THE MARKETING BUSINESS CASE FOR DIVERSITY MANAGEMENT

Karen Lau
Professor Stephen Nicholas
Andre Sammartino
Aurora Ricciotti
Janine O’Fynn

1.0 INTRODUCTION

The deregulation and privatisation of a number of industries, the increasing competitive pressure from multinational firms, rapidly evolving telecommunications technology, the slow down in economic growth, and our continuously dynamic social and cultural environments generate considerable diversity in the Australian marketing environment. Within Australia, workforces are amongst the most diverse in the world with up to 220 nationalities and between four and eleven cultures represented in many workplaces (Sinclair, 2001:52). Diversity is an important concern for marketing managers since customers, suppliers, and strategic partners are increasingly global and multicultural; firms must be positioned to relate to them. Diversity represents a large repository of market intelligence and innovation potential and one that should be capitalised to improve the effectiveness of a firm’s marketing function. Diversity poses two areas of concern for marketing managers: competitive positioning of the firm within target segments and fostering interfunctional coordination to achieve market orientation.

Regarding the first concern, firms require heightened levels of diversity intelligence and a diversity of perspectives within the firm to move into new markets. A firm needs to have a workforce that reflects the composition of the customer base (Snyder, 2000). Competitive positioning within segments relies on the ability of the firm to manage the associations that consumers form about a firm, its products and its corporate identity; since, it is a consumer’s perception of how a firm and the firm’s offering(s) will perform that determine how the firm is positioned relative to competitors. Managing associations can be achieved by understanding the diverse mental models that shape those associations (Nicholas, Lau, Sammartino, O’Flynn, Ricciotti, Fisher, 2001). A firm that acquires, manages, and utilises diversity capabilities is more likely to access diversity intelligence and effectively use the evidence that the firm provides customers to manipulate the way in which the firm is positioned. Much of a firm’s evidence is contained in its marketing mix, comprising the product design and packaging, its price, promotion and places that the product can be purchased. The marketing mix plays an important role in the development of a firm’s brand equity. Developing strong brand equity in a market is a powerful reputation mechanism for signaling to potential customers the personality of a firm and the promise of its offerings. It acts as a short cut during the pre-purchase search stages and an implicit guarantee on the quality of the offering during consumption. Brand equity also binds consumers to a brand, whereby switching costs are increased.

To develop a strong, favourable and unique brand image, a firm must manage the associations that consumers make about that brand. The management of associations relies on a firm’s ability to generate, disseminate and respond to market intelligence. The acquisition, dissemination and reaction to market intelligence is referred to in marketing literature as ‘market orientation’. Market orientation is the guiding philosophy to which marketing managers operate. To achieve market orientation, a marketing manager must achieve interfunctional coordination (Kohli & Jaworski, 1990). Interfunctional coordination refers to having cohesive relations between the various business areas of a firm. Managing a firm’s diversity in human resources is essential. Unmanaged, diversity may negatively influence group process and group performance, which inhibit cohesive interfunctional relations and limits the firm’s capacity for problem solving and creativity. The danger of maintaining homogenous teams is that the firm may fail to tap the full range of talent available in the workforce (Sinclair, 2000). The effective integration of diversity HR management into internal marketing practices will ensure that strategic marketing decisions such as segmentation and positioning are implemented for competitive advantage.
1.1 Market Orientation, the Marketing Concept & Competitive Advantage

Marketing's primary concern is to translate the philosophy of the marketing concept into the practice of market orientation. The marketing concept states that in order to deliver customer value that is superior to competitors, a firm must be customer orientated, competitor orientated and inter-functionally coordinated (Narver & Slater, 1990). Market orientation is conceptualised as consisting of three core elements: “the organisation wide generation of market intelligence pertaining to current and future needs, dissemination of the intelligence across departments, and organisation wide responsiveness to it” (Koli & Jaworski, 1990:6). Kohli and Jaworski (1990:5) assert, “for an organisation to adapt to market needs, market intelligence must be communicated... Effective dissemination of market intelligence is important because it provides a shared basis for concerted actions by different departments”. Narver and Slater (1990, 1993, 1994, 1995) concede that a market orientation is important as it guides the firm to continuously examine changing consumer opinions and competitor activity to develop ways to sustain the firm's competitive advantage. A firm achieves a competitive advantage from utilising its resources and capabilities to create more total value for customers than competitors (Peteraf, 1993).

There are many studies that show a clear and positive relationship between a firm that has adopted a market orientation and positive, strong organisational performance (Kohli & Jaworski, 1990; Narver & Slater, 1990; Jaworski & Kohli, 1993; Slater & Narver, 1994; Roberts, 2000). The premise of these papers is that market orientation is a process of generating, disseminating and reacting to market intelligence. A market orientation guides the firm to continuously examine the firm's and its competitors' sources of competitive advantage. Continuous examination of the competitive environment ensures that the firm is aligned with the needs of the market and that these needs are continuously met. Managing diversity provides a marketing advantage to companies allowing them to meet consumer demands while tapping into human resources to meet the needs of additional markets (Cox & Blake, 1991).

Marketing managers operating in a diverse marketing environment must determine how to achieve a market orientation when diversity creates conflict, communication problems and factionalism (O’Flynn, Ricciotti, Nicholas, Lau, Sammartino, Fisher, 2001). Kohli and Jaworski's (1990, 1993) research into the antecedents to market orientation found that senior management factors, interdepartmental factors, and organisational systems emerged as the most important factors in fostering a market orientation.

Each of these factors argues for the reduction of interdepartmental conflict, enhancing interdepartmental connectedness and motivating concern for the ideas of other departments. Interdepartmental conflict inhibits the effective dissemination of market intelligence. Interdepartmental connectedness will facilitate dissemination of and responsiveness to market intelligence. Concern for the ideas of other departments can improve information flows further facilitating dissemination and active responsiveness to that information (Kohli and Jaworski, 1990). Inter-functional coordination acts as a binding ingredient in the implementation of a successful marketing strategy. Interfunctional coordination facilitates the dissemination of information generated about the market throughout the organisation such that the entire organisation is well informed about the market. Menon et al. (1997) argued that greater interfunctional connectedness and lower inter-functional conflict were associated with the delivery of better relative quality and consequently, superior organisational performance. In order to achieve interfunctional coordination an organisation needs coherent and consistent management of internal systems and relationships between and within departments. Coherent relations are key to a party's willingness to commit to and trust other parties in the building and maintenance of relations to achieve a firm’s goals. Diversity HR management strategies will re-categorise individual involvement in a way that enhances the group's identification with the task at hand rather than the tendency to create socially irrelevant in-groups and out-groups that inhibits interfunctional coordination (O’Flynn, Ricciotti, Nicholas, Lau, Sammartino, Fisher, 2001).

1.2 Diversity Management and Competitive Advantage
Diversity is an important concern for marketing managers since customers, suppliers, and strategic partners are increasingly global and multicultural; firms must be positioned to relate to them. The needs and expectations of customers for products and services are diverse and firms must be able to understand, connect and respond to those diverse needs and expectations. As firms seek competitive advantage as leaders in innovation, creativity, problem-solving and organisation flexibility, they require diverse perspectives, talents and teams. The work force demographics are changing in most countries; the labour pool is shrinking; and labour shortages in some key areas are projected. The competition to attract and retain top talent is increasing. To ensure business success, firms must be the best place to work for everyone. A market orientation will ensure that a firm is well positioned in the market for consumers, intermediaries and labour with diverse needs and skills.

Diversity in a work force can often be the source of conflict, communication problems, and factionalism that have negative consequences for intra-group cohesiveness and inter-group cohesiveness. The relationship between diversity and group process and performance can be explained using social categorisation and similarity attraction theories. As argued in the "HRM Business Case for Diversity Management", diversity management policies can mitigate the negative effects of in-group and out-group behaviour and encourage employees to share information, fostering greater creativity and information processing capabilities of a group with members with diverse perspectives. Greater access to diversity intelligence will facilitate the firm’s speedy response to changing customer needs by developing higher quality solutions to consumer needs.

"Internal marketing is the process of initiating, maintaining and developing the relationships between employees, their management and the organisation for the purposes of creating superior customer value" (Bell, 1998:4). This statement demonstrates the relevance of attracting, maintaining and enhancing relationships- including customers, employees and channel members- for the basic objective of creating superior customer value and improving organisational performance. Employees represent a market within the firm whose needs also need to be met beyond expectation such that they enthusiastically commit to organisational goals in serving external markets. Maintenance of within group and between group relations shapes the firms’ interface with customers, which directly influences the organisation’s ability to achieve and sustain competitive advantage.

