

## MARKETING IN CONTEMPORARY ENVIRONMENT – TRADITIONAL Vs. VALUE-ADDED MARKETING

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### Abstract

Contemporary business environment, characterized mainly by many, frequent and strong changes, creates new challenges that companies must face. Marketing, one of business functions that is among those most exposed to the market, is therefore forced to conduct changes in its own concept. Because of this reason, marketing is today shifting from the sales concept, often identified with sales or promotion, to a function that is creating and positioning added value for personal and business consumption. This shift is being accomplished through actual marketing trends, first of all through client orientation and consumer behavior, cooperation with consumers in marketing strategy creation, customer relationship management, focusing on immaterial resources and creativity. Value-Added Marketing is no longer tactical element; it has moved to strategic position and its task is to ensure long-term survivor and success for the company. It is based on the premise that if one wants to achieve certain market share, he has to offer products superior to those currently available. This value maximization is capitalized by creating more product attractiveness and satisfaction for the consumer, that will in the end result with better market penetration and consumer preference and also lead to prominent rates of repeated or multiple repeated purchases.

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## EVOLUTION OF MARKETING

In terms of evolution, marketing has inherited a sales concept that has always included remainders of the production concept,<sup>1</sup> so the marketing concept is often equalized with sales or promotion or economic publicity, which is not correct and which indicates that its conceptual approach is actually not fully comprehended. Among many definitions of marketing in which its fundamental determinants are attempted to be placed, it is enlightening to state the one accepted by AMA (*American Marketing Association*)<sup>2</sup>: Marketing is the process of planning and executing the pricing, promotion and distribution of goods, ideas, and services to create exchanges that satisfy individual and organizational goals. Therefore, marketing is not merely sales or promotion – it is much more than that. Meler<sup>3</sup> defines the fundamental objective of marketing as efficient and profitable satisfying of consumer needs, while Grbac<sup>4</sup> claims the task of marketing is to create and stimulate to purchase what the consumers need and want.

Work on coordination between the business resources and consumer needs and desires ensures more successful business and higher profits for business entities, which is ultimately their objective. In other words, marketing is the process of creating and exchanging values between business and other entities and their consumers who are in the center of marketing interest because a business entity may only achieve its objectives if it satisfies consumer needs. The purpose of business is not attempting to sell what an enterprise is able to produce, but to sell what someone wants to buy. We distinguish between three approaches or business entities' market focuses in marketing theory:<sup>5</sup>

1. Focus on consumers, which implies the identification of their desires and their fulfillment by using a set of activities to achieve the objectives;
2. Coordination and integration of a business entity so that all segments of the human resources (managers and employees) have the same objective: short-term and long-term satisfaction of consumers; and

<sup>1</sup> Meler, M. (1999) Marketing, Ekonomski fakultet Sveučilišta u Osijeku, Osijek, p 12

<sup>2</sup> AMA Board Approves New Marketing Definitions, Marketing News, 1 March 1985, p 1

<sup>3</sup> According to Meler, M. (2003) Neprofitni marketing, Ekonomski fakultet Sveučilišta u Osijeku, Osijek, p 48

<sup>4</sup> Grbac, B. (2006) Identitet marketinga, Ekonomski fakultet Sveučilišta u Rijeci, Rijeka, p 11

<sup>5</sup> Adapted according to Nickels, W.G. (1987) Understanding Business, Times Mirror / Mosby College Publishing, St. Louis, p 179

3. Focus on profit, which implies finding of products and services enabling a business entity to generate profit and survive and expand in the direction of a higher degree of customer satisfaction, which requires redesign of the objectives ensuring a good market share.

In the business practice of a business entity, it is the successful marketing and business strategies that optimally reconcile the focus on consumers (because unconditional acceptance of this concept may result in production of goods and services that are extremely attractive to consumers, but their production and sales are expensive and they do not yield profit and profit is the basic purpose of existence of a business entity) and focus on profit (because a focus on profit without ongoing monitoring of the market, consumers and competition threatens the survival of a business entity in the medium and long term). Each of the marketing strategies still has the consumer in its core and a successful marketing strategy both in the development of a product and its communication is the one that best understands how consumers make their decisions to select products. Contemporary marketing perceives the consumer not only as the end user of a service, but as a key factor that is in the center of formation of a marketing strategy.

