When You Finish This Chapter, You Should

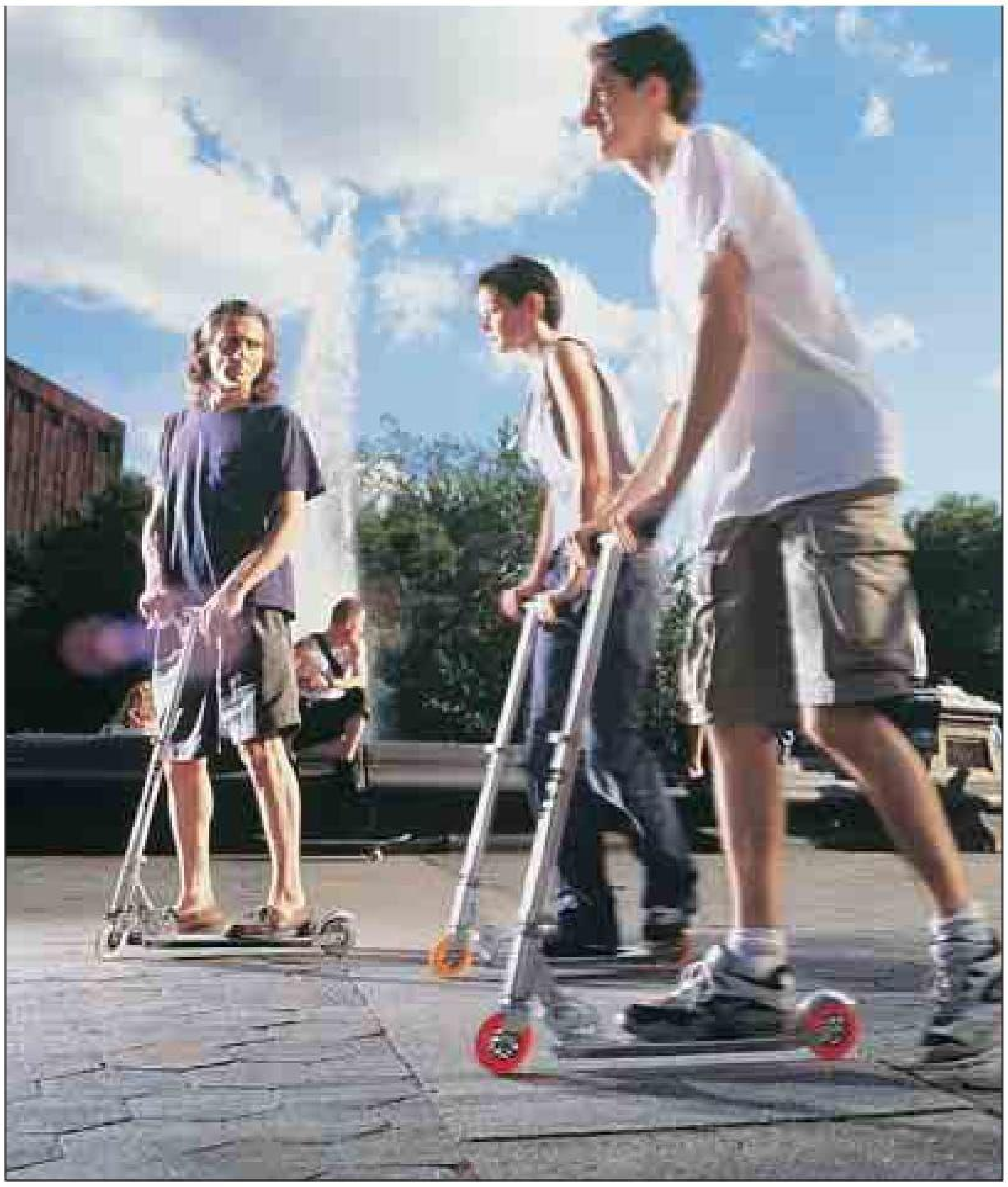
1. Know what marketing is and why you should learn about it.
2. Understand the difference between micro-marketing and macro-marketing.
3. Know why and how macro-marketing systems develop.
4. Understand why marketing is crucial to economic development and our global economy.
5. Know why marketing specialists—including middlemen and facilitators—develop.
6. Know the marketing functions and who performs them.
7. Understand the important new terms (shown in red).

