketing, packaging etc. apportioned to each unit.

Provided it is passed on at an added value price greater than these costs then a profit will have been made. It is the customers' decision as to whether they have received value for money and whether the price charged is realistic – too high a price and it ceases to be added value and is perceived as a 'rip off'.

Retailers also add value to a product. In a later section of this chapter it will be shown how convenience is an important part of the marketing mix, but in addition to convenience the retailer may offer extra services such as advice, after sales service and even (in the case of computers) training if required.

Each step in the chain 'adds value' and within each step there is a customer relationship. If you bought the computer you are clearly a customer of the retailer who is in turn a customer of the manufacturer/supplier. However, each step in the manufacturing process has a set of customer relationships. If, to carry out a job, a person in a factory needs a computer delivered to a workstation in a certain condition and by a certain time, then such a person is a customer of the previous person in the process. The person is an *internal customer* and quite clearly fits the definition of a customer given earlier, namely:

One for whom you satisfy a need and who you delight in respect of their wants

Anecdotal evidence suggests that the better the internal relationships are, so the likelihood of the external customer being delighted increases.

One company that has recognised the importance of internal customer relations is Princess Cruises, the US operation of the British P&O Cruises Company. Passengers on their cruises are asked to submit the names of those who have given them excellent service with the view to an award. Whilst this is a laudable idea, passengers only come into contact with a minority of the ship's crew and thus the company has a parallel scheme whereby those crew members who interact with the passengers on a regular basis are able to nominate colleagues behind the scenes who have provided them with excellent service. A table steward can only provide the highest standard of service to a passenger if all those working unseen in the galley have provided the steward with a high standard of service, good food, cleaned plates etc.

Thus there are two main categories of customers – **internal** and **external** – and whilst the latter are important for the final profit, the former add value and have a vital role in quality.

In the computer purchase scenario introduced earlier, you bought the computer but gave it to your child as a birthday present – who was the customer, you or your child? It was your money that paid for it but it is your child who will (hopefully) be delighted with it. You may never use it. In this case you were a *purchaser* but your child was the *end-user*. The purchaser is the customer and the consumer is the end-user. Often the same, they may nonetheless be different individuals or even organisations.

The *customer chain* can be represented as shown in Figure 1.2.

It is important to realise that the purchaser and the end-user may not be one and the same but that there is likely to be considerable feedback between them,

Person 1 ●⟶ 2 ●⟶ 3 etc. ●⟶ Purchaser ●⟶ End User

Internal Customers *External Customers*

Figure 1.2 The customer chain.

so good customer care can double the potential for repeat business. The purchaser may come back again for something else but if the end-user is delighted with what the purchaser has provided for them and the purchaser relays a good report on the service they received, then the end-user may also become a purchaser.

We have presumed in our scenario that your child is delighted with the computer. However, if the child is dissatisfied then the retailer has probably lost a customer even if the service to you was good – you have become vicariously dissatisfied. One should not, perhaps, refer to the parent–child relationship as part of the customer chain but in the scenario examined that is precisely what it is; your child is in effect your customer, and if the child is dissatisfied then you are likely to be also.

It is easy to see the relationship between internal and external customers and purchasers and end-users in the retail and commercial segments of business but less easy to understand the customer relationships in other areas such as the public service. Who are the customers of the Prison Service, is it the prisoners or is it the taxpayers who pay for the service? Other areas of the public sector face the same dilemma and many use the term *client* for the end-user to distinguish the users of a service from those who pay for it.

Facets of marketing

Marketing is the key link between the organisation and its external customers. A simplistic view of marketing might equate it mainly with advertising as stated earlier but, as this book will show, marketing is a multi-faceted activity with implications for all the areas of organisational operation.

The chapters of this book will introduce the major elements of marketing and relate these to the management function within organisations. These major elements are:

- market knowledge, which considers the nature and operation of the markets served by the organisation and its competitors;
- market research, i.e. the acquisition of market intelligence;
- competition;
- customer needs and wants;
- products and branding;
- product life cycles;
- customer relations and behaviour, i.e. understanding the customer and his or her relationship with the organisation;
- grudge purchases, a term used for those products and services that are needs but definitely not wants – insurance is an example, obviously important but most people begrudge paying for it;

- costs and benefits relating marketing to the financial activities of the organisation;
- quality;
- advertising;
- sales;
- public relations;
- technology as applied to marketing activities;
- distribution channels.

Each of the above forms a chapter in this book, chapters which are linked by their applicability to marketing and the management function.

Marketing as a management activity

Supervision and management can be described as 'getting things done through the activities of others'. Often it will mean having direct responsibility for others but in some cases one will merely be reliant on others, having no direct control over their activities but needing their co-operation in order to ensure that tasks for which the manager is responsible are carried out.