Prudential Insurance Company's 'Managing Diversity Program' was a corporate diversity initiative in response to a "climate assessment" that indicated that women and minorities felt that there was a lack of opportunity for them within the company (Kelly, 1994). Further, the climate assessment suggested that the company’s lack of internal diversity meant that it was not well positioned to penetrate important “cultural markets", or to attract the best and brightest new sales agents. Special development programmes were instituted to attract and cultivate minority and female employees. Two-day sensitivity workshops were conducted, at a cost of several million dollars, to provide managers with grounding in workplace diversity issues. In the words of Brook Rice, VP/career marketing development,

“...The program was driven purely by economic factors... We asked ourselves, ‘What do we need to do to become the company of choice for both these new cultural markets and for the best recruits?... Companies must ensure that they create an environment that will allow its diverse workforce to reach its full potential” (Kelly, 1994: 33)

Prudential Insurance Company demonstrates that firms that see their people as critical strategic resources attach great importance to diversity HR management in order to gain a competitive position in its relevant consumer and labour markets.

The following section places marketing and its activities within the context of Australia's diverse marketing environment. Section three explores target market, segmentation and positioning factors that marketers consider when developing their marketing strategy. It also examines marketing challenges and opportunities that exist for firms when they consider the diversity of their customer and labour markets. Section four explores issues in consumer behaviour and argues that implementing diversity
HR management policies will enable the firm to attract and retain human resources with the diversity capabilities to understand and meet consumer and channel member needs. Sections five and six discuss the role of diversity management in managing customer and external relations. This involves managing both relationship marketing and internal marketing. Section seven discusses the design of an appropriate marketing mix to ensure that consumers' image of the firm is favourable, strong and unique. A well-designed marketing mix with well-managed customer, channel and employee relationship marketing, places the firm in a dominating competitive position in the diverse Australian marketing environment.

2.0 EVALUATING DIVERSITY OPPORTUNITIES IN THE AUSTRALIAN MARKETING ENVIRONMENT

Understanding the Australian marketing environment is important in strategic marketing, as the firm needs to accurately evaluate strategic positioning opportunities for competitive advantage. There are five main aspects of the marketing environment to consider: the resources and capabilities of a company, the competitive environment, the economic and technological environment, the political and legal environments, and the cultural and social environments (McCarthy, Perreault, Quester, 1997). It is difficult to generalise the resources and capabilities of firms operating in Australia, since, in order to have a competitive advantage, their resources and capabilities differ substantially. For this reason, describing the Australian competitive environment in detail is also a complicated task. The following section is explanatory in nature, identifying the theoretical development that has brought these factors much attention in academic literature. These theories will help firms to identify why understanding the marketing environment facilitates strategic efforts to develop and sustain cost and/or differentiation advantage in the firm's target markets (Besanko, Dranove, Shanley, 1996). Further, it highlights that diversity management provides the firm with a tool for better utilising its diversity capabilities when designing its marketing strategy for competitive advantage.

2.1 Resources and capabilities

A firm's profitability is a function not only of industry conditions, but also of the amount of value it creates relative to its competitors. A firm's resources and capabilities may enhance or limit the firm's search for opportunities to create more total value than competitors (Peteraf, 1993). The amount of value that a firm produces depends on both its cost and benefit positions relative to competitors (Porter, 1985; Hunt & Morgan, 1995). A competitive advantage is sustainable when it persists despite efforts by competitors or potential entrants to duplicate or neutralize that competitive advantage (Barney, 1991). A firm's ability to create superior value depends on its stock of firm-specific resources and distinctive capabilities (Nicholas & Sammartino, 2000).

Firm-specific resources include assets and factors of production, such as patents, brand-name reputation, low cost facilities and human resources that define what the firm has (Peteraf, 1993). Distinctive capabilities include activities that the firm performs better compared to competitors, arising from its experience in using those resources (Prahalad & Hamel, 1990). Examples of these include a thorough understanding of the target market, good relations with established intermediaries and a skilled sales force. Or they may reside in the firm's ability to manage linkages at each interface in the value chain or coordinate activities across it (Stalk, Evans & Shulman, 1992). The resource based theory of the firm states that in order for a firm to have a competitive advantage, the market must have persistent asymmetries in terms of the stocks of resources and capabilities of firms (Barney, 1991, 2001). If this were not the case, then firms would be unable to develop strategies for value creation that would differentiate them from other firms in the market. Subscribing to the resource-based view of the firm, a competitive advantage will be sustained when it is supported by resources and capabilities that are scarce and imperfectly mobile1 (Nicholas & Sammartino, 2000).

1 See “Mind of the CEO” Section 3.3 for further discussion.
The manner in which a firm uses its diversity capabilities can help to sustain a firm’s competitive advantage in market segments with diverse needs. When a firm utilises its diverse human resources such that their diverse opinions are reflected in the firm’s marketing mix, that marketing mix will more likely appeal to segments with diverse needs. It is the way that the firm manages its diversity capabilities to generate, disseminate and respond to market intelligence that will place the firm in a competitive position to deliver superior value.

2.2 The competitive environment

The competitive environment describes the number, type, and nature of competitors the marketing manager must consider (Porter, 1980, 1985). Although a marketing manager is not able to control these competitors they are able to choose strategies that will enable the firm to compete. A competitor analysis is an organized approach to evaluating the strengths and weaknesses of current or potential competitors’ marketing strategies. Porter’s (1985) ‘five-force’ framework is a popular marketing approach to understanding the conditions that may make it difficult or even impossible for a company to compete in a market. This framework is based on five sets of factors that affect the attractiveness or profitability of a market. These include: direct rivalry among existing competitors serving the core market; the threat of new entrants to the industry; the risk of competition from (new) substitute products; the relative bargaining power of suppliers; and the relative bargaining power of customers.

Direct rivalry among competitors is a function of the firm’s structure, its fixed costs, its extent of differentiation, its diversity of strategies and objectives, customer switching costs, and exit barriers. The degree of threat of potential competitors rests on a firm’s economies of scale, factor costs, differentiation, consumer switching costs, channel crowding, and incumbents’ reactions of the past. The threat of substitutes is influenced by the economic incentive to switch and the buyer’s propensity to substitute. Supplier bargaining power is determined by the supplier’s size relative to the buyer’s size, dependence on supplier, and the credibility of supplier threats to forward integrate. The bargaining power of customers is determined by the bargaining leverage of the customer and the customer’s sensitivity to price. Customer bargaining leverage is influenced by the concentration of buyers relative to firm concentration, purchase volume, customer-switching costs versus firm-switching costs, information asymmetry, and the firm’s ability to backward integrate. Price sensitivity is a function of post-purchase evaluation, value for price paid, profitability, and brand image.

Integrating diversity management into marketing strategy is an effective tool for enhancing a firm’s competitive position in markets that are increasingly diverse. Diversity management is focused on improving group process and group performance in order to increase group creativity and problem-solving capabilities. In improving group processes, the dissemination of diversity intelligence is also improved. Diversity management tackles in-group and out-group behaviour, which improves the capability of a group to share and utilise diverse perspectives to solve diversity marketing issues. Further, diversity management will facilitate the achievement of market orientation, which will enable the firm to continuously deliver superior value to customers relative to competitors. Diversity management enables firms to create a competitive advantage in emerging markets and sustain their competitive advantage in maturing markets.

2.3 The economic and technological environments

The economic environment is affected by the interaction of all parts of the macroeconomic system (Cravens, 1997). This in turn affects such things as national income, economic growth and inflation. The economic environment can have significant influence on the success of a firm’s marketing strategy. For example, a weak economy undermines consumer confidence and purchases are curtailed, especially those of ‘big ticket’ items. In response, companies reduce their spending, further affecting sale levels of firms further up the value chain.
Supporting any economic environment is a country’s technological base, or the technical skills and equipment, facilitating the way an economy’s resources are converted to output. The technological environment influences marketing in two ways: new products and new processes (McCarthy, Perreault & Quester, 1997). Advances in electronic communications provide new opportunities for people on opposite sides of the world to communicate. Robotics and digitization, distributed desktop computing and the Internet allows more sophisticated planning and control of business processes. The mass adoption of communications technology, such as the Internet, has fueled the emergence of new markets in the information technology industry. These advances provide new opportunities for marketing managers to position their firms and dominate in emerging markets. Information technology influences relationship marketing, such that information can be quickly acquired and disseminated into the production process to satisfy customer needs quickly and as they emerge. For example, Dell, one of the world’s top PC makers and the world’s number one direct-sale computer vendor utilizes information technology to focus on its core business activities of design and sales, while outsourcing most of its non-core business activities such as component manufacturing. Known as the “Dell Direct” model, information technology enables Dell to extend ‘just-in-time’ processes to almost every activity, from parts acquisition to assembly, delivery and customer feedback. Dell customizes its services to satisfy diverse needs quickly as they arise, in such a way that Dell delivers superior customer value. Dell is a great, if rare, example of how information technology provides firms with greater scope for differentiation and mass customization to diverge the diverse needs of consumers.