Chapter One

Marketing's Role in the Global Economy

When it's time to roll out of bed in the morning, does your Sony alarm clock wake you with a buzzer or playing your favorite radio station? Is the station playing hip-hop, classical, or country music—or perhaps a Red Cross ad asking you to contribute blood? Will you slip into your Levi's jeans, your shirt from Abercrombie and Fitch, and your Nikes, or does the day call for your Brooks Brothers interviewing suit? Will breakfast be Lender's Bagels with cream cheese or Kellogg's Frosted Flakes—made with grain from America's heartland—or some extra-large eggs and Oscar Mayer bacon cooked in a Panasonic microwave oven imported from Japan? Will you drink Maxwell House decaf coffee grown in Colombia or some Tropicana Orange Juice? Will you eat at home or is this a day to meet a friend at the Marriott-run cafeteria—where you'll pay someone else to serve your breakfast? To figure

place price promotion produc



out what the day holds, will you need to log on to AOL to check your e-mail, or perhaps check the calendar on your Palm? Will you head off to school or work in a VW Beetle or on a bus that the city bought from General Motors, or is this the right kind of day to dust off your Razor scooter?

When you think about it, you can't get very far into a day without bumping into marketing—and what the whole marketing system does for you. It affects every aspect of our lives—often in ways we don't even consider.

In other parts of the world, people wake up each day to different kinds of experiences. A family in China may have little choice about what food they will eat or where their clothing will come from. A farmer in the mountains of Jamaica may awake in a barren hut with little more than the hope of raising enough to survive. A businessperson in a large city like Tokyo may have many choices but not be familiar with products that have names like Maxwell House, General Motors, and Oscar Mayer.

What explains these differences, and what do they have to do with marketing? In this chapter, we'll answer questions like these. You'll see what marketing is all about and why it's important to you. We'll also explore how marketing affects the quality of life in different societies and why it is so crucial to economic development and our global economy.

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price

place

promotion

product

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Service Master helps hospitals improve a new mom's satisfaction with the hospital by serving "celebration meals."

Marketing—What's It All About?

Marketing is more than selling or advertising

If forced to define marketing, most people, including some business managers, say that marketing means "selling" or "advertising." It's true that these are parts of marketing. But *marketing is much more than selling and advertising*.

How did all those bicycles get here?

To illustrate some of the other important things that are included in marketing, think about all the bicycles being peddled with varying degrees of energy by bike riders around the world. Most of us weren't born sitting on a bicycle. Nor do we make our own bicycles. Instead, they are made by firms like Schwinn, Performance, Huffy, and Murray.

Most bikes are intended to do the same thing—get the rider from one place to another. But a bike rider can choose from a wide assortment of models. They are designed in different sizes, with different frames for men and women, and with or without gears. Off-road bikes have large knobby tires, and the tires on racing bikes are narrow. Some bikes have hand brakes and others have foot brakes. Kids and older people may want more wheels—to make balancing easier; clowns want only one wheel, to make balancing more interesting. And some bikes need baskets or even trailers for cargo or an infant seat for a small passenger. You can buy a basic bike for less than $50. Or, you can spend more than $2,500 for a custom frame—not including the handcrafted wheels that you order over the Internet.

This variety of styles and features complicates the production and sale of bicycles. The following list shows some of the many things a firm should do before and after it decides to produce a bike.

1. Analyze the needs of people who might buy a bike and decide if they want more or different models.
2. Predict what types of bikes—handlebar styles, type of wheels, weights, and materials—different customers will want and decide which of these people the firm will try to satisfy.