Henri Fayol, writing in 1916, defined management in the following terms:

> 'To manage is to forecast and plan, to organise, to command, to co-ordinate and to control.'

By the 1950s, motivation had taken the place of command so that Brech defines management in terms of a social process consisting of planning, control, co-ordination and motivation (Brech, 1957).

An even more recent definition, that of Koontz and O'Donnell in 1976 (quoted in Cole, 1993), followed a similar line:

> 'The five essential managerial functions are: planning, organising, staffing, directing and leading and controlling.'

Contemporary organisations have tended to specialise in managerial functions. Examples to be found in a great many organisations include; financial management, strategic management, human resource management, quality management, operational management, supply chain management etc. Whilst such distinctions may serve to fit categories of managerial activity into the sub-structures of the organisation, they can disguise the holistic nature of management. It is, in fact, very difficult to pigeonhole types of management. It is difficult to manage the human resource without taking account of the financial implications of staff changes, training etc., and it is almost impossible to consider human resource management without thinking about the operations and activities that those people carry out and the quality standards to which they work.

Marketing is very much an holistic management activity. One of the problems that organisations face when they set up distinct functional areas is that staff

in other areas may begin to perceive, wrongly, that they have little or no role in a function outwith their own area. Setting up a quality assurance department may, in practice, be counterproductive as it can detract from the fact that quality is a part of everybody's job and not the preserve of one particular part of the organisation. Wille (1992) has stressed the importance of quality pervading the organisation, and so too should marketing as the relationship with the customer is the concern of all staff and not just those in the marketing department.

This book is just as relevant for those working outwith the formal marketing function as for those with marketing in their job title.

The marketing mix – 4 and 7Ps/4Cs

Marketing, as discussed earlier, comprises a number of elements. The relationship between these facets has become known as the marketing mix, a term coined by Philip Kotler (1980). Just as a cake will not be complete or appetising without all of its recipe ingredients present in the correct quantities, so the marketing mix provides a recipe for effective marketing. Just as the recipe for a successful meal requires a careful balance of ingredients and processes, effective marketing is based on the right balance of marketing elements and processes depending on the nature of the product, service or idea being marketed. It is these ingredients that make up the major sections of this book. They are introduced below and then developed in Parts Two to Five of this text.

4Ps

Initially, marketing authorities used a marketing mix consisting of 4Ps: **Product**, **Price**, **Promotion** and **Place**. For success it was necessary to have the **product** or service the customer required, at the right **price**. **Promotion** channels needed to bring details of the product to the customer and delivery needed to be at a time and **place** to suit the customer. For many years the 4Ps provided a useful vehicle for discussing the marketing mix.

7Ps

Later writers on marketing added three further Ps to reflect the complexities of the market in the second half of the 20th century. In addition to a mix comprising **Product**, **Price**, **Promotion** and **Place** were added **People**, because it is people who are ultimately responsible for the development of the supplier–customer relationship, **Process**, i.e. the actual mechanics of the product/service acquisition and **Physical evidence** including packaging etc.

It is possible to argue that these extra 3Ps were actually included in the original four. **Physical evidence** can well form part of the **product**, especially where it is a supplementary product (see Chapter 7) and there may be a **people** and **process** aspect to all of the original 4Ps.

4Cs

A concept that is of considerable use is that of Kotler's (1980) 4Cs. By replacing **Product** with **Customer value**, **Price** with **Cost**, **Promotion** with **Communication** and **Place** with **Convenience**, a much more useful and manageable marketing mix can be developed that reflects contemporary 21st century practice. The 4Cs are summarised below and will then be considered alongside the related 4Ps in Parts Two to Five of this book.

Customer value

As stated above, this is the term that is used instead of product. It reflects the fact that it is not the product *per se* that the customer buys or uses but what he or she perceives that product to be and how he or she values it, i.e. a benefit.

Price/cost

A five-dollar bill, a twenty-pound note or a hundred-rupee note has no intrinsic value. The value is that which the person who uses it ascribes to it.

How much is your home worth? Assuming that you own your home (if you don't, then the answers relate to your landlord), there are a number of possible answers:

- how much you paid for it;
- how much it would cost to rebuild it;
- how much you could sell it for.

The last amount is the nearest to the truth; the value of any product or service is that which a customer is prepared to pay. A supplier may have the best product or service in the world, but if the price is deemed too high, then there will be few customers. Conversely, if the price is too low, questions may be asked about quality.

Price is what is charged for your product or service, and all products and services have a price attached to them. In government it may be the taxpayer who provides the resources indirectly but nothing comes free.