2.4 Political and legal environment

Government and state-related factors, external to the company, affect the way that firms conduct their business. In Australia, the shift to partial or complete deregulation of several major industries has changed the dynamic of competition within those industries, creating opportunities and limitations for sustaining competitive advantage (Lovelock, Patterson & Walker, 1998). Reduced government regulation has eliminated or minimised protection from competition in such industries as freight, airlines, rail services, trucking, banking, securities, insurance, telecommunications and some public utilities. Barriers to entry for new entrants have been weakened. Reduced entry barriers translate to less restricted access to channels for competing, and firms have more scope to expand into new markets or new segments of business. This has contributed to increased competitor concentration. For example, the deregulation of the telecommunications industry and privatization of Telecom Australia into Telstra has enabled new telecommunication providers to serve a once monopolised market. With the entry of Optus into the Australian telecommunications industry, the two companies now compete aggressively on price, positioning and service attributes to attract and retain customers from diverse segments. For example, Telstra television advertisements for overseas call specials will depict a non-Australian born family calling family members in their native countries, on order to appeal to non-Australian born consumers. In the competitive environment of telecommunications, these companies embrace marketing activities in order to attract a diverse customer base, differentiate themselves and build brand equity.

2.5 Cultural and social environment

The cultural and social environment include those factors that are external to the company which affect how and why people that share the same cultural and social values live and behave the way that they do. These factors shape consumer buying behaviour and eventually the economic, political and legal environments. A marketing manager must consider the complexities of the cultural and social environments of their target markets. Understanding those complexities may help the firm to identify latent needs and desires, establishing competitive advantage opportunities. Dealing with differences among segments is often one of the greatest challenges when planning strategies for diverse markets. Continuing with the Telstra example, in order for Telstra to successfully advertise to non-Australian born consumer segments, they must also understand their cultural backgrounds. Consumers from the same country may share a common cultural environment, however firms that are unfamiliar with that
Another pertinent example is the shifting role of women in society. Over the last half of the 20th century society’s stereotype of women as a home keeper, wife and mother has changed significantly. There is improved representation of women in higher education and most careers. With greater job opportunities more women are delaying marriage and, once married, they are likely to remain in the workforce and have fewer children. For example, recent statistics from the ABS show that 61% of wives with dependants were in the labour force (ABS, 21/11/2000). The influx of women into the job market has changed the Australian market in many ways. Home jobs, such as shopping, cleaning and preparing meals, that were previously the domain of women have shifted to their partners, children, or paid helpers, which in turn has changed the target market for many related products and created new marketing opportunities. This shift has contributed to the adoption of frozen meals, childcare centres, dry cleaners, the microwave and dishwasher, and so forth. Although a wage differential continues to exist between men and women, the income generated by working women has improved their purchasing and bargaining powers. The changing role of women has generated both opportunities and challenges for marketing. For example a marketing mix targeted at professional women calls for consideration of how that marketing mix may influence the purchase behaviour of non-professional women. Also, more women and a greater ethnic mix engaged in business activity means greater diversity of suppliers and business contacts. This calls for ensuring that firms have the requisite diversity capabilities to deal with channel members.

2.6 Evaluating opportunities in international markets

In international markets the need for thorough industry analysis is particularly important and often more difficult since it is difficult to understand fully the marketing environment variables. This is especially true of firm’s with corporate brands that are used internationally to represent the firm. It may be more difficult to identify the risks that are involved in particular opportunities; some countries have complicated informal institutions that are not obvious to a foreigner. A local citizen or an employee who is native to that country may provide an invaluable insight to the country’s cultural, social, political and legal system, highlighting potential problems that may not have been identified even in a careful analysis. It is very important for the analysis to include input from locals such as cooperative intermediaries. Gateway Pharmaceuticals is a clear example of how a firm can utilise the skills, experience and intelligence of local groups that have business contacts in their native countries to enter markets in those countries (Wilkinson & Cheng, 1999).

Gateway is a trading company that contracts the manufacture of various pharmaceutical products to other firms in Australia. All of its business is exporting. The founders migrated from Lebanon in the 1960s. Later, through the Lebanese community, they were introduced to a Lebanese pharmacist who operated a large pharmacy located in a suburb of Sydney that had a high concentration of Vietnamese migrants. The pharmacist observed that many Vietnamese customers were buying large quantities of over the counter medications such as vitamin pills, that they were sending to relatives in their native country to resale in local markets. Gateway explored the market potential in Vietnam through Vietnamese community networks, participating in trade missions, and personal visits to the market. Gateway relied heavily on information gained from their contacts within the local Vietnamese community, including how products should be manufactured and packaged and the colours to be used, and how to deal with customers. Vietnamese employees were utilized to conduct business activities that included personal relations with Vietnamese channel members.

The greater the cultural complexity, the greater is the risk of making major mistakes. The level of potential risk varies according to the type of product marketed (Cravens, 1997). For example an industrial product is less risky that a basic commodity type consumer product, which is less risky than a consumer product that is linked to cultural variables. The latter products may be difficult or even
impossible to adapt to all international situations. Companies producing and/or selling products in culturally complex environments should carefully analyse how their products will be viewed and used in those environments, and plan their strategies accordingly. Cultural complexity will thus significantly influence a firm's mode of market entry and their type of involvement, whether it be exporting, a sales subsidiary or a full-blown production plant. Further, the ability of firms to market their offerings effectively in those markets will depend upon how effectively the firm utilizes its diversity capabilities.

3.0 IDENTIFYING TARGET MARKET OPPORTUNITIES WITH MARKET SEGMENTATION

Section three explores target market, segmentation and positioning factors that marketers consider when developing their marketing strategy. It also examines marketing challenges and opportunities that exist for firms when they consider the diversity of their customer and labour markets.

3.1 Demographic segmentation of the Australian market

As depicted in the previous section, understanding major aspects of the marketing environment is a major step in assessing the profit potential of target markets. Understanding the demographics of markets is equally as important to assess the viability of those markets (Pol, 1991; Winter, 1979). A demographic assessment is a statistical description of people and populations, which helps in a firm's understanding of how and why people and countries behave the way they do and purchase the things they do (Pol, 1991). The following section describes the demography of Australia in terms of population, income, age, household composition and ethnicity.

Australian population and income trends

New South Wales is the most populated State of Australia, with Victoria a distant second (ABS, Australian Demographic Statistics: 3101.0). These markets are obviously attractive to many marketers, but this can also mean strong competition. The northern and western States of Australia are growing much faster than their eastern counterparts. Queensland and Western Australia are Australia's fastest-growing States, having experienced a 1.7 per cent and 1.74 per cent population growth respectively from 1998-1999 (ABS, Australian Demographic Statistics: 3101.0). These rates of growth are especially important to marketers. For example rapid growth in one area may create demand for many new markets, while firms in declining markets are facing tougher competition for a smaller number of customers.

Of the world's countries, Australia's population growth is one of the slowest growing at an estimated 1.02 per cent annually (ABS, Australian Demographic Statistics: 3101.0, 2000 estimate), with much of the expected future growth to come from immigration. In fact, the total Australian population would begin to decline if immigration were discontinued.

The Australian birth rate is declining steadily, reaching an all time low of 13.08 per 1000 in 2000 compared to 21.6 per 1000 in 1970, 14.7 per 1000 in 1994, and 15.8 in 1981 (ABS, Births, Australia: 3301.0). These shifts are attributable to the baby boomer generation entering into its childbearing years in the 1970s. As the mini baby boom of the 1970s pass and the number of children per family declines, the dynamics of the consumer market has changed (Lawson, Tidwell, Rianbird, Lauden, Della Bitta, 1997).

With fewer children and a greater proportion of dual income families, markets for children goods such as video and computer games and designer cloths for children are growing steadily (Ostroff, 1989). With fewer children and more disposable income, parents can spend more money on each child (Falkenberg & Monachello, 1990). An international example of the influence of changes in population on marketing would be the change in youth markets in China as a result of the “one-child” policy, which has resulted
in a generation of ‘little emperors’, single children whose every wish is satisfied by eager to please parents.

The power of the “Grey Dollar”

Because the size of the Australian population is increasing slowly and the typical lifespan has lengthened as well, the average age of the population is rising steadily (Quester, McGuiggan, Perreault, McCarthy, 2001). Consequently, the proportions of the population in different age groups are changing. Figure 1 shows the numbers of people in different age groups projected from 2001 to 2031 in Australia. Note the large increases into the older age groups.