3. Estimate how many of these people will be riding bikes over the next several years and how many bikes they'll buy.
4. Predict exactly when these people will want to buy bicycles.
5. Determine where in the world these bike riders will be and how to get the firm's bikes to them.
6. Estimate what price they are willing to pay for their bikes and if the firm can make a profit selling at that price.
7. Decide which kinds of promotion should be used to tell potential customers about the firm's bikes.
8. Estimate how many competing companies will be making bikes, how many bikes they'll produce, what kind, and at what prices.
9. Figure out how to provide warranty service if a customer has a problem after buying a bike.

The above activities are not part of **production**—actually making goods or performing services. Rather, they are part of a larger process—called *marketing*—that provides needed direction for production and helps make sure that the right goods and services are produced and find their way to consumers.

Our bicycle example shows that marketing includes much more than selling or advertising. We'll describe marketing activities in the next chapter. And you'll learn much more about them before you finish this book. For now, it's enough to see that marketing plays an essential role in providing consumers with need-satisfying goods and services and, more generally, in creating customer satisfaction. Simply put, **customer satisfaction** is the extent to which a firm fulfills a customer's needs, desires, and expectations.

How Marketing Relates to Production

Production is a very important economic activity. Whether for lack of skill and resources or just lack of time, most people don't make most of the products they use. Picture yourself, for example, building a 10-speed bicycle, a DVD player, or an electronic watch—starting from scratch! We also turn to others to produce services—like health care, air transportation, and entertainment. Clearly, the high standard of living that most people in advanced economies enjoy is made possible by specialized production.

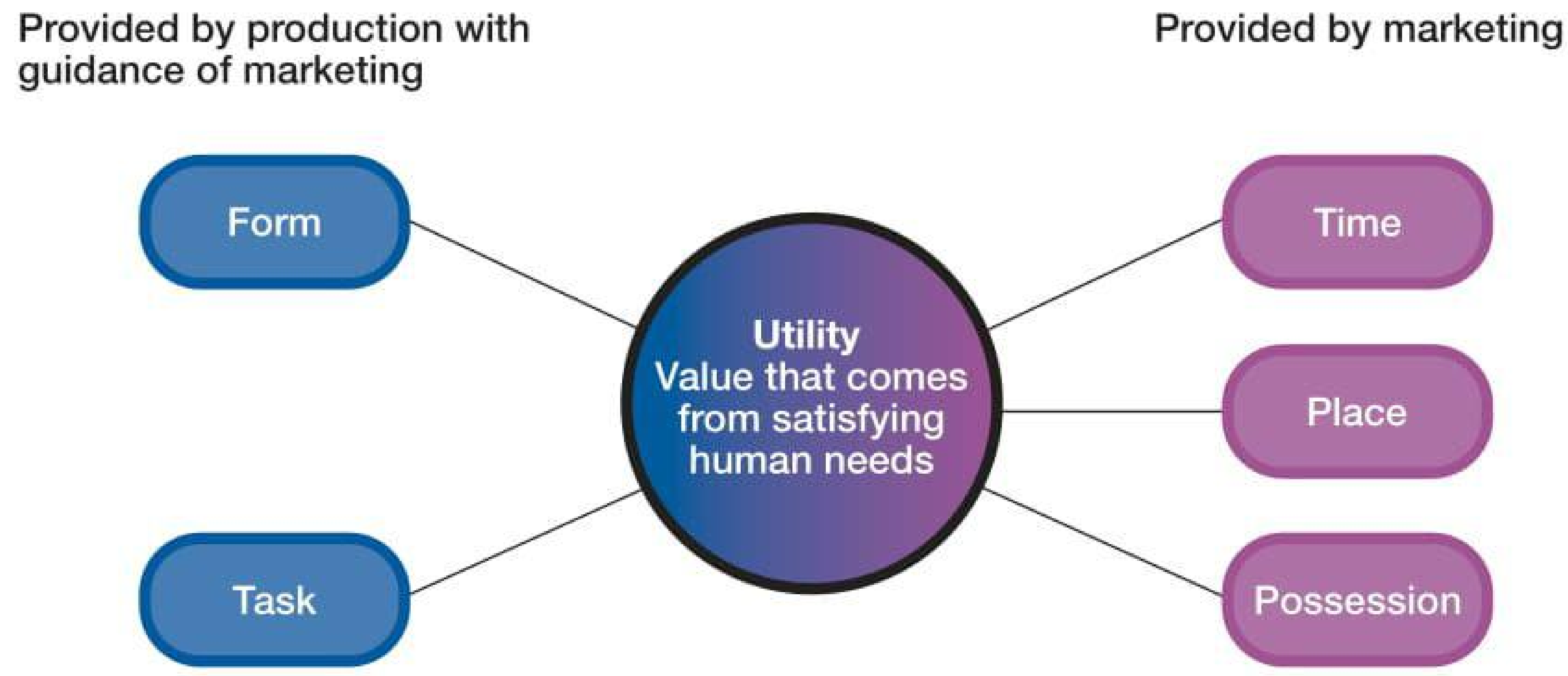
Bicycles, like mousetraps, don't sell themselves