The price is built up by looking at all the costs that go into the provision of the product or service: those which are fixed (i.e. the organisation would have to pay them whether they made one or a hundred items, or serviced one or a hundred people); those that are variable (these include materials that are needed more of as more product is produced); overhead costs (heat, light, marketing and distribution); the desired level of profit; and what the market will bear. The difference between the organisation's costs and the price that the customer is prepared to pay represents the margin or profit.

For those working in the public sector the word 'profit' may not apply, but profit is the added value that is received over and above costs. In situations where money does not change hands, profit could be considered in more subjective terms. For example, schools do not make a profit but they should add value;

charities may see profit in terms of alleviating distress or saving lives, hospitals may be able to generate extra income to allow improved health care facilities to be installed. In balance sheet terms, a company has made a profit when it has more assets at the end of an accounting period than at the beginning. In educational terms, a school or college could have made a 'profit' if the pupils were more capable at the end of a term or a semester than at the beginning, Equating such ideas from the private sector into the public and voluntary sectors has proved difficult, but it is not impossible given some lateral thinking.

Promotion/communication

Organisations spend large sums on advertising. If they have the right product at the right price, it is pointless if nobody knows about it. Promotion, including advertising, lets people know and, often just as important, keeps the product and service in their minds. Individuals working for organisations have two roles to play:

1. They need to know the promotions that their organisation has underway so that they anticipate customers' requests and queries.
2. The way they deal with customers can be an advertisement for the organisation and its products/services *per se*.

All customers talk to their friends and colleagues and tell them about good and bad products and services. Personal recommendations are very important in purchase decisions.

The term *communication* rather than *promotion* is preferred because communication is a two-way process and allows customers to give feedback. All interactions with customers, whether face to face, on the telephone or by letter, are communications and the way they are handled can promote the product or service and give signals about the type of organisation that the customer is dealing with.

Place/convenience

Does your customer come to the organisation or does it go to the customer?

Not all transactions take place on the supplier's premises and recent years have seen a move towards making the provision of products and services convenient to the customer. New technologies including the *Internet* offer exciting prospects, especially for the delivery of services. With domestic video conferencing through Windows® on a PC, a whole range of consultancy opportunities in the health, financial advice and educational markets are being opened up.

Products and benefits

Modern selling techniques have shifted the emphasis away from the product or service and onto the benefits to the customer of acquiring that product or service.

In describing the SCRS (Sales Control and Record System), Fenton (1984) makes a point of introducing the benefits straight away – it is not just a system that the customer is purchasing, it is a means of doing business. In a similar vein, a car is not just an object but it is personal transportation, it is freedom, it may even be a method of expressing an image. Indeed image is a very important supplementary to a number of products, possession of which sends out a message regarding the customer's status.

Products and services

It was once thought that there was an intrinsic difference between products which were tangible, i.e. could be touched etc., and services which were more intangible. Whilst there are undoubted differences say between a motor car and an operation in a hospital, when considered in terms of benefits then identical rules apply. This book does not make a distinction between products and services, concerned as it is with customer value. Throughout the book there will be references to product/service, as the opinion of the author is that they are really one and the same.

This Part of the book continues with a consideration of the organisational analysis that needs to be undertaken prior to considering the marketing management and strategies to be employed, a discussion of what is a market, market research and finally the nature of competition, before considering the marketing mix in Parts Two to Five.

Introduction to Icelandair case

The following provides an introduction to the major Case Study (Icelandair) that is used in this book.

Case study introduction – Icelandair

The marketing operations of Icelandair, the national airline of Iceland, form a major Case Study running throughout this book. In order for the reader to gain the maximum understanding of the importance and relevance of this case material to the text, it is necessary to consider a degree of background material.

The operations of any organisation depend on a whole host of both internal and external factors, and a consideration of these factors is required in order to understand the nature and direction of the organisation.

In order to comprehend the importance of Icelandair to the marketing concepts that will be developed in this text, it is necessary to understand certain facts about both the airline industry and the geopolitical situation of Iceland.

As the text will show, Icelandair have been growing in the Western Europe–North Eastern USA market, one of the most competitive airline markets in the world. To comprehend how a very small airline from one of the smallest European nations (and one that is at the extreme geographic periphery of the continent) has been so successful requires a study that will be somewhat technical but also, it is hoped, interesting.

Icelandair – a brief history

The roots of Icelandair can be traced back to 1937 with the formation of Flugfėlag Akureyrar, renamed Flugfėlag Islands (Islands is the Icelandic for Iceland) in 1940 when the headquarters were moved from Akureyei on the North Coast to the Icelandic capital, Reykjavik. It was this company that later adopted the trade name Icelandair. In 1944 another company, Loftleidir, was formed, soon changing its name to Icelandic Airlines.

The first commercial international flight to operate out of Iceland was on 11 July 1945 when a converted Catalina seaplane began a service to Larges Bay in Scotland.