These figures depict marketing implications for firms as they enter an increasingly diverse marketing environment in terms of age. The markets in Australia for products for infants and young children such as toys, nappies and cloths will decline. The demand for first-time purchases of household durables, stereos and some models of cars will drop as the population group aged 25-35 decreases as a proportion of the total population. The demand for products consumed mainly by people in the 35-44 age group will experience steady growth. The biggest market opportunity will exist for goods sold to those in the 45-54 age group, such as leisure products, holiday packages, and quality furniture. After 2021, growth in the population aged over 64 will increase demand for health-care, tourism and financial services catering for senior consumers. The major reason for the changing age distribution is that the post-World War II baby boomers produced about one-quarter of the present Australian population. It is predicted that early in the 21st century, they will reach retirement, while still being the dominant group in the total population. As baby boomers reach their fifties, many of them are becoming wealthy and are targeted by markets as desirable sub-segments, such as the asset-based empty nesters, older people with active lifestyles, and well-off older people.

Potential sub-segments also exist in groups that followed the baby boomers, who have typically been raised in smaller families and often as single children. These sub-segments include young upper class individuals who tend toward noticeable and self-indulgent purchase behaviour, attaching social importance to the ownership of items such as mobile phones or convertible cars. Changes in age groups will not be constant across all segments. Average family size will vary among different ethnic groups. Therefore, there will be significant growth opportunity for niche marketers.

Australian Household Composition

The nuclear household consisting of a married couple with children today accounts for only 50 per cent of total households in Australia (ABS, Australian Demographic Statistics (3101.0) & Household and Family Projections, Australia, 1996 to 2021 (3236.0)). The crude marriage rate has been declining since 1970 (ABS, Marriages and Divorces, Australia (3310.0)). This decline in the marriage rate can be mainly attributed to changes in attitudes to marriage and living arrangements that have occurred since then. For example, an increasing number of couples are choosing not to have children- 34.1 per cent today
compared with 20 per cent twenty years ago (Household and Family Projections, Australia, 1996 to 2021 (3236.0)). While Australians continue to marry, they marry later and have fewer children. In addition, couples do not stay together as long as they used to, as about a third of all marriages end in divorce.

Another form of non-traditional family households is that made up of the increasing number of gay and lesbian couples (Quester, McGuiggan, Perreault, McCarthy, 2001). Gay and lesbian couples usually belong to the double income no kids category and many companies are now targeting these highly profitable segments, attempting to attract what is often coined the ‘pink’ dollar (Aaker, 1998). These demographic trends tend to have major implications for marketing planning.

Single-adult households now account for about one-quarter of all households in some Western countries (Quester, McGuiggan, Perreault, McCarthy, 2001). Lone person households in Australia are projected to grow by between 1.7 per cent and 3.1 per cent per year between 1996 and 2021 to comprise between one-quarter and one-third of all household types by 2021 (Household and Family Projections, Australia, 1996 to 2021 (3236.0)). The ageing of the population, increases in divorce and separation, and delaying marriage, are all contributing factors to the growth in lone person households (Hugo, 1999). These people generally need smaller homes, smaller cars, smaller food packages, and, in some cases less-expensive household furnishings as many singles do not have high incomes.

Another household that marketing managers must consider, is ‘de-facto’ households. As the number of these ‘de-facto’ households grow in Australia, it becomes increasingly important for marketers to consider them as potential segments. To reach this market, banks have changed their policies about loans for major purchases such as homes and cars to unmarried couples. Similarly, some insurance companies have designed policies specifically for de facto couples (Kiecker, Hunt, Chonko, 1991).

**Ethnic Dimensions of the Australian Market**

People have unique mental models, which are shaped by their different ethnic background and cultural variables. An individual’s mental model shapes their needs, ways of thinking, and reaction to marketing efforts. Australia exhibits a great diversity of ethnic groups due to decades of immigration from a number of countries. Since the end of World War II the population increased rapidly due to high levels of migration, and the proportion of the population born overseas increased from 10% in 1947 to 24% at June 1999 (ABS, Migration, Australia (3412.0)). Subsequently, Australia nests multicultural markets. These cultural and ethnic dimensions do not disappear into a melting pot, but are preserved and accentuated. This creates opportunities and challenges for marketers.

For example, in Australia both partners are native-born in only 61 per cent of family couples, and roughly 20 per cent of the population speaks a language other than English at home (ABS, Estimated Resident Population by Country of Birth, Age and Sex, Australia (3221.0) & 1996 Census of Population and Housing). This obviously affects promotion planning and brand preference and the marketeer must ensure that the message projected to consumers is interpreted as desired by the marketer. Figure 2 describes the nationality makeup of the Australian population by country of birth. Note the large increases in overseas born Australians as well as the large numbers of second generation Australians.

**Figure 2: Size of ethnic groups in Australia: Birthplace for first and second generation Australians, 1996 and 1998 (000s)**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>UK and Ireland</td>
<td>1230.4</td>
<td>1124.0</td>
<td>9.43</td>
<td>1522.9</td>
</tr>
<tr>
<td>New Zealand</td>
<td>339.3</td>
<td>291.4</td>
<td>16.43</td>
<td>200.0</td>
</tr>
<tr>
<td>Italy</td>
<td>251.4</td>
<td>238.3</td>
<td>5.54</td>
<td>333.9</td>
</tr>
</tbody>
</table>
It is clear that Australia enjoys an unusual ethnic plurality that shapes the identities of many Australians. Ethnic dimensions must be monitored and analysed regularly and with rigour, as changes can be subtle and fast occurring. As the size of these once minority groups increase, so do their market potential. Those firms quick to capitalise on these lucrative and untapped markets will establish a strong position in those markets, as a company that understands their needs. Marketers cannot design their marketing plans based on stereotyped thinking, treating all consumers in a particular ethnic group as homogenous. A firm that utilises its diversity capabilities when developing marketing plans is a firm that is most likely to satisfy the varying needs of different ethnic groups.

Herbig and Rama (1998), highlighted possible marketing pitfalls when basing marketing mix on stereotypes or applying a global marketing mix that is not adjusted for local country variations. An illustrative example cited by Herbig and Rama (1998) was an attempt by General Motors to sell Chevrolet Novas to Hispanics during the early 1980s. The reason why this marketing attempt failed was that nova means, “it does not go” in Spanish. Even more disastrous was a Braniff ad campaign targeted to Hispanics who tried to position itself as a luxurious airline by declaring that their passengers would “fly in leather”. This phrase was translated literally into Spanish as “vuelve en cuero”, which in Spanish is a colloquial expression for “in the raw or naked”.

The second fundamental pitfall made by marketers trying to reach a large ethnic audience is to view that audience as homogenous. For example, a common misunderstanding is that the same marketing mix will work for all Asians, whether they have come to Australia from China, Malaysia, Singapore, Indonesia, the Philippines, Korea, Vietnam, Laos, Cambodia, India or Pakistan. The Asian-Australian market in itself is very diverse. To appeal to these submarkets, specialised strategies may be needed to tailor for the variety of religious, linguistic and cultural backgrounds. The development of these strategies may often be complex since much segmentation and market research will be required, magnifying the marketing challenge in Australia’s diverse marketing environment. The business case for diversity management in marketing strategy is clear: Utilise the diversity resources and capabilities with the firm to acquire information of the diverse characteristics of target markets; then apply the firm’s diversity capabilities to the analysis of that information in order to develop marketing mixes tailored to the diverse attributes of target markets. Marketing managers must understand the special needs; the cultural nuances of their communities; and the inclination of immigrants and first generation Australians to seek out familiar sights, sounds, and smells of their or their families’ native countries.

### 3.2 Differentiation and positioning

Market segmentation enables marketing managers to identify the unique attributes of various customer groups. With a better understanding of how each segment differs, marketing managers can finetune the marketing mix to provide a group of potential customers with superior value. Differentiating the marketing mix to match respective segment characteristics allows the company to better position itself in terms of positively marketing its competitive advantage. That is, target customers will perceive the company’s position in the market as uniquely suited to their preferences and needs.

Positioning refers to how customers view proposed and/or present brands in the market. Positioning issues are especially important when competitive products offer similar value propositions.
Understanding customer’s thinking permits marketing managers to decide how they can position their brand(s) for differentiation. A firm can achieve a competitive positioning by offering valued aspects that are at par with competing brands and augmented by a unique and favourable attribute. The marketing manager must understand the diverse mental models of their segments and thus potential reactions towards marketing mixes. Continental Airlines credit diversity training and multicultural marketing initiatives over the last five years with playing a large role in the airline’s profit turnaround (Fitzerald, 2001:6). Pat Bissonnet, Continental director of diversity and fair employment practices, believes that “having a very diverse workforce to meet an increasingly diverse global customer base has become an important advantage” (Fitzerald, 2001:7). To maintain its edge in the competitive market for international airline travel, Continental plans to hire a record number of airplane crew members who speak French or Japanese in addition to English, so that bilingual crews will serve key routes to Europe and Asia. Pete Garcia, vice president of sales and marketing for Continental’s Latin American and Caribbean operations believes,

“Serving people in their native language and with their native cuisine is a huge plus for customers; they tell us it’s a major reason they flying our airline... It costs a premium to hire crew members who speak multiple languages, but it’s worth the investment because it really cements the traveler’s loyalty” (Fitzerald, 2001:7).