## CONTEMPORARY MARKETING TRENDS

Contemporary marketing strategies are based on the knowledge of the target market and its segments. Attention should primarily be paid to the motivation and deciding methods of consumers, which largely affects their buying behavior.

In this respect, it is particularly important to know consumer behavior, which includes a set of different forms and ways of human behavior when purchasing products or services and includes all their manifest reactions in the buying process, as well as the after-sales processes including valuation of the product and/or service bought at the time of consumption and satisfaction with the after-sales service, which is an influential factor with respect to the repeated purchase. Consumer behavior is an interdisciplinary area using knowledge in the areas of psychology, economics, sociology and marketing. This is a discipline having its sources in conscious and subconscious determinants of human personality, as well as the factors of each human behavior. It also involves different socio-cultural factors in the environment where consumers live and work, as well as different personal characteristics of consumers.

Consumer research implies research into the fundamental determinants of the target group of potential consumers on the target market. Within his consumer behavior model, Kotler<sup>6</sup> presents seven most important consumer research issues, or the so-called 7 Os of the market:

- Who constitutes the market? (*Occupants*);
- What does the market buy? (*Objects*);
- Why does the market buy? (*Objectives*);
- Who participates in buying? (*Organizations*);
- How does the market buy? (*Operations*);
- When does the market buy? (*Occasions*); and
- Where does the market buy? (*Outlets*).

There are many consumer behavior factor classifications in literature and the most frequently used one, under different names, is the original classification of the same author who presents and systematically elaborates the main four groups of factors affecting consumer behavior, namely:<sup>7</sup>

- **Psychological** (motivation, perception, learning, beliefs and attitudes)
- **Cultural** (culture, subculture, social class system)
- **Social** (reference groups, family, roles and status)
- **Personal** (age and life-cycle stage, occupation, economic circumstances, life-style, personality and self concept).

As consumer behavior is determined by these and many other characteristics, there is no possibility of a simple and automatic interpretation of consumer behavior. In addition, we should take into account the **situation factors** (factors relating to a specific situation, specific time and space, completely independent of the characteristics of the consumers, objects and services being bought). They have the greatest impact on behavior at the point of sale, which is why distributors are particularly keen to study the impact of these factors on the buying process.

Despite all patterns in the behavior of consumer and different strategies to satisfy their needs, it is possible to build demand for a product by using motivational sugges-

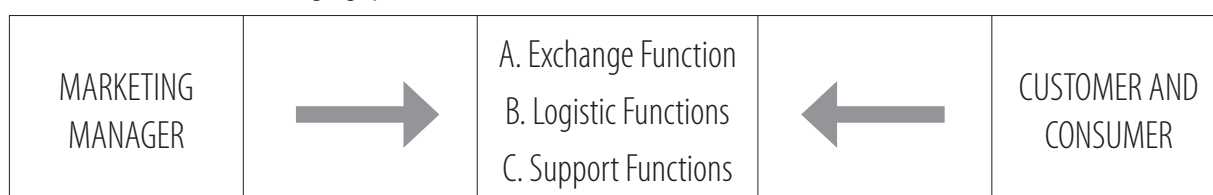
<sup>6</sup> See Kotler, Ph. (2001) Upravljanje marketingom – Analiza, planiranje, primjena i kontrola, Mate, Zagreb, p 202-203

<sup>7</sup> According to Kotler, Ph., et.al. (2006) Osnove marketinga, Mate, Zagreb, p 255-270

tions and providing positive improvements. In a broader sense, innovation is the use of a new idea or process providing the consumer with new benefits or added value.