Iceland and World War II

In World War I, Britain had nearly been brought to its knees by the operation of German submarines (U-boats) attacking the vital North Atlantic convoys. The introduction of the convoy system brought not only much needed food and military supplies but also troops from Canada and, from 1917 onwards, the USA. As an island nation, Britain depended on being able to secure the sea routes leading to and from the British Isles. Airpower was in its infancy and convoy protection depended upon destroyers and sloops ringing the convoy and forcing away the U-boats. Britain was in fact very late in instituting a convoy system, experts deriding the idea of putting merchant ships in convoy and believing that such a concentration would make the job of the U-boat commanders easier, not harder. It was not until as late as 1917 that convoys became the norm for vessels crossing the North Atlantic (Warner, 1975). In 1939, at the outbreak of World War II, the British were quick to reinstitute the convoy system, although again they suffered heavily at the hands of a new generation of U-boats and their commanders.

One new weapon against the U-boat was the long-range patrol aircraft. Even with the development of the snorkel device by the Germans later in the war, diesel-powered submarines still needed to surface to recharge their batteries and were thus vulnerable to air attack at this time. It is not often realised that a diesel-powered submarine is much faster on the surface than submerged, and thus U-boat commanders were often obliged to stalk convoys whilst surfaced. Unfortunately for the allies, there was a huge gap in the centre of the North Atlantic which could not be patrolled by aircraft

operating from the British Isles or the USA/Canada and it was not until 1941 that small escort aircraft carriers converted from merchant ships were available. To give an illustration of the scale of the problem, 564 allied merchant vessels with a tonnage of 2,926,339 million gross registered tonnes were sunk between September 1941 and May 1942 (Watts, 1976). Not only did this represent a major loss of precious ships and cargoes but also of the lives of the merchant seamen. New ships can be built but lives cannot be regained.

At the start of World War II, Iceland was a dependency of Denmark. Germany overran Denmark (but not Iceland) in the Spring of 1940. Situated towards the North and the centre of the Atlantic, Iceland occupies a key strategic position to the North of the convoy routes.

As an ally of Denmark, Britain despatched military forces to Iceland in 1940 and set up anti-submarine operations using maritime patrol aircraft. This went someway towards bridging the North Atlantic air gap and was to be crucial when the Western Allies began to ship supplies to Russia after the German invasion of that country in 1941. The British operation was turned over to the USA in July 1941 and, as the USA was then neutral, ships sailing from the USA to Iceland could do so with a neutral escort, the British then escorting vessels from Iceland to the UK. Neutrality proved little bar to some U-boat captains and a number of US Navy escorts were actually attacked and one, the *USS Rueben James*, sunk prior to the US entry into the war in December 1941.

With the US entry into the war and the need to move the huge US armies to Europe, the continuing need for supplies from the USA to Britain and the Russian convoys, operations out of Iceland multiplied and led to the construction of an air base at Keflavik. This base became the NATO air base of Keflavik after World War II and was and remains an important part of the NATO defence operations. It also provided Icelandair with modern facilities and long runways.

The importance of Keflavik to NATO operations was demonstrated when the fictional taking of Iceland by the Warsaw Pact was used as a major part of the plot in the best selling novel, *Red Storm Rising* (Clancy, 1987).

In the late 1940s into the 1950s, Icelandair expanded its international operations into other parts of Western Europe with services to London, Luxembourg, Stockholm, Amsterdam, Copenhagen and Helsinki. In 1953 the first services to the USA were introduced with fares that were significantly lower than their competitors, albeit using slower aircraft.

Hubs and spokes

Icelandair uses Keflavik Airport and air base as what is known in the airline business as a 'hub'. Other hubs include Heathrow (British Airways), Luton (easyJet), Atlanta, Georgia (Delta Airlines) and Brussels (Sabena).

The airport is the hub and the routes flying out of it are the spokes. Passengers fly into the hub on a spoke and then transfer to another plane

that takes them out along another spoke. Such an operation maximises aircraft utilisation and helps ensure that passengers remain with the same airline. Where the latter is not possible, airlines negotiate agreements with other carriers, often as part of a code sharing agreement. Icelandair's partners include British Midland (whose hub is the East Midland's Airport in the UK) and Scandinavian Airline Systems (SAS).

Situated as it is in the middle of the most trafficked international air route in the world, Europe to North America, Iceland Keflavik is a very important and useful hub and accounts for the importance of Icelandair in the North Atlantic market and the airline's inclusion in this text. As will be shown later, the position of Iceland allows Icelandair to use the same aircraft on its Iceland-US services as used on the Iceland–Western Europe ones.