Developing and/or managing diversity capabilities are means for better understanding the mental models of market segments. Accordingly, utilising diversity capabilities enables a firm to identify new and unmet market segments as well as effectively serve market segments as they grow. The management of products from inception to decline can be examined within the concept of the Product Life Cycle (Levitt, 1965). Identifying where a product is in its market life cycle, helps marketing managers to establish positioning strategies.

3.3 The Product Life Cycle (PLC)

Sustaining a competitive advantage requires strategic management of a firm’s product(s) life cycle in order to meet ongoing market changes. The product life cycle describes industry sales and profits stages for a product within a particular product market from market introduction, to market growth, to market maturity, to decline (Levitt, 1965). A company’s marketing mix must change during these stages as customers’ attitudes and needs evolve and change; the product may be aimed at entirely different target markets at different stages; sales and profitability vary; and the nature of competition intensifies and moves to a state of pure competition or oligopoly. Diversity management assists interfunctional coordination and improves a firm’s market orientation. Maintaining a firm’s market orientation is crucial to ensuring that the firm understands the needs of its consumers and activities of its competitors in order to sustain competitive advantage at each stage of the product life cycle.

In the market introduction stage, sales are low as a new idea is first introduced to a market before there is proved demand for it. Informative promotion is required to advise potential customers about the advantages and uses of the new product concept. It takes time for customers to become aware and understand the product. At this stage of the PLC, marketing expenditures are relatively large. Diversity management can improve the productivity of that expenditure. Improving the cohesiveness of relations within the firm and between the firm and its channel members will generate broader market intelligence. Further, with cohesive relations, intelligence is disseminated to the marketing function that is better informed to design the marketing mix to encourage adoption of the new offering.

In the market growth stage of the PLC, demand begins to accelerate and the size of the total market expands rapidly. Levitt (1965:81) termed this stage as the “Take-off Stage”. At this stage, industry profits are highest, however as the industry becomes saturated with competitors, the profits of companies who are unable to differentiate themselves on price or benefit begin to exit (Porter, 1985).
Firms need to develop strategy-planning decisions that utilise the firm's resources and capabilities in a manner that develops and sustains a competitive advantage. "The ensuing fight for the consumer's patronage poses to the originating producer an entirely new set of problems. Instead of seeking ways of getting consumers to try the product, the originator now faces a more compelling problem of getting them to prefer his brand" (Levitt, 1965:83). As the rate of adoption accelerates, sales rise, as do profits, which create an exaggerated impression of profit opportunity, attracting more entrants to the industry. Increased competition and changing consumer attitudes places pressure on firms to compete more aggressively on price or benefit. Diversity capabilities will help to maintain one's position in a growing market as well as expand its market share in a market that is increasingly competitive. A firm can differentiate itself from competitors by utilising its diversity capabilities to understand customers more intimately and find new ways to satisfy customers. At this stage of the PLC, diversity management can provide a means to creating loyal customers and build their brand equity as a firm that meets the diverse needs of their customers.

Woolworths is a good example of how a firm has recognized and responded to the cultural diversity of its staff to enhance the firm's competitive position in the Australian market (Wilkinson & Cheng, 1999). As part of its "Woolworths, the Fresh Food People" campaign, Woolworths wished to feature its own employees in the advertisements. It did not set out to feature people from various ethnic background, but this happen naturally as a result of the ethnic composition of its workforce. In appealing to all sections of the Australian population in its nation wide campaign, it began to feature the way that fresh produce was used as part of various ethnic cuisines served in contemporary Australia. A match between the cultural diversity of the workforce and the population it served became apparent and was taken up and emphasised in various ways in subsequent versions of the campaign. Since then, Woolworths has audited the language and cultural knowledge and skills of its workforce and made use of this in serving customers and in its campaigns.

In the market maturity stage of the PLC, industry sales peak and competition grows rapidly to saturation. This means that most prospective consumers are already customers. Price and differentiation competition becomes aggressive. Industry profits decline throughout this stage since investments in price and benefit strategies become relatively large and difficult to sustain, especially when a firm cannot achieve economies of scale and pass on low prices to customers. Less efficient companies cannot compete and withdraw from the market. Market leaders will normally compete aggressively against followers to maintain their position, market shares and revenue streams. Persuasive marketing becomes essential for the retention of customers. A firm that effectively utilises its diversity capabilities to understand the needs of its existing customers is more likely to develop marketing mixes that are appealing to those customers. A firm that manages its diverse human resources such that they work cohesively is more likely to implement this marketing mix effectively and productively, reacting quickly and accurately to customers' diverse needs. Those customers are more likely to remain loyal and encourage their peers to defect from competitors who are not satisfied.

IBM is one of several companies, competing in a mature market, that has found portraying internal diversity in advertising can have a powerful marketing message for consumers and potential employees (Neff, 1999). IBM Global Services recruitment campaign depicted a team, including two women, a black man and one man wearing a turban that, without intention, expressed that the company has a diverse internal labour force. The campaign has produced strong business results, whereby a seven-percentage point increase in unaided consumer awareness of IBM as a leading information technology provider has been attributed to the campaign (Neff, 1999:2).

During the sales decline stage of the PLC, new products are introduced to substitute or complement existing products with sales that are in decline. Competition on price and benefit for dying products becomes more intense. Companies that have effectively managed and developed their diversity capabilities to understand, serve, and consistently satisfy their loyal customers will tend to have strong brand equity. With strong brand equity, these firms will make profits until the end of their products' lives because they have successfully differentiated their product to sustain a competitive advantage at each stage of the PLC. New products introduced under these brands (to replace dying products) will be able
to leverage from the firm's brand equity to quickly accumulate market share in the introductory stage of the new products' life cycle.

4.0 CONSUMER BEHAVIOUR: THE DIVERSITY DIVIDEND FROM KNOWING YOUR CUSTOMERS

The key to successful marketing is to know your customers. The bottom line of business centres on reaching customers who adopt the firm’s products. Whether for profit or social goals, business is about serving customers. Firms need to understand how their customers are motivated, how they perceive products, what attitudes inform their decisions and how they are persuaded to choose one product over another. By knowing their customers, firms can effectively identify, target and reach different market segments. Productive diversity capabilities play an important role in this process. Nobody knows any given market better than those who constitute members of that market. Consequently, increasing numbers of firms are realising that for ongoing business success, they need to ‘look like’ their customers.

Consumer decisions are shaped by their personality traits, attitudes, motivations, learning experiences, and lifestyles [Lawson, 1996 #1081], as well as by price. Personality traits are reasonably stable personality characteristics that influence individual behaviour [Lawson, 1996 #1081]. They may include characteristics, such as punctuality, patience and shyness. Because personality characteristics are reasonably stable, they facilitate behavioural predictions. For example, individuals with a trait for punctuality can be reasonably expected to arrive on time, or early, for scheduled appointments. Consequently, it is extremely important for any business to ensure that they match their customers’ punctuality to maintain customer satisfaction. This may especially be the case where punctual customers also exhibit a personality trait for impatience. Attitudes express how individuals feel towards given objects [Lawson, 1996 #1081]. They determine the degree to which potential consumers are predisposed to a product. Motivations are factors that constitute incentives to act. For example, some individuals are motivated to buy a product that is associated with a celebrity they admire. Learning experiences and lifestyles provide frames of reference through which individuals can make judgments about purchases and potential purchases.

The marketer’s role is to understand the interrelated factors of personality traits, attitudes, motivations, learning experiences, and lifestyles, in order to understand how best to target consumer market segments. By gathering such information, marketers can anticipate and fulfil consumer demands for products. They can assist firms in designing appropriate products and ensure that these products reach consumers through effective advertising, distribution, and point of sale service and procedures.

4.1 Mental Models: a theoretical framework for understanding consumer behaviour

Mental models2 provide a useful theoretical framework for understanding consumer behaviour. Mental models determine the ways in which people understand their environments, governing the type of information they receive and the ways in which they process that information (North 1990). Such models allow individuals to interpret the world around them, acting as software to process data (North 1990; Cannon-Bowers, Salas et al. 1993; Eggertsson 1993; Denzau and North 1994). Individuals shape their attitudes, values, and beliefs according to their set of mental models, through which they frame, order, organise and interpret the data of their experiences (Werhane 1999). All human cognitive processes are governed by mental models, which are so deeply embedded that people do not even realise they are simply models, but believe them to be reality (Senge 1990).