The contemporary marketing tendency is to be as close as possible to the consumer. It does not stop at merely knowing the consumers, but insists on their involvement in the strategy creation process. The basic objective of these activities is to enable bridging of the gap between the seller and consumers in the process exchange function (Chart 1).

**CHART 1:** Functions to bridge gaps



Within the phenomenal forms of marketing, some authors divide conceptual marketing directions into:<sup>8</sup>

- **Passive marketing** (a result of the production concept, characterized by its predominant focus on the product);
- **Operating marketing** (a result of increased competitiveness, characterized by focus on the function); and
- **Active marketing** (a result of technological progress, and market saturation and globalization, characterized by focus on the consumers and a central and strategic position of the marketing function).

The common way of thinking among business entities in the past, as well as today to a certain extent, relies on the increase of sales and market share, which often results in neglect of the existing and prospective customers.

The present marketing theory widely debates Customer Relationship Management (CRM) developed from Relationship Marketing. Namely, the present-day consumer is under the influence of new technologies, communication channels, new products and services and is, in addition to the normal human needs, increasingly bombarded with, and often chooses artificially created needs via different

<sup>8</sup> See more in Vranešević, T. (2000) Upravljanje zadovoljstvom klijenata, Golden marketing, Zagreb, p 34-37

online activities. We refer to such consumers as hybrid consumers and they have the following characteristics:<sup>9</sup>

- 68 percent search the Internet and shop in outlets;
- 54 percent search the outlets and shop online;
- 47 percent search the catalogs and shop online; and
- 38 search the Internet and shop by telephone.

The foregoing leads to the conclusion that, in the present knowledge economy, intangible resources are becoming crucial for profitable business. Knowledge is the basic element in establishment of global competitiveness. Marketing analyses enable creation of applicable knowledge and all employees must be involved in this process. We should keep in mind that knowledge is a specific resource and knowledge management is expressed as a managerial tool based on special principles. Furthermore, marketing processes must provide information on consumer needs because it is the basic prerequisite for making the decision, the implementation of which shall enable business entities to achieve their planned strategic objectives.

The new market relations in the form of new economy are largely based on intangible resources. The market transformation has caused redesigning of business functions, including marketing. The present-day marketing processes are primarily focused on the image and brands. Brand identity is a result of a strategic marketing approach. The foundation of the total market identity includes brand market positioning i.e. recognizability of a product or service. This is achieved by marketing communication, promotion, sales strategy, logo, design, product or service name and other marketing tools. A significant role in this is played by the tangible performance, primarily the quality of a product or service.<sup>10</sup> Marketing communication used to be simple, so consumers were bombarded with promotional messages, while present-day marketing managers establish a two-way communication and systematically collect consumer attitudes and opinions that they use when redesigning existing and launching new products or services.

An open organizational structure is exceptionally useful for communication and improvement of consumer relations. This is a significant shift in development compared to traditional marketing that aimed to impose, or better yet, dictate consumption. Marketing is being transformed into a business function that is becoming

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<sup>9</sup> Wind, Y., et.al. (2002) *Convergence Marketing – Strategies for Reaching the New Hybrid Consumer*, Prentice Hall, Upper Saddle River, p XIII

<sup>10</sup> Upshaw, B.L. (1995) *Building Brand Identity*, John Wiley & Sons, New York, p 24



ing proactive, primarily aiming to detect problems on the market and eliminate them as soon as possible for the purpose of satisfying consumer needs. It actually aims to create new added value for the consumers and provide them with full value for their money.

Creativity is becoming a central element of marketing processes, culminating by sales of new products, discovering new markets and using new technological solutions. The marketing transformation is accompanied with radical structural modifications: the new marketing requires transformation of the organizational structure and the business processes are becoming transparent and are implemented in a radically new manner. The processes are managed by cross-functional teams. Such new approach generates new added value with less expenses, and the use of practical knowledge. The marketing transformation would not be possible without new information technology and the Internet. New principles are being postulated, enabling profit creation in a new way. At the same time, new organizational relations are being developed, stimulating cross-functional cooperation with mutual trust of all employees.