Using the Autumn 2000 timetable as a guide, the operation of the Icelandair hub and spokes can be clearly seen. All times are local (Summer time) and for simplification, to illustrate the principle, only those services connecting with a flight to North America are shown. In addition there are non-connection services purely to Iceland and a large number of services from other towns in Europe, which connect to the services shown. Thus the flights from Copenhagen to Iceland are fed by flights from Aalborg, Aarhus, Brussels, Dusseldorf, Gdansk, Geneva, Gothenburg, Hamburg, Helsinki, Luxembourg, Munich, Vienna, Warsaw and Zurich. Madrid and some German/Swiss cities are a direct service during the Summer but indirect in Winter.

Travelling from Europe to North America, the timetable is shown in Figure 1.3.

Travelling from North America to Europe the timetable is shown in Figure 1.4.

Thus, each afternoon, eight flights arrive at Keflavik from Western Europe between 1500 and 1600 and then between 1750 and 1845, six flights leave for the Eastern seaboard of North America with onward connections to California etc. The same pattern is repeated each morning with a series of transatlantic flights connecting with ones to Western Europe.

Diagrammatically the hub and spokes can be represented as shown in Figure 1.5.

With the exception of Glasgow and Frankfurt, the Western European direct services are to capital cities. Frankfurt is the home of the European Central Bank and also falls in the area covered by United States Army and Airforce operations for NATO, and Keflavik is a major USAF base. Glasgow will be covered throughout this text when considering Icelandair's marketing in Scotland. Whilst Glasgow is not the capital of Scotland, it has long been known as the 'second city of the Empire' after London.

Air services across the North Atlantic

The North Atlantic route between Western Europe and both the United States and Canada has been one of the most densely travelled of all trade

INBOUND FROM EUROPE

Departure Airport	*Time*	*Arrive Keflavik*
Amsterdam	1400	1520
Copenhagen	1425	1535
Frankfurt	1400	1535
Glasgow	1400	1510
London	1300	1500
Oslo	1445	1525
Paris	1415	1545
Stockholm	1410	1520

OUTBOUND TO NORTH AMERICA

Depart Keflavik	*Arrive*	*Destination*
1650	1845	Baltimore
1645	1820	Boston
1655	1835	Halifax, Nova Scotia
1630	1750	Minneapolis
1640	1840	New York
1635	1845	Washington

Figure 1.3 Icelandair operations Europe–North America.
(Note: Eastern USA is 4 hours behind Iceland, 5 behind UK. Iceland is 1 hour ahead of the UK and 2 hours ahead of Western Europe.)

routes. Up to the introduction of regular air services, much national prestige was put into building the biggest, fastest and most luxurious of ocean liners to operate across the North Atlantic. However, once aircraft could make the crossing in safety, the days of the classic Atlantic liner were numbered.

The Atlantic was first flown by the British aviators Alcock and Brown in 1919 using a converted Vickers Vimy bomber. The first solo crossing was that of Charles Lindbergh in 1927. However, up to the late 1930s there was no commercial aircraft available that could carry passengers across the Atlantic. It was not until 1937 that the first airmail services across 'the Pond' (as the ocean is known) commenced, followed by both Pan Am and BOAC (British Overseas Aircraft Corporation) flying-boat services from the Eastern seaboard of the USA to the UK. World War II then intervened but whilst the war put an end to commercial flights across the Atlantic, it did act as a great spur to the development of larger aircraft with much greater ranges and payloads.

In 1933 Boeing launched a small monoplane airliner with only two engines – the Boeing 247. Prior to this, airliners had been of a box like construction and there was a belief that a minimum of three engines were required to cover any commercial range with safety. The Douglas Aircraft company followed suit with the DC1, which developed into the famed DC3

INBOUND FROM NORTH AMERICA

Departure Airport	*Time*	*Arrive Keflavik*
Baltimore	2045	0625
Boston	2130	0630
Halifax, Nova Scotia	2230	0545
Minneapolis	1920	0620
New York	2050	0620
Washington	2045	0625

OUTBOUND TO EUROPE

Depart Keflavik	*Arrive*	*Destination*
0745	1255	Amsterdam
0805	1305	Copenhagen
0725	1250	Frankfurt
0755	1100	Glasgow
0745	0045	London
0735	1205	Oslo
0745	1305	Paris
0740	1235	Stockholm

Figure 1.4 Icelandair operations North America–Europe.
(Note: Eastern USA is 4 hours behind Iceland, 5 behind UK. Iceland is 1 hour ahead of the UK and 2 hours ahead of Western Europe.)