Mental models can also operate at the group level (Weik and Roberts 1993; Denzau and North 1994; Knight, Pearce et al. 1999). Collective mental models are shared cognitions among group members.

2 For more detailed information about mental models, refer to Chapter 3 of the International Business Case for Diversity Management.
which may emerge from shared experiences that become stored in a group’s “social memory” (Ouchi, 1986 cited in Dodgson 1993). Such consensus enhances the ability of group members to coordinate their activities and facilitates collaborative decision-making processes by reducing friction between group members (Cannon-Bowers, Salas et al. 1993). Equally, where individual mental models of group members are significantly divergent, there is greater scope for behavioural conflict.

Despite the myriad of differences between individuals, there are many shared mental models amongst people of the same ethnic, religious, linguistic and national groups. This is not to suggest that individuals experience an external and fixed culture derived from ethnic, religious, linguistic or national affiliations. Rather, shared mental models can, but do not necessarily, emerge from common cultural backgrounds, derived from exposure to many of the same experiences. Equally, individuals who have been exposed to vastly different experiences will form divergent mental models to interpret their environment (Denzau and North 1994).

Shared mental models facilitate communication between individuals. Communicative accuracy can be limited because factors influencing ideas and decisions are often derived from tacit knowledge, which is of a personal nature and is inherently difficult to codify and communicate (Polanyi 1966). Individuals are more likely to be able to effectively communicate, when they share common features in their mental models, which enable them to more easily transmit both tacit and explicit knowledge (Denzau and North 1994). This means that when members of business and consumers hold convergent mental models, business is more likely to be able to understand the needs of consumers and consumers are better equipped to receive clear communication from business. Equally, shared mental models facilitate business to business relations by aiding communications. In contrast, divergent mental models between parties to exchange impose business costs. Where mental models diverge or clash, communications are impeded and it becomes more difficult for firms to interpret consumer behaviour.

4.2 Diversity management: a tool for understanding consumer behaviour.

There is widespread anecdotal evidence to suggest that diversity management enables firms to understand consumer behaviour and tap into new and diverse market segments. Such evidence can be understood through a mental models theoretical framework. Given that shared mental models enhance the quality of communication, so too they facilitate employees in building customer loyalty by enabling them to develop a sound rapport with customers. Employees who share mental models with customers, either through shared cultural experiences or repeated exposure to a ‘different’ culture combined with diversity training, are well positioned to interpret articulated and unarticulated needs. Employees develop diversity capabilities that enable them to understand cultural nuances and receive tacit as well as explicit communication. Through a more thorough understanding of customer motivations, attitudes, personality traits and life experiences, they can better predict consumer behaviour. The consumer behaviour predictive potential of diversity management has bottom line benefits. By anticipating customer demands, firms can better address their customers’ needs with high quality service. Providing top quality service that fulfills customer needs is a source of strong business success.

Continental Airlines, USA, credits its diversity management initiatives over the last five years with improving customer service levels, enhancing customer loyalty and building bottom line returns [Fitzgerald, 2001 #1082]. After struggling with poor profitability levels, Continental implemented new diversity hiring and management policies, which contributed to a financial turnaround. Continental increased employment of underrepresented ethnic groups and individuals who speak a language other than English. It built alliances with Hispanic and African American organisations to enhance its recruitment of underrepresented groups and provided its employees with diversity training. Through such measures, it has created a workforce that more accurately reflects its customer base. According to Continental’s director of diversity and fair employment practices, Pat Bissonnet, “Having a very

---

3 For more detailed information about culture, refer to Chapter 3.2 of the International Business Case for Diversity Management.
diverse workforce to meet an increasingly diverse global customer base has become an important advantage for us" [Fitzerald, 2001 #1082]. Pete Garcia, VP of sales and marketing for Continental's Latin American and Caribbean operations, asserts that Continental's employment of increasing numbers of Spanish speaking employees has had distinct business advantages. He contends, "serving people in their native language and with their native cuisine is a huge plus for customers; they tell us it's a major reason they keep flying on our airline" and that, "it costs a premium to hire crew members who speak [multiple] languages, but it's worth the investment because it really cements the traveler's loyalty" [Fitzerald, 2001 #1082].

The case of Continental Airlines confirms the importance of convergent mental models between business and customers. Spanish speaking customers identify with Spanish speaking crew because of the easy relations that flow between individuals with common models of communication, in this case, a common formal language and cultural heritage. That is not to assert that Hispanic staff should always service Hispanic customers and that Anglo Saxon staff should always service Anglo Saxon customers. In the words of Roosevelt Thomas, director of the American Institute for diversity in Atlanta,

A company must develop people who can manage for diversity. It's not a question of having black people selling to black people. You have to have people who understand those markets. Short-run efforts may match people up, black to black. [But] in the long run, the best person to service a segment may not be a match ethnically [Keenan, 1994 #1083 italics in original].

Employees from diverse backgrounds hold valuable information about the demands of a diverse array of customers [Markarian, 1994 #1084]. As individual employees become accustomed to working with people from diverse backgrounds, they establish the mental models and diversity capabilities to better serve all customers.

Diversity management also enhances the ability of firms to attract customers via a reputation mechanism. Just as the growth of 'ethical investment' is rewarding companies with sound social, political and environmental practice, so too are well managed diverse companies rewarded with customer patronage. Similarity attraction theory posits that individuals are attracted to others whom they perceive as similar to themselves. Consequently, customers from particular demographic groups may not favour a firm in which they do not see themselves reflected. Consequently, homogeneous or poorly managed diverse organisations are missing out on growing niche markets.

Effective diversity management assists firms in accessing new and diverse markets. Employees who share cultural attributes with new potential customers become a valuable source of cross-cultural knowledge. As a nation rich in cultural diversity, Australia has the potential to realise significant opportunities to expand both domestic and international markets. In a culturally diverse society, consumer demand is shaped by diverse values, tastes and preferences [Wilkinson, 1999 #1085]. Firms need people who can clearly identify these factors that shape consumer behaviour. For example, ANZ Bank's 8.888 percent savings account held massive appeal to ethnic Chinese customers for whom eight is a lucky number. Qantas Catering, Sydney, has found their workforce ethnic diversity enables them to ensure that their catering is suited to the needs of their ethnically diverse customers [. 1996 #1086]. Thus, diversity enables firms to effectively serve many cultural niches within their customer base. Furthermore, satisfying consumer demands in culturally defined domestic markets, provides useful learning experiences for expanding offshore [Wilkinson, 1999 #1085]. While migrant communities are not always representative of 'typical' consumers in their country of origin, they may bare many similar tendencies in their patterns of consumption.

---

4 For more detailed information about similarity attraction, refer to Chapter 3.4 The Theory of Diversity and Group Performance.

5 For more detailed information about the relationship between diversity management and overseas expansion, refer to the International Business Case for Diversity Management
Diversity capabilities facilitate the creation of effective advertising. Individuals’ motivations to adopt any given product may be triggered by a diverse array of factors. The employment of a well managed diverse workforce enhances the knowledge base about the consumers’ purchasing motivations and advertising can be designed accordingly. For example, Australian government anti-smoking campaigns targeting middle-aged men of Southern European descent applied the theme “Someone is missing”, which showed important family events, such as the marriage of children and the birth of grandchildren, at which the father or grandfather was not present because he had died from a smoking-related illness [Wilkinson, 1999 #1085]. Such advertisements were found to be more effective than pre-existing campaigns focusing on smoking health risks, owing to their cultural compatibility. The success of such advertising can be understood through a mental models framework. The targeted audience holds culturally embedded mental models about their family roles and responsibilities. By leveraging such knowledge, firms can persuade individuals to receive their message, whether it be ‘stop smoking’ or ‘buy this’. Thus, the same message can be effectively advertised in diverse ways for different audiences or markets, according to values reflected in the mental models of those targeted individuals.

Diversity management impacts on the bottom line, not only through the marketing function, but also via human resource functions. Companies that are known for strong diversity management practices are well positioned to attract the top workforce talent. In 1994, Prudential, USA, invested in a multi-million dollar diversity change after a “climate assessment” revealed that the company’s lack of internal diversity was making it difficult to attract and retain the “best and brightest” new sales agents [Keenan, 1994 #1083]. Research reveals that diversity management is linked to improvements in job satisfaction and decreased levels of voluntary absenteeism and turnover6. Prudential believes that the cohesive work environment produced by diversity management makes the investment worthwhile. Firms with cooperative and cohesive work environments can expect to attract and retain top quality talent, which leads an improved ability to effectively meet the needs of customers. Clearly, firms should be attempting to recruit and retain top staff to ensure that customers remain attracted to the firm’s products.