## **MARKETING BASED ON VALUE**

The classic marketing concept implies a comprehensive process of planning and implementation of activities for the purpose of satisfying consumer needs, desires and expectations, with achievement of the business entity's objectives at the same time. As a business philosophy, marketing management has evolved from passive and operating marketing to active marketing in which it plays a strategic role in an entity's business: this is the business philosophy of long-term survival and success of a business entity.

Market-focused strategic planning is a management process of developing and maintaining relations between the organizational objectives, sources and skills and changing market opportunities. The objectives of strategic planning are to design and redesign the business of an entity or its products and services in the way that it achieves its planned profit and growth.<sup>11</sup> Once again, the marketing manager has become the most important functional associate in the strategic planning process, having a central role in the definition of the business vision and mission, analyzing of the environment, competitive and business situations, and in the development of objectives and strategy. Planning is an integral part of the marketing process

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<sup>11</sup> Kotler, Ph. (2001) Idem, p 63

where business entities deliver a value to the market and generate certain profit. Strategic management implies management used to avoid numerous threats from the environment and at the same time take all opportunities.<sup>12</sup>

Furthermore, strategic management includes reviewing of specific long-term activities for the purpose of achieving future tasks, objectives and success. As a business entity's environment changes on a daily basis, strategic marketing must be sufficiently flexible. Marketing planning implies a complex process requiring a systematic approach to identify and analyze external factors and their coordination with the possibilities or potentials of a business entity. Strategic marketing must offer the answers to the questions of which markets and segments we want to compete in, with which products and/or services, and what will be our basic competitive advantage.<sup>13</sup> The marketing strategy process ensures a structured activity by which we are able to conceive the marketing strategy for a product, service or business.<sup>14</sup>

Conception of strategies must provide access to the plan for achievement of the competitive market objective and reviewing of their contributions for achievement of a business entity's objectives. Launching a new product on a saturated market is very difficult. USDA estimates that in the food industry segment alone two out of three products launched on the market fail. And only one out of five started businesses manages to survive for five years. According to Nilson,<sup>15</sup> the minimum estimated number of new food products launched every year in Western Europe and America is 12,000, so if we look at the projects that were never launched, the estimated failure rate is 70%, and if we consider that behind each project is at least one year of preparation, we can conclude that around 8,400 years are lost or wasted in the food sector alone. No one is motivated by failure and a high level of success performs miracles for marketing experts' evaluations and Nilson himself points out that the future role of marketing should be in continuous improvement of notable relative value for money of the products manufactured by a business entity.

Marketing managers achieve this by focusing on maximizing the value i.e. on Value-Added Marketing (VAM). It is based on a clear, but often unrecognized fact:

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<sup>12</sup> Vranešević, T., et.al. (2004) Upravljanje strateškim marketingom, Accent, Zagreb, p 27

<sup>13</sup> Gilligan, C. & Wilson, M.S.R.: Strategic Marketing Planning, Butterworth Henemann, 2003, p 53