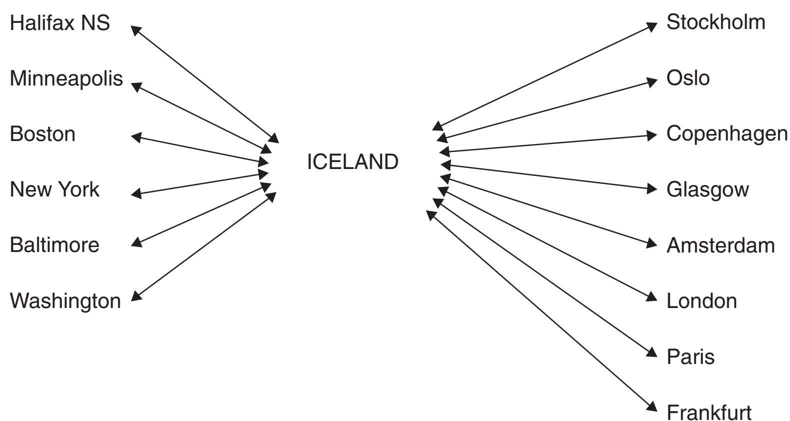

Figure 1.5 Icelandair's hub and spokes.

or Dakota that first flew in 1935. By the end of World War II, thousands of Dakotas had been built for the USAF and the RAF and many were demilitarised to form the nucleus of a growing commercial airline sector.

In the late 1940s the technology existed for propeller driven aircraft of sufficient size and range to carry a commercial payload across the Atlantic

although, in the early days, refuelling was often necessary at Gander in Canada, Prestwick in Scotland or Shannon in Southern Ireland. Indeed the increase in traffic brought temporary prosperity to these airports, vital as they were for the North Atlantic traffic. The Boeing Stratocruiser, the Lockheed Constellation and the Douglas DC6 and DC7 began to bring North Atlantic air travel to a mass market. However the airlines were not in the market for economy passengers and law suits were filed against those operators who tried to offer cut price fares, the airline cartel being very strong at the time and determined to keep prices high, especially as demand far exceeded supply.

Of engines, speed and range

The propeller driven aircraft of the late 1940s and early 1950s had one problem. A propeller begins to lose efficiency the closer the speed of the airframe approaches that of the speed of sound. The speed of sound (Mach 1, named after the scientist Mach) varies according to the density of the air. An aircraft moves forward because the propulsion system moves a column of air backwards. Newton's Third Law of Motion states that for every action there is an equal and opposite reaction. Thus the reaction of the engine moving air backwards is for the engine and its airframe to move forward. Unfortunately for the propeller, it is theoretically only possible for it to move an airframe at about a maximum of 500 mph. If power is increased, the propeller tips are moving so fast as to distort the backward movement of the air column and there is no increase in forward motion.

Nevertheless, slow as they were compared with modern jets, the propeller driven aircraft were much faster than the ships on the North Atlantic route. The engines were however very complex, as piston engines tend to be, and there were not enough aircraft to provide competition for the shipping companies and prices were high. Speed, as was shown by the fares charged for Concord flights, commands a premium price.

The opening up of the mass market for North Atlantic (and indeed, the world) air travel came with the introduction of the Boeing 707 into commercial service in September 1958 and the Douglas DC8 which entered service in September 1959. The UK had been first into the jet market with the Comet, which made its first commercial flight as early as May 1952 and its first commercial crossing of the North Atlantic in October 1958 in an enlarged form thus beating Boeing by days. The Comet, however, despite being the first commercial jet airliner, suffered from fatigue problems and a lack of payload and was not a commercial success.

Whereas the maximum speed of a Lockheed Super Constellation (perhaps the ultimate in commercial piston engined designs) was around 300 knots (nautical miles per hour), that of the Boeing 707 approached 500 knots at 35,000 feet (where the air is thinner) thus cutting considerable time off the North Atlantic crossing. It was this ability to cross the

Atlantic in half a day that spelt the end of the North Atlantic shipping industry.

The thinner the air is, the faster an aircraft can fly. Thin air occurs at high altitude but at such heights passengers cannot breathe. Thus the development of pressurised aircraft ran alongside the development of propulsion systems.

By the late 1960s a new type of jet engine (the fan jet) that was highly efficient and which could lift greater and greater payloads had been developed, and this let to the introduction of a series of wide-bodied (i.e. with twin aisles in the passenger cabin) airliners, the Boeing 747 (Jumbo) being the first followed by the DC10, the Lockheed Tristar and the Airbus A300/310 series. These aircraft could carry hundreds of passengers across the Atlantic and with their introduction fares became much more affordable for the tourist as well as for the business user. These engines were also much more reliable, an important consideration in the Icelandair story.