Although production is a necessary economic activity, some people overrate its importance in relation to marketing. Their attitude is reflected in the old saying: "Make a better mousetrap and the world will beat a path to your door." In other words, they think that if you just have a good product, your business will be a success.

The "better mousetrap" idea probably wasn't true in Grandpa's time, and it certainly isn't true today. In modern economies, the grass grows high on the path to the Better Mousetrap Factory—if the new mousetrap is not properly marketed. We have already seen, for example, that there's a lot more to marketing bicycles than just making them. This is true for most goods and services.

The point is that production and marketing are both important parts of a total business system aimed at providing consumers with need-satisfying goods and services. Together, production and marketing supply five kinds of economic utility—form, task, time, place, and possession utility—that are needed to provide consumer satisfaction. Here, **utility** means the power to satisfy human needs. See Exhibit 1-1.

Exhibit 1-1
Types of Utility and How They Are Provided



Bicycles do not automatically provide utility

Form utility is provided when someone produces something tangible—for instance, a bicycle. **Task utility** is provided when someone performs a task for someone else—for instance, when a bank handles financial transactions. But just producing bicycles or handling bank accounts doesn't result in consumer satisfaction. The product must be something that consumers want or there is no need to be satisfied—and no utility.

This is how marketing thinking guides the production side of business. Marketing decisions focus on the customer and include decisions about what goods and services to produce. It doesn't make sense to provide goods and services consumers don't want when there are so many things they do want or need. Let's take our "mousetrap" example a step further. Some customers don't want *any kind* of mousetrap. They may want someone else to produce a service and exterminate the mice for them, or they may live where mice are not a problem. Marketing is concerned with what customers want, and it should guide what is produced and offered. This is an important idea that we will develop more completely later.

Even when marketing and production combine to provide form or task utility, consumers won't be satisfied until time, place, and possession utility are also provided.

Time utility means having the product available *when* the customer wants it. And **place utility** means having the product available *where* the customer wants it. Bicycles that stay at a factory don't do anyone any good. Time and place utility are very important for services too. For example, neighborhood emergency care health clinics have become very popular. People just walk in as soon as they feel sick, not a day later when their doctor can schedule an appointment.

Possession utility means obtaining a good or service and having the right to use or consume it. Customers usually exchange money or something else of value for possession utility.