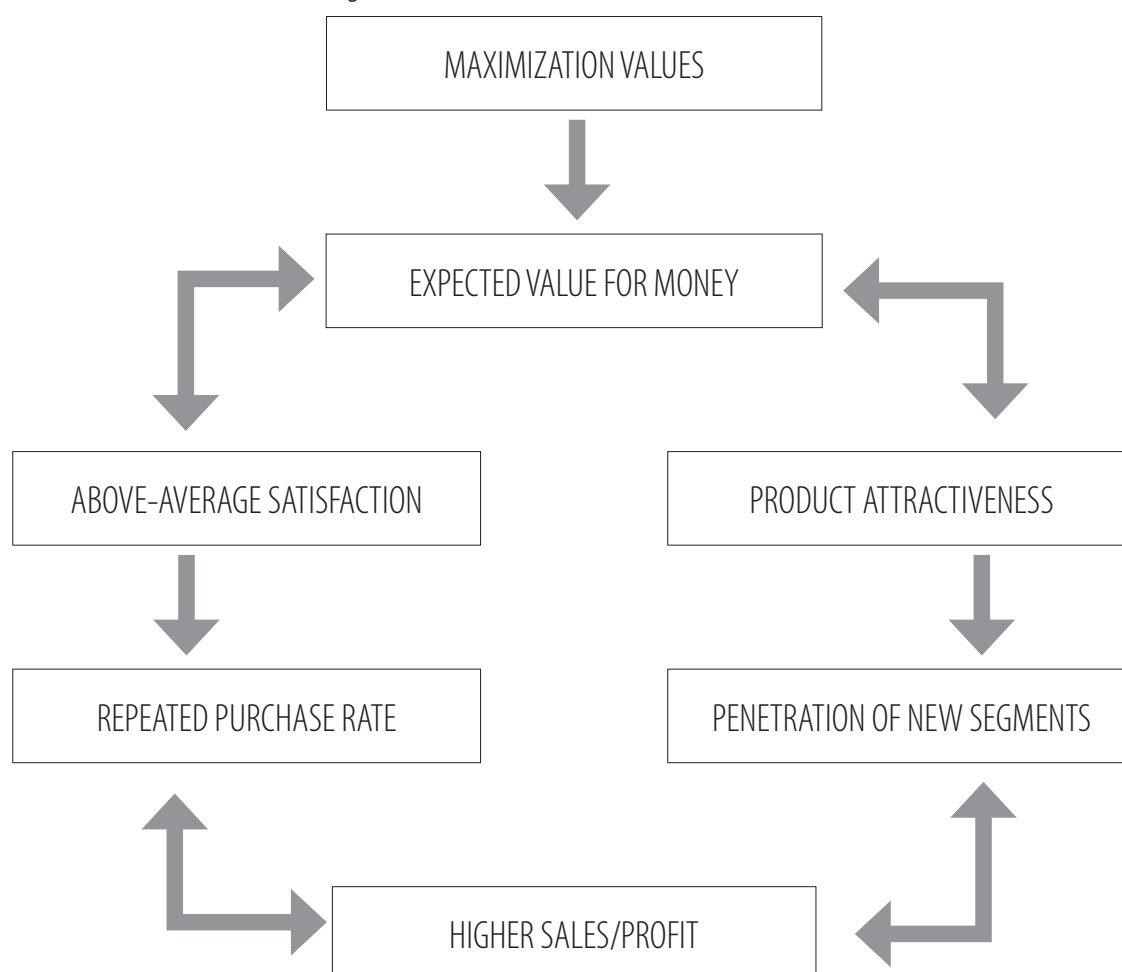
<sup>14</sup> Vranešević, T., et.al. (2004) Idem, p 31

<sup>15</sup> Nilson, T.H.: Value-Added Marketing: Marketing Management for Superior Results, McGraw-Hill Book Company Europe, Berkshire, 1992, p 41



if we want to obtain the desired market share, we must offer products superior to those already available. Superior in any segment that will make your product or service more valuable to the customer than a competing product or service. If a business entity adopts the value-added marketing strategy, it will become more prosperous because it will create greater value in the attractiveness of and satisfaction with its products, which will result in better market penetration and consumer preference and, more importantly, ensure superior rates of repeated or multiple purchases. Value-added marketing provides a new dimension, shifting marketing from the area of searching for empty market niches to a strategy for improvement of perception of the existing products and launching new ones only when it is certain that significant benefit can be achieved. The value-added marketing process is presented in Chart 11.<sup>16</sup>

CHART 11: Value-Added Marketing Process



<sup>16</sup> Adapted according to Vranešević, T. et.al. (2004) Idem, p 43.