Twin city pairs

The most cost-effective routes for airlines to operate are those known as twin city pairs, where the two destinations generate enough traffic to fill up an aircraft to past the breakeven point. London–Paris, London–New York and Los Angeles–Chicago are good examples. Such routes can justify large aircraft being deployed on them. For less densely trafficked routes, especially those which feed the hubs mentioned earlier, smaller aircraft have been developed. As the major players in the airframe market both Boeing (which now includes McDonnell Douglas) and Airbus in Europe have a family of aircraft ranging from short-haul to long-haul products. All but the largest of these are twin engined.

Twin-engined aircraft are cheaper to purchase and to run but, owing to a rule known as ETOPS (Extended Twin-engine Operations), they may be restricted on over-water routes.

ETOPS

Even the largest Boeing 747 or Airbus A340 does not need the full power from four fan-jets whilst cruising, indeed one or two engines will keep it in the air. However, should an engine fail on a four-engine plane, there are three more; on a twin-engined plane there is only spare in the event of a failure. The Federal Aviation Authority in the USA developed a 60-minute ETOPS rule for twin-engined aircraft. The plane must only fly on routes where there is a suitable airport on which to land within 60 minutes of an engine failure. This restricts the ability of twin-engined aircraft on the North Atlantic routes. However, as Sabbach (1995) has shown, modern engines can run for as many as 20,000 hours without removal for major

maintenance and thus the chances of a second engine failure are very slight indeed.

If an aircraft has to be within 60 minutes of a diversionary airstrip it is impossible for a twin-engined model to fly across even the North Atlantic from Europe to North America. However, if a 180-minute ETOPS certification is approved, i.e. one where the aircraft must be three hours from an airport, then the world and the ocean routes are opened up to twin-engined aircraft so certified. Indeed, there is only a small area in the middle of the Pacific Ocean, and Antarctica, that are forbidden to such aircraft. The profitable North Atlantic routes are thus opened up to aircraft that cost less to buy and less to operate than three- or four-engined models.

The three-engined medium-range Boeing 727 launched in the 1960s was one of the world's most successful passenger jets, having operating costs, range and payload that met airline requirements almost exactly. Its replacement in the 1980s was the twin-engined Boeing 757, a single-aisle, narrow-bodied plane much in demand for the operators of charter flights linked to package holidays. Equipped with identical instruments to those used in the wide-bodied Boeing 767 (introduced in 1982), pilots can be certified on the 757 and 767 simultaneously. The Boeing 757 is the main airliner operated by Icelandair for which it carries 183 to 189 passengers (22 of whom are in business class).

The Boeing 757 and 767 received ETOPS 180-hour rating after 2 years of commercial service had demonstrated the incredible reliability of the engines. It was this reliability that led Boeing to seek certification for the wide-bodied Boeing 777 immediately upon its debut into commercial service in 1995, which involved extensive pre-introduction testing, a process described in detail by Sabbach (1995). Operating just one major type of aircraft on both sides of the hub (Iceland–North America and Iceland–European mainland) gives Icelandair considerable economies in maintenance etc. The UK 'no-frills' airline easyJet, which has been the subject of television documentaries, uses the same approach, operating just one type of aircraft as a cost-control measure.

Thus Icelandair has the use of Keflavik with its huge runways situated across the major air route between Europe and North America and operates a fleet of Boeing 757 aircraft that are rated for extended flights across ocean areas.

Icelandair first came to the attention of the author when flying home to Scotland from Vancouver in Canada. The transatlantic flight flew almost directly over the author's house and then on to London where there was the need to change terminals and catch a flight to Glasgow, adding considerably to the journey times. There are a few direct flights from Glasgow to the eastern seaboard of North America, mainly to New York and Toronto, but they tend to be more expensive than flying a twin city pair of London to New York or Toronto. Flying from Scotland via London involves setting off in almost the opposite direction from that desired. Although maps show New York etc. to be west of the British Isles, because the earth is

a globe the most direct route is a great circle that involves a north-west track out over Iceland, then west to Greenland and finally south-west over Canada and the maritime states of the USA.

Owing to a phenomenon known as the jetstream, a high-altitude wind that blows west to east over the Atlantic, airliners normally cover the North America to Europe leg faster than the Europe–North America one. The average time taken between Glasgow and New York via London is about 12.5 hours, allowing for the change of terminals in London. Via Iceland, the time is just over 9.5 hours.

What will be demonstrated throughout this text is the manner in which Icelandair have marketed the geographic position of their hub etc. in order to appeal to the European and especially the Scottish market for transatlantic air travel.

Flugfėlag Islands and Loftleidir merged in 1973, and in 1979 the brand name Icelandair was adopted as the international tradename. Keflavik was developed as the major hub from 1989, with the smaller airport at Reykjavik handling domestic traffic. This coincided with an easing of cold war tensions, thus releasing some of Keflavik's runway capacity.