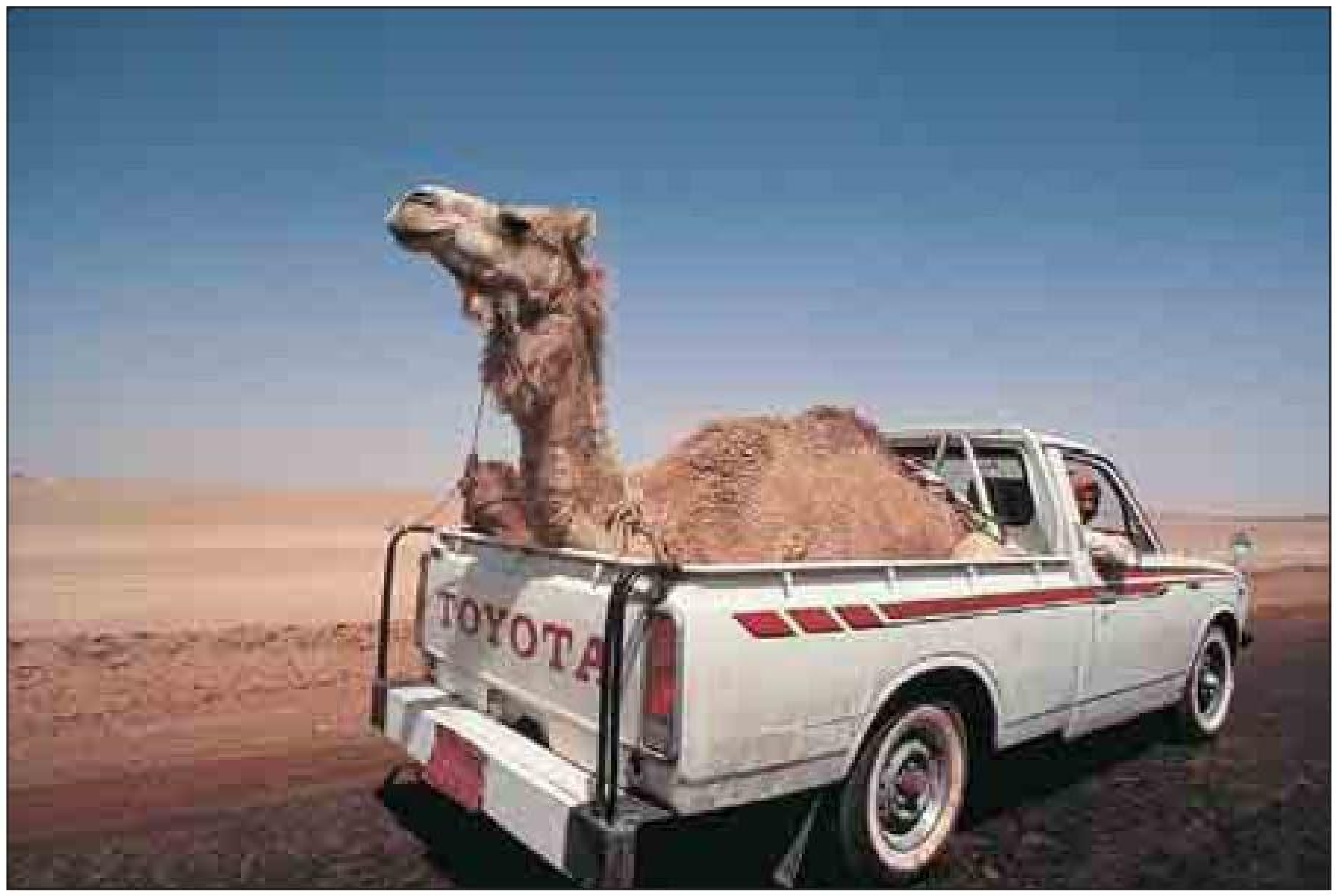
Stated simply, marketing provides time, place, and possession utility. It should also guide decisions about what goods and services should be produced to provide form utility and task utility. We'll look at how marketing does this later in this chapter. First, we want to discuss why you should study marketing, and then we'll define marketing.

Marketing Is Important to You

Marketing is important to every consumer

One important reason for learning about marketing is that marketing affects almost every aspect of your daily life. All the goods and services you buy, the stores where you shop, and the radio and TV programs paid for by advertising are there because of marketing. Even your job résumé is part of a marketing campaign to sell

By working to understand the needs of its customers, wherever they are, Toyota has successfully adapted to marketers all around the world.



yourself to some employer! Some courses are interesting when you take them but never relevant again once they're over. Not so with marketing—you'll be a consumer dealing with marketing for the rest of your life.