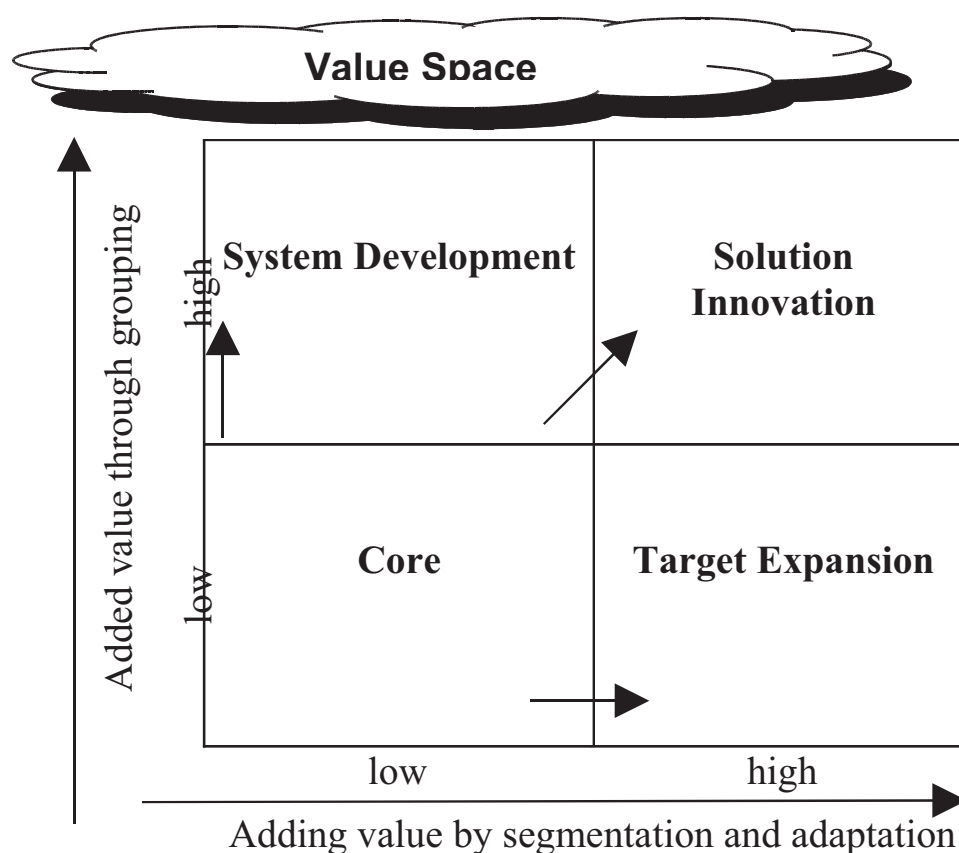
To provide a better explanation of the value-added marketing concept, Nilson presented explanations of some key words in connection with this:<sup>17</sup>

- **Continuity** – Managers are required to be continuously alert because one of the common reasons of a drop in demand is neglecting of changes to consumer habits and attitudes and continuous innovations, adaptations and improvements, which are key factors of products and brand that are successful in the long term;
- **Improvement** – Starting from the maxim that everything can always be done better, improvement is the fundamental axiom of value-added marketing;
- **Noticeability** – Product noticeability must be as high as possible as it is the central factor of a consumer's purchase decision;
- **Relativity** – Noticeable value is a subjective fact; for long-term success, marketing managers must adopt the customer's or consumer's way of looking at product value;
- **Value** – It is important to have a detailed view of how a consumer evaluates product benefits as it is impossible to improve something now known or not well defined;
- **Money** – Noticeable relative value is observed and assessed in the context of how much it costs to obtain a product;
- **Product** – Kada je riječ o proizvodu, zapravo se to uvijek odnosi i na usluge; te
- **Value Maximization** – Value maximization within the relevant cost parameters must be a daily objective.

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<sup>17</sup> Adapted according to Nilson, T.H. (1992) Idem, p 43-46

Figure 1: Added-Value Strategies



The use of value-added marketing will make any product range of a business entity more competitive. A focus on achieving above-average satisfaction and higher attractiveness through value maximization will result in increased noticeable value for money. There are at least three possible strategies that may provide the necessary differentiation of the core business, as presented in Figure 1.<sup>18</sup>

**QUADRANT –CORE:** This is the starting point where consumers do not notice a difference between a business entity and its competitors because what is offered is not sufficiently adapted to the specific needs of individual consumers or segments and has no grouped added value.