Icelandair also owns extensive hotel and tourism operations in Iceland itself and is the largest private company in the country, employing over 2000 staff.

The company introduced a new livery, uniform designs and logos in 1999 as part of a process to stay ahead in a highly competitive market.

The market

Icelandair are, in fact operating in a number of separate but linked markets, namely:

- the transatlantic market;
- the market to and from Iceland;
- the Iceland vacation market.

As such, those in charge of marketing management need to balance the needs of these various markets and see how they can have a synergical effect upon each other. For instance, transatlantic travellers who take a two-day break in Iceland are utilising two different markets. The skills and knowledge required to run a transatlantic airline are different from those needed to support part of the vacation industry, and the organisation needs to be and is aware of this.

Iceland has been steadily expanding its share of the lucrative but highly competitive European Cities Short Break market. Reykjavik and its environs are well placed to offer a very different experience from that of many other cities, and Iceland and Icelandair have been marketing this uniqueness.

Throughout this book, Icelandair operations will be used to support the concepts covered to provide a practical example of how marketing concepts are applied in a commercial and competitive environment.

Icelandair's Scottish market

Icelandair's Glasgow–North America operation, as an example of how the airline operates, accounted for 34% of the airline's UK sales in 1998. In revenue, 87% of these sales were in economy (known as coach in the USA) with 13% being business-class, hence Icelandair's wish to boost business-class sales. As premier tickets, these generate much more revenue per passenger mile than economy tickets.

The breakdown of North American destinations from Glasgow using Icelandair in 1998 was:

Boston	28%
New York	26%
Florida/Orlando	25%
Baltimore/Washington DC	10%
Halifax, Nova Scotia	6%
Minneapolis	4%

Given the importance of Florida as an outbound UK tourist destination, it is no surprise that it is the third highest. New York is served by Continental Airlines from Glasgow, but Icelandair are the quickest to Boston from Scotland thus giving the airline a prime market position.

According to Icelandair, the issues that the Scotland–North America operation face are:

Low brand awareness

Despite advertising, many potential customers are not aware that Icelandair offers a convenient service to North America. This is being addressed via newspaper advertising and special promotions, and advertising on the sides of buses etc. in an attempt to create awareness over a wide cross-section of the population.

Low share of business-class sales

This issue is being addressed by targeting potential corporate groups using a dedicated sales team.

Overdependence on consolidators

The operation of consolidators is best seen in the pages of the weekend newspapers. They consolidate ticket sales by buying from the airlines at a discount and then offering tickets directly to customers. Overdependence on consolidators means that every ticket is being sold at a large discount and thus the airline is not gaining maximum revenue.

Alliances

As will be covered in Chapter 5, 64% of airline business is conducted through members of one of the major airline alliances. The major alliances are:

Oneworld: British Airways, American Airlines, Canadian Airlines, Cathay Pacific and Qantas.

Star Alliance: Air Canada, Lufthansa, SAS, British Midland, Thai Airways, United Airlines and Varig of Brazil. Icelandair has major links to this alliance.

KLM/Northwest: KLM, Northwest, Continental and Alitalia.

Atlantic Excellence: Delta, Swissair, Sabena, TAP (Portugal) and Austrian Airlines.

Overall, Icelandair has 0.71% of the global market, making it a fairly small player in global terms but one whose market share on the North Atlantic will need to be taken into account by the larger players. The company has grown faster than most European Airlines over the past few years (13% on average, according to Icelandair's figures) and has a very young fleet of aircraft.

In addition to the threats posed by the established airlines, the latter part of the 20th century saw the growth of a low-cost airline sector prompted by government deregulation of airline operations in the developed world. Operating as 'no-frills' airlines, operators such as easyJet in the UK rapidly built up a route network and began to challenge established players. easyJet have been profiled by Swarbrooke and Horner (1999) and there is no doubt that established operators need to take these newcomers into their calculations when planning future developments and setting prices.

Summary

This chapter has introduced the major facets of marketing, stressing the holistic nature of marketing as an organisational management function. Up to quite recent times, many organisations operated on a product-led basis, developing products and services with little regard to the actual needs of customers. The contemporary approach is one that is customer driven, based on researching the needs and wants of the customer base and then satisfying the needs and wants in a manner that is cost effective for the organisation. Not all organisations operate for profit but even those in the public sector need to market their products and services and adopt a more customer-driven approach to all aspects of their operations, including the setting of objectives.

Marketing may be somatic or autonomic. Whilst the former may well be a function of a dedicated marketing department, the latter involves all the staff of the organisation and may also include actions by current customers who can

provide both positive and negative marketing by their comments to those they are in contact with.

The marketing mix of the 4/7Ps and 4Cs provides a useful starting point for an examination of marketing management.

Useful website

www.icelandair.com Icelandair website

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