Another reason for studying marketing is that you—as a consumer—pay for the cost of marketing activities. In advanced economies, marketing costs about 50 cents of each consumer dollar. For some goods and services, the percentage is much higher.

Marketing will be important to your job

> **Marketing Manager for Consumer Electronics**
>
> We've got a new opportunity that should help our business grow into the next century. Put your college degree and experience in marketing consumer durables to work. Come help us analyze our markets and plan our marketing mix in a logical, creative, and enthusiastic way. This job offers income above industry standards, dynamic colleagues, relocation to desirable midwest suburb, and fast-track upward mobility. Check our website for more detail or reply in confidence, with a copy of your resume, to Box 4953.

Still another reason for studying marketing is that there are many exciting and rewarding career opportunities in marketing. Marketing is often the route to the top. Throughout this book you will find information about opportunities in different areas of marketing—in sales, advertising, product management, marketing research, distribution, and other areas. And Appendix C is all about career planning in marketing.

Even if you're aiming for a nonmarketing job, you'll be working with marketing people. Knowing something about marketing will help you understand them better. It will also help you do your own job better. Throughout the book, we'll discuss ways that marketing relates to other functional areas—and Chapter 20 focuses on those issues. Further, remember that marketing is important to the success of every organization. A company that can't successfully sell its products doesn't need accountants, financial managers, production managers, personnel managers, computer programmers, or credit managers.

Even if you're not planning a business career, marketing concepts and techniques apply to nonprofit organizations too. Many nonprofit organizations have a marketing manager. And the same basic principles used to sell soap are also used to "sell" ideas, politicians, mass transportation, health care services, conservation, museums, and even colleges. Think about the school where you take this course. If you didn't know about its offerings—or if they didn't interest you—you would simply pick some other school.[1]

Marketing affects economic growth

An even more basic reason for studying marketing is that marketing plays a big part in economic growth and development. Marketing stimulates research and new ideas—resulting in innovative new goods and services. Marketing gives customers a choice among products. If these products satisfy customers, fuller employment, higher incomes, and a higher standard of living can result. An effective marketing system is important to the future of all nations.[2]

How Should We Define Marketing?

As we said earlier, some people think of marketing too narrowly as "selling and advertising." On the other hand, one author defined marketing as the "creation and delivery of a standard of living."[3] That definition is too broad.

An important difference between the two definitions may be less obvious. The first definition is a *micro*-level definition. It focuses on activities performed by an individual organization. The second is a *macro*-level definition. It focuses on the economic welfare of a whole society.

Micro- or macro-marketing?

Which view is correct? Is marketing a set of activities done by individual firms or organizations? Or is it a social process?

To answer this question, let's go back to our bicycle example. We saw that a producer of bicycles has to perform many customer-related activities besides just making bikes. The same is true for an insurance company, an art museum, or a family-service agency. This supports the idea of marketing as a set of activities done by individual organizations.

On the other hand, people can't survive on bicycles and art museums alone! In advanced economies, it takes thousands of goods and services to satisfy the many needs of society. For example, a typical Wal-Mart store carries more than 100,000 different items, and its Supercenter carries more than 20,000 additional grocery items, many of them perishable. A society needs some sort of marketing system to organize the efforts of all the producers and middlemen needed to satisfy the varied needs of all its citizens. So marketing is also an important social process.

Internet

Internet Exercise You can check out the online shopping experience of Wal-Mart on the Web by going to the Wal-Mart home page (www.walmart.com) and clicking on "Go Shopping."