<sup>18</sup> Kashani, K. (2006) Fighting Commoditization – Strategies for Creating Novel Customer Values, IMD, No. 137, p 1-4. <http://proquest.umi.com/pqdweb?index=0&did=1167508431&SrchMode=1&sid=2&Fmt=6&VInst=PROD&VType=PQD&RQT=309&VName=PQD&TS=1168590347&clientId=42821>, Access (11-01-2007)

**QUADRANT – TARGET EXPANSION:** This represents a strategy tending to add value by expansion of a business entity's core to better satisfy its special needs; dual tactics are available: offer sub-adapted products to some consumers and better adapted target products to other consumers.

**QUADRANT – SYSTEM DEVELOPMENT:** Business entities in this quadrant develop a product-service package offering synergic benefits of the system and the added value for the consumer arises from integration of system elements, so the total value exceeds the sum of its components.

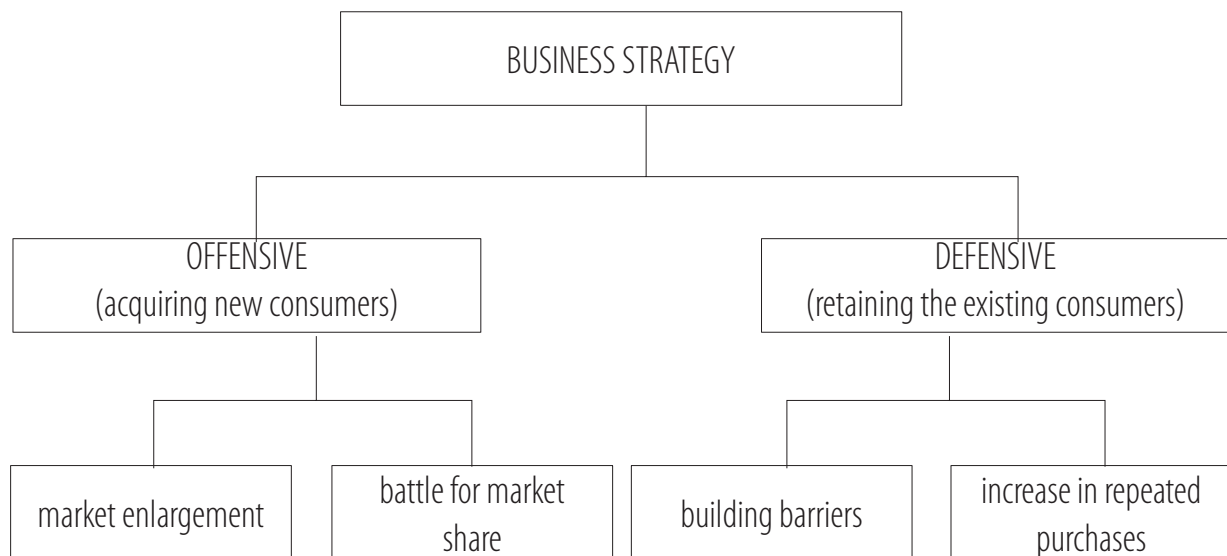
**QUADRANT – SOLUTION/INNOVATION:** Business entities in this quadrant offer a set of packaged products and services targeting a specific segment or the individual consumer, and offer products and solutions for its consumers' specific problems by combining products with focused services such as technical advice, training, consultancy and the like, which requires innovations in creation of value, but also promises high profits.

Therefore, the success of a marketing strategy based on value is always measured by customer satisfaction, the market share size and sales volume. The added value and the strength of differentiation of each strategy are in the attempt to shift business outside the traditional definition of products and services. Such strategies enable a business entity to offer its consumers new benefits increasing its success through higher productivity, lower costs and improvement of the competitive position on the market.