4.3 Summary

Diversity capabilities play and important role in understanding and anticipating consumer behaviour. Such capabilities have a clear impact on the bottom line by enabling firms to meet customer demands, access new markets, develop effective advertising, and provide sound customer service. The impact of diversity management in the area of consumer behaviour can be understood through a mental models theoretical framework, which indicates that a diverse workforce has advanced communicative capabilities.

5.0 RELATIONSHIP MARKETING AND PRODUCTIVE DIVERSITY

Relationship marketing is growing in relevance as an underlying paradigm in modern industrial marketing and services marketing (Christopher et al., 1991; Gronroos, 1990, 1994; Peck, 1995). Developing long-term relationships with customers can be a source of competitive advantage since the source of customer loyalty is difficult for competitors to duplicate. The role of relationship marketing “is to establish, maintain, and enhance relationships with customers and other partners, at a profit, so that the objectives of the parties involved are met. This is achieved by a mutual exchange and fulfillment of promises.” (Gronroos, 1994:7). Relationship marketing is based on the premise that customers prefer to have an ongoing relationship with one company rather than continually switch from one supplier to another. This is especially true for purchases of goods that are high in frequency, expensive and satisfy specific needs. Further, it is five to ten times more expensive, depending on the industry, for a company to satisfy a new customer than it costs to satisfy an existing one (Buttle, 1996).

---

6 For more detailed information about the relationship between diversity management and levels of job satisfaction, absenteeism and turnover, refer to Chapters 2.3 & 2.4 of the HRM Business Case for Diversity Management
The greatest challenge for marketing managers operating in markets with diverse needs lies not only in giving prospective customers a reason to do business with their firms, but also in offering them incentives to remain customers and to increase their purchases. The guiding philosophy to relationship marketing is “not whom you know, but how you are known to them” (Levitt, 1983:91). Or as Ballantyne (2000: 274) states, “[r]elationship marketing carries with it a strategic shift in managerial thinking, from extracting value from transactions to developing mutual value through relationships.” This applies not only to final end consumers, but also business-to-business relationships and to employees within the organisation.

The concern for marketing managers in creating long-term relationships is to manage positive service encounters. This can be especially difficult when the service encounter occurs between two people or parties to the transaction with diverse attributes and needs. As previously discussed, when individuals with diverse attributes interact, conflict may arise, as they interpret and evaluate experiences differently. During the service encounter, an employee with little aptitude for dealing with customers not considered “similar” might treat those customers in a way that the customer evaluates negatively. Such a service encounter is likely to be recalled by the customer as a critical incident that will influence their future purchase decisions with the company. ‘Critical incidents’ or ‘moments of truth’ refer to an interaction that has a satisfactory or dissatisfactory outcome hence contributing to the overall perception of the encounter (Hume & McColl-Kenedy, 19XX). The description of service encounters as ‘moments of truth’ is based on the idea that the characteristic attributes of services place significant importance on how the customer evaluates the service encounter (Stauss & Mang, 1999). The characteristic attributes of services are intangibility and customer participation in the service production process. As a consequence of the intangibility, a high share of “experience qualities” characterises services. These are quality attributes that can only be evaluated during the service delivery process (Zeithaml, 1981: 18). That means that quality perception takes place in the encounter situation. The customer takes part in the production process and actively influences the quality of the output. Thus, the quality depends on the success of the service encounter.

The benefit of applying diversity management practice to relationship marketing is that the firm manages employees who manage the service encounter to enable customers with diverse attributes to positively contribute to the service encounter. This idea should guide not only the management of customers with diverse needs but also the management of employees with diverse needs. Just as effective relationship marketing reduces customer defection, effective internal relationship marketing reduces turnover and absenteeism and improves morale and motivation, which in turn improves the employees approach to customer service. Clearly many of the arguments adopted in arguing the case for effective internal relationship marketing with a diverse workforce are drawn from the Business Case for Human Resource Management.

### 5.1 Definition

The definition of relationship marketing consists of two main concepts: attraction and retention of customers and continuous interaction with customers (Christopher et al., 1991; Gronroos, 1994).

The key motivation for retention is that from continuous interaction with customers the firm can discover not only their customers’ expressed needs but also their latent needs. Understanding the latent or intrinsic needs of customers provides marketing managers with an insight into how they may satisfy customers’ needs better relative to the competition (Gronroos, 1994; Gummesson, 1987; Juttner & Wehrl, 1994; Payne & Frow, 1995). Intrinsic needs and values are of central importance to marketing managers who seek to understand and influence consumer behaviour in order to achieve the successful outcome of attraction, satisfaction, and loyalty (Schneider & Bowen, 1995). Deeper emotional needs must be satisfied if a strong, lasting relationship is to endure. Specifically, a developed understanding of the latent needs of customers enables firms to draw connection between those needs and the benefits gained from using the firm’s offerings.
Christopher et al. (1991) argued that the practice of long-term relationship building requires the continuous creation of value as defined by customers. Generally, customers define value in terms of superior customer service and product and/or service quality. Continuous interaction provides the opportunity to understand the details of customers' needs. Greater detail reduces the costs of attracting these customers to adopt other offerings in the firm's product portfolio in addition to reducing the cost of retention.

Relationship marketing extends to all parties involved in the value chain, including suppliers, strategic alliance partners, government, and employees (Morgan & Hunt, 1994). Relationship marketing includes all marketing activities used to establish, develop, and maintain successful relational exchanges. Interfunctional coordination, which is the cooperation, the establishment, development and maintenance of internal relationships and partnerships, is key to successful relationship marketing (Bell, 1998; Berry, 1995; Siguaw, Brown, & Widing, 1994). The quality of internal relations between employees, their managers and the organisation underpins inter-functional coordination and cooperation (Bell, 1998; Berry, 1995; Gummesson, 1987; Christopher et al., 1991).

In order to achieve inter-functional coordination an organisation needs coherent and consistent management of internal systems. Internal systems include relationships between and within departments. Coherent relations are key to a party's willingness to commit to and trust other parties in the building and maintenance of relations (Lovelock, Petterson & Walker, 1998). Employees represent a market within the firm whose needs also need to be met beyond expectation. When employees are highly satisfied they are more likely to commit to marketing goals. "Internal marketing is the process of initiating, maintaining and developing the relationships between employees, their management and the organisation for the purposes of creating superior customer value" (Bell, 1998:4). This statement demonstrates the relevance of attracting, maintaining and enhancing relationships. These relationships include customers, employees and channel members and are maintained for the basic objective of creating superior customer value and improving organisational performance.

Reflecting a means to satisfy both parties to the relationship, the firm adopts relationship marketing to increase both customer and organisational value. Application of relationship marketing aims to achieve and sustain profitability over time through enduring and profitable long-term relationships (Gronroos, 1990,1994). The importance of understanding how customers differ in their motivation for interdependency is key to the longevity and success of the relationship (Levitt, 1983). Levitt (1983) argued that the “sale” is not merely a system but a system over time. The value derived from that system would evolve over time through the firm's services, delivery, reliability, responsiveness, and the quality of human and organisational interaction.

5.2 Advantages of relationship marketing

There are many advantages of adopting a relational approach to marketing. Some of these include: Opportunities to cross-sell other company services, profit from price premium; higher customer retention rates (and higher market share); profit from reduced operating costs, since the customer is familiar; as long-term customers often buy greater quantities than first-time customers, profit from increased purchases; long term customers are invariably happy to spread positive word of mouth and the firm profits from referrals to prospective customers.

The advantages of adopting a relational approach to marketing are supported by a number of empirical studies. Leuthesser & Kohli (1995) found a positive relationship between buyers' satisfaction with the relationship and the focal supplier's market share. Reichheld & Sasser (1990) found that a decrease in customer defection of five percent would improve profits from between 25 per cent to 85 per cent. They also purport that lowering defection rates would double the term of the customer relationship and more than double cumulative profit from that customer. Berry (1995), Gronroos (1994), Kohli & Jaworski (1990) proposed that loyal customers not only bring with them a steady profit stream but organisations
invest less in serving potential customers. Loyal customers enact positive word-of-mouth behaviour, reducing the demand on promotion to attract new customers.

### 5.3 Determinants of successful relationship marketing

The keys to successful relationship marketing are the keys to creating customer satisfaction and successfully managing the service encounter. The marketing literature argues that the management of a satisfied customer relies on the firm’s ability to manage the service encounter. The ability to satisfy customer needs, both latent and expressed, rests largely on its diversity capabilities. That is, the ability of employees to understand the diverse expectations of their customers and to deliver an offering that exceeds those expectations. Internal marketing literature argue for the practice of sound HRM to ensure that employees are satisfied with their workplace and are able to communicate easily with coworkers. Effective communication ensures that employees share knowledge on the delivery of superior customer value and successful management of the service encounter.