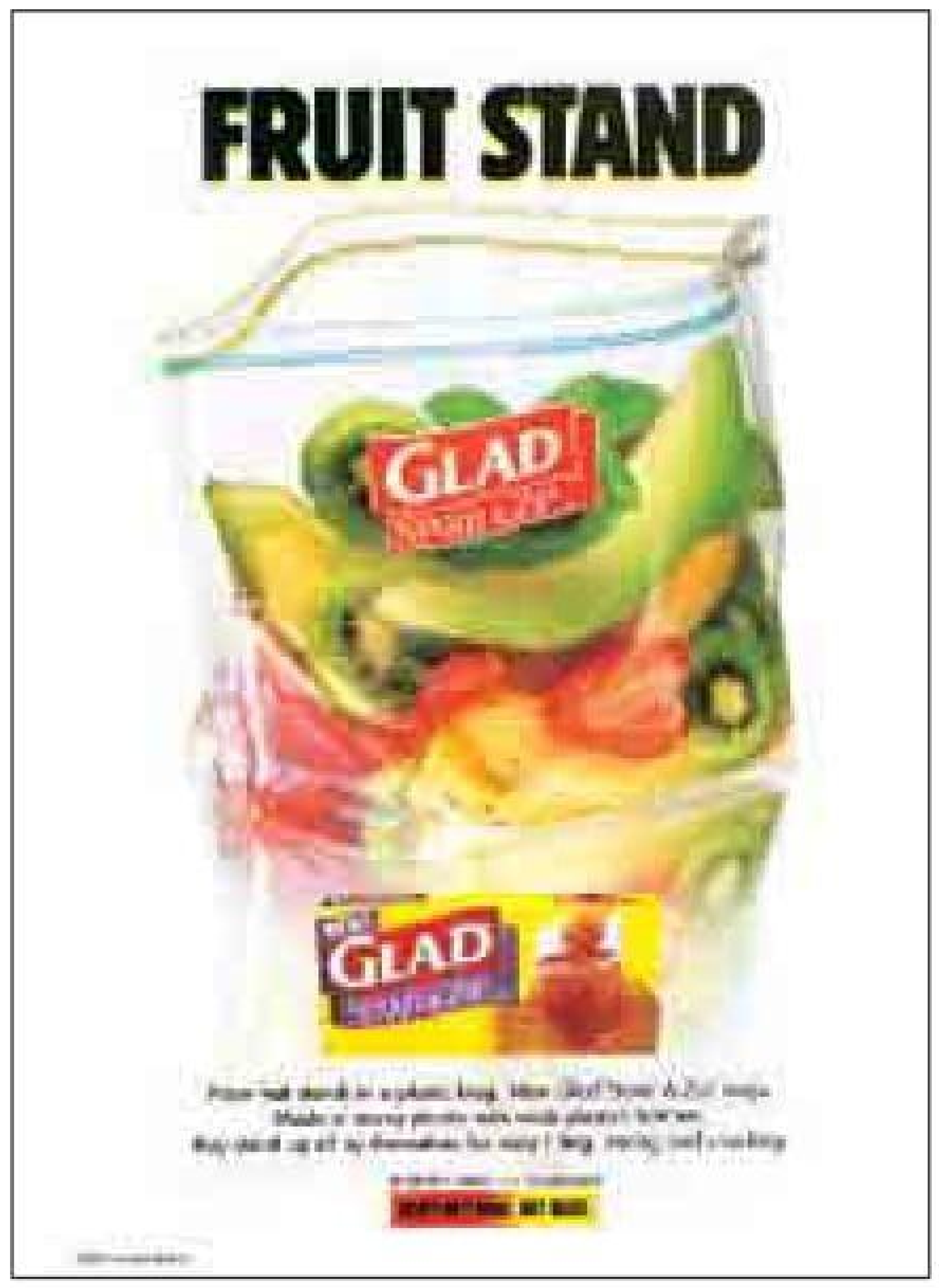
The answer to our question is that *marketing is both a set of activities performed by organizations and a social process*. In other words, marketing exists at both the micro and macro levels. Therefore, we will use two definitions of marketing—one for micro-marketing and another for macro-marketing. Micro-marketing looks at customers and the organizations that serve them. Macro-marketing takes a broad view of our whole production–distribution system.

Micro-Marketing Defined

Micro-marketing is the performance of activities that seek to accomplish an organization's objectives by anticipating customer or client needs and directing a flow of need-satisfying goods and services from producer to customer or client.