## VALUE CREATION STRATEGIES

The famous American management theoretician and practitioner once said (quote) that acquiring and retaining consumers is the business of all businesses so, accordingly, all business strategies could be divided into offensive and defensive strategies, which can be presented in a chart (Chart 2).

Offensive strategies imply attraction of new consumers or poaching of competition's consumers, while defensive strategies imply retention of the existing consumers and achieving a high level of the loyalty.

**Chart 2:** Two Types of Business Strategies

Source: Fornell, C. (1992) A National Customer Satisfaction: The Swedish Experience, Journal of Marketing, Vol. 56, p 6-21

However, we can determine based on the foregoing that traditional marketing pays more attention to acquiring new consumers than retaining the existing ones, which means it prefers offensive strategies. Regardless of the fact that (according to supporters of this opinion) it is impossible to retain someone unless you acquire them first, we should take into account the following facts:<sup>19</sup>

- In most business activities, only a minor part of the revenues is generated by new consumers, and a major part by the existing ones;
- Most companies focus most of their marketing resources on acquisition of new consumers, rather than retaining the existing ones; and
- Consumer loyalty (which is raised by defensive strategies) is a crucial success factor, especially when large competition is present and the market is growing slowly.

<sup>19</sup> According to Vranešević, T.: Idem, p 70

**Presentation 20:** Focus on the Market Share and Customer Satisfaction

DETERMINANTS	MARKET SHARE	CUSTOMER SATISFACTION
1. TYPICAL USE	On saturated markets with low growth rates	On saturated markets with low growth rates
2. STRATEGY TYPES	Offensive	Defensive
3. FOCUS	On the competition	On customers and consumers
4. PERFORMANCE MEASURES	Relative market share	Repeated purchase rate
5. BEHAVIOR TARGET	Consumer acquisition	Higher customer and consumer loyalty

Recently, an increasing number of business entities have recognized and accepted the fact that retention of the existing consumers is much more profitable and attraction of new ones. This is why customer retention and customer loyalty is more and more often in the center of their interest and they often incorporate them in their missions.

The classic marketing approach deals with the use of both concepts under the same market circumstances (small growth rate and market saturation), which impedes the growth of a company if it is positioned on a more propulsive-growing and unsaturated market, which is also the reason why foreign companies have invaded the Croatian market.<sup>20</sup> Accordingly, Fornell<sup>21</sup> provides a tabular presentation of the differences between a focus on the market model and focus on customer satisfaction (Presentation 20) in the context of five determinants (characteristics of a market on which a focus is typically used in present circumstances, strategy type, performance measures and target behavior).

## CONCLUSION

Like any other business element, marketing must be adapted to the characteristics of the environment. A very complex and dynamic environment affects marketing in a particularly intensive manner and its work results are reflected in a developed market position and the market share achieved. It is for adaptation to new characteristics of the environment that marketing was forced to evolve its concept. Once the focus on production was no longer able to provide adequate results, mar-

<sup>20</sup> Idem, p 72

<sup>21</sup> Adapted according to Fornell, C. (1992) A National Customer Satisfaction: The Swedish Experience, *Journal of Marketing*, Vol. 56, p 6-21



keting turned to the most significant success factor – the consumer. The center of its interest is not only the consumer structure on the market, but also their behavior and especially needs. Marketing is no longer just a means of selling products and/or services on the market, but a philosophy present in all segments and all business levels. However, customer satisfaction can only be achieved when the customers are offered a certain value. This is why management is focused on maximizing the value of the offer and such marketing philosophy represents Value-Added Marketing. Although the foundations of added-value marketing is formulated very simply – offering products superior to those already on the market – the achievement of this objective is by no means simple. Achieving above-average satisfaction among consumers who are in contact with a huge number of products, brands, promotional messaged and options requires a clear strategic orientation and creation of strategies creating values that will attract new consumers or maximize the satisfaction of the existing ones.

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