**Customer Satisfaction**

Customer satisfaction is an integral part of most organisations’ corporate mission and goals. Increased global and domestic competition, rising customer expectations, and more assertive customer attitudes are but a few of the forces that are driving greater numbers of organisations to view their products and services from the customer’s perspective. Satisfaction, value and quality are all of great concern to senior management, since they relate directly to an organisation’s survival in the competitive marketplace. Strategies designed to enhance satisfaction and value depends on continuous improvement in service (as defined by customers) and on productivity improvements that reinforce rather than counter customer satisfaction (Besanko, 1998).

For an exchange to take place between a buyer and a seller, each party must see value in the transaction. That value equates to total benefits exceeding total costs. For long term relations to develop both parties must perceive that they are deriving a continuing value from that relationship. It is the customers’ perceptions of value that is important when evaluating service performance. The dominant challenge for marketing managers is to consistently deliver satisfactory outcomes to its customers in cost effective ways. It is not sufficient to merely satisfy customers since customers can be lured away by competitors. The firm must delight the customers so that they remain loyal. Customer satisfaction is not an end in itself. It is a means to achieving several key business goals and a competitive advantage. Firstly, satisfaction is linked to customer loyalty and relationship commitment. Secondly, delighted customers spread positive word of mouth, providing free promotion and lowering the cost of attracting new customers. Thirdly, long term satisfied customers are more forgiving of one-off poor experiences. Further, delighted customers are less susceptible to competitive offerings and have a lower likelihood of switching (Rust & Oliver, 2000). Delighting the customer provides the customer with a critical incident that acts to positively influence future purchase decisions (Rust & Oliver, 2000).

### Managing the service encounter

There are several characteristic aspects of services. These include: intangible performance; greater involvement of customer in the production process; people as part of the evaluated end product; greater difficulty in maintaining quality control standards and monitoring performance; harder for customers to evaluate quality of end product; and the use of different distribution channels such as face-to-face interaction and web interfaced interaction (Lovelock, Patterson, & Walker, 1998). The service encounter is often referred to as the ‘defining moment’, the ‘moment of truth’, or the ‘critical incident’ and it is a period of time during which a consumer interacts directly with a service. The nature and extent of service encounters vary widely according to the level of customer contact with the organisation and its personnel. For example, consider changes that have been made or are currently being made to service
management with the shift from face-to-face encounters to telephone and electronic/web encounters; while, personal service is being replaced by self-service, through the medium of computers or machines.

Increasingly the focus in the marketing literature has shifted from a purely consumer market focus to acknowledging and analysing the importance of business-to-business interactions. Given the higher value, higher frequency and larger mutually specific investments involved in many such interactions, the arguments for a relationship marketing approach are often stronger in this area. Relationship marketing is essential to ensure party satisfaction at every interface in the value chain. There is a greater likelihood that such relationships may involve businesses from outside of Australia, or involve individuals from different backgrounds. Therefore, there will be a greater role for cultural complexity skills or, more broadly, diversity capabilities.

The value derived from relationship marketing will depend upon the nature of the encounter. Classifying encounters and the nature of service to be given depends on the value that both parties derive from the relationship, or how much they are investing/forgoing to commit to one party, and the frequency of service provided. For example, a highly customised service will be delivered to customers who are long term and frequent in their encounter with the firm. Under these circumstances the value that their partnership produces for the supplier of the service may surpass the investment required to retain the customer.

There are two sides of the customer interface: service operations system and service delivery system. The service operations system is not visible to the customer. It includes support tasks such as billing, ordering, account keeping, and HRM. If these support tasks are not done properly, the impact will be apparent to customers, as the service outcome/product will not be as favourable as expected. For example, HR policies and practices influence how a worker behaves towards co-workers and customers. Theoretically, a less satisfied employee is likely to be less accommodating to customer requirements than an employee who is very satisfied. The service delivery system encounters where, when, and how the service product is delivered to the customer. Components of the service delivery system include three key components: Service personnel such as sales representatives, customer service staff, accounting/billing staff, operations staff, intermediaries, which may be face-to-face or telecommunication; service facilities and equipment such as building exteriors, parking areas, landscaping, building interiors and furnishings, vehicles, self-service equipment operated by customers; and non personal communications such as letters, brochures, advertising, signage, editorials. Other people involved in the service delivery system may include other customers, peers and those individuals whose ‘word-of-mouth’ is well respected. The point is to manage the evidence provided in service encounters, which communicate the value of the firm’s offering.

The customer is an integral part of the marketing and delivery process in services, which necessitates a close relationship between the service provider and the customer. In the words of Sheth et al (1988:191, 194),

"Marketing is the study of marketing behaviour...[which includes] the behaviour of buyers, sellers, intermediaries, and regulators in exchange relationships... The fundamental unit of analysis in marketing is, or should be, the market interaction between two or more parties." “...it is very likely that the domain of marketing will be defined around, not only the market, but also the concept of repeated market transactions, what is more popularly called “relationship marketing”

Stated in this manner, the purpose of marketing confirms the traditional views of marketing as geared towards customer satisfaction and by default the management of relationships within the firm and between firm members and parties external to the firm (Aijo, 1996).
Bitner, Booms and Tetreault (1990) have popularized the critical incident technique for collecting and categorizing critical incidents in service delivery that contribute to or detract from the customer’s service experience in a significant way. This research shows that employee’s view of service is critical is delivering good service. Critical incidents that are satisfactorily resolved have greater potential for enhancing brand loyalty, because they demonstrate that the organisation will invest in satisfying the customer. Unsatisfactory service encounters ranked second to core service failures as a reason for switching.

5.4 HRM & Diversity Management

“Internal marketing is defined as a relationship development strategy for the purpose of knowledge renewal… [which means] generating and circulating new knowledge… [as] market intelligence made usable as an organisational resource by capable employees who can define and share its meaning with others” (Ballantyne, 2000: 276)

In this passage, Ballantyne (2000) contends that the successful implementation of a marketing strategy rests on the firm’s ability to share information. Barry and Parasuraman (1991:162) cautioned that barriers to knowledge sharing might occur when the various parts of an organisation act “without cohesion or a unified spirit”. Such barriers to communication also influence the behaviour of employees towards customers. Barry and Parasuraman (1991) emphasise the value of managing staff in a way that reflects the preferred customer management style. The assumption here is that this provides a climate for “effective marketing behaviour”. Ballantyne (2000:275) calls this the “happy staff equals happy customers” logic.

Sears is a clear example of how this logic can bring real bottom line improvements to a firm. The change in Sears’ business culture is argued to have brought the company from loss to profit over the past three years (Rucci, Kirn, & Quinn, 1998). The changed business culture was based on the ‘employee-customer model’. The employee-customer model emphasises the optimization of employee skills to produce superior customer value (Rucci, Kirn, & Quinn, 1998). The model is geared towards improving the company’s relations with its employees in order to improve the company’s relations with its customers. It is about making Sears a “compelling place to work, to shop, and to invest” (Rucci, Kirn, & Quinn, 1998: 92). In the words of Rucci, Kirn, & Quinn (1998),

“... We could see how employee attitudes drove not just customer service but also employee turnover and the likelihood that employees would recommend Sears and its merchandise to friends, family, and customers. We discovered that an employee’s ability to see the connection between his or her work and the company’s strategic objectives was a driver of positive behaviour”... “attitude toward the job and toward the company had a greater effect on employee loyalty and behaviour toward customers than all the other dimensions [of employee satisfaction] put together”

This statement clearly demonstrates the role of HRM in internal marketing.

Based on the findings from the Diversity Business Case for HRM, diversity HR practice will make a difference to the service encounter. HRM directed at elevating the problems that arise from ingroup and outgroup behaviour can reduce turnover and absenteeism, while improving commitment and job satisfaction. Diversity HR management can facilitate inter-functional coordination and aligning employees actions with the needs of customers. As exemplified in the Sears case study, sound HR practice ensures that employees deliver good service. Accordingly, sound diversity HR management ensures that the firm utilises its diversity capabilities to cater to customers with diverse expectations. The key to successful service encounters is effective communication both within the firm and between employees and customers. Attempts to facilitate inter-functional coordination will succeed or fail on the
effectiveness of the internal communications. An environment in which employees do not feel comfortable with, or capable of, communication with fellow employees will not be conducive to effective coordination of actions with the needs of customers.

The relationship between diversity management and relationship marketing may not be simply unidirectional. It may be the case that a well-structured focus on the value and importance of developing effective customer and business relationships will aid in also developing diversity management skills. The skills and strengths needed to capture the ‘relationship dividend’ are comparable to those needed to harness the ‘diversity dividend’, namely communication, coordination and the development of a common set of business goals. This latter point is the crucial one, as the establishment of supra-group identification, that is a shift away the internal focus on intra-group machinations and group dynamics, may act to attenuate the ingroup-outgroup tendencies discussed at length in the Theory of Group Dynamics document.