Let's look at this definition.[4]

The aim of marketing is to identify customers' needs—and to meet those needs so well that the product almost sells itself.



Applies to profit and nonprofit organizations

To begin with, this definition applies to both profit and nonprofit organizations. Profit is the objective for most business firms. But other types of organizations may seek more members—or acceptance of an idea. Customers or clients may be individual consumers, business firms, nonprofit organizations, government agencies, or even foreign nations. While most customers and clients pay for the goods and services they receive, others may receive them free of charge or at a reduced cost through private or government support.

More than just persuading customers

You already know that micro-marketing isn't just selling and advertising. Unfortunately, many executives still think it is. They feel that the job of marketing is to "get rid of" whatever the company happens to produce. In fact, the aim of marketing is to identify customers' needs and meet those needs so well that the product almost "sells itself." This is true whether the product is a physical good, a service, or even an idea. If the whole marketing job has been done well, customers don't need much persuading. They should be ready to buy. And after they do buy, they'll be satisfied and ready to buy the same way again the next time.

Begins with customer needs

Marketing should begin with potential customer needs—not with the production process. Marketing should try to anticipate needs. And then marketing, rather than production, should determine what goods and services are to be developed—including decisions about product design and packaging; prices or fees; credit and collection policies; use of middlemen; transporting and storing policies; advertising and sales policies; and, after the sale, installation, customer service, warranty, and perhaps even disposal policies.

Does not do it alone

This does not mean that marketing should try to take over production, accounting, and financial activities. Rather, it means that marketing—by interpreting customers' needs—should provide direction for these activities and try to coordinate them. After all, the purpose of a business or nonprofit organization is to satisfy customer or client needs. It is not to supply goods and services that are convenient to produce and *might* sell or be accepted free.

Builds a relationship with the customer

When marketing helps everyone in a firm really meet the needs of a customer both before and after a purchase, the firm doesn't just get a single sale. Rather, it has a sale and an ongoing *relationship* with the customer. Then, in the future, when the customer has the same need again—or some other need that the firm can meet—other sales will follow. That's why we emphasize that marketing concerns a *flow* of need-satisfying goods and services to the customer. Often, that flow is not just for a single transaction but rather is part of building a long-lasting relationship that is beneficial to both the firm and the customer.

The Focus of This Text—Management-Oriented Micro-Marketing

Since you are probably preparing for a career in management, the main focus of this text will be on micro-marketing. We will see marketing through the eyes of the marketing manager.

It is important to keep in mind that the micro-marketing ideas and decision areas we will be discussing throughout this text apply to a wide variety of situations. They are important not only for large and small business firms but also for all types of public sector and nonprofit organizations. They apply to new ventures started by a single entrepreneur as well as to ongoing efforts by teams of people in corporations. They are useful in domestic markets and international markets and regardless of whether the organization focuses on marketing physical goods, services, or an idea or cause. They are equally critical whether the relevant customers or clients are individual consumers, businesses, or some other type of organization. In short, every organization needs to think about its markets and how effectively it meets its customers' or clients' needs. For editorial convenience, and to reflect the fact that most readers will work in business settings, when we discuss marketing concepts we will sometimes use the term *firm* as a shorthand way of referring to any type of organization, whether it is a political party, a religious organization, a government agency, or the like. However, to reinforce the point that the ideas apply to all types of organizations, throughout the book we will illustrate marketing management concepts with examples that represent a wide variety of marketing situations.

Although micro-marketing is the primary focus of the text, marketing managers must remember that their organizations are just small parts of a larger macro-marketing system. Therefore, the rest of this chapter will look at the macro view of marketing. Let's begin by defining macro-marketing and reviewing some basic ideas. Then, in Chapter 2, we'll explain the marketing management decision areas we will be discussing in the rest of the book.

Macro-Marketing Defined

Macro-marketing is a social process that directs an economy's flow of goods and services from producers to consumers in a way that effectively matches supply and demand and accomplishes the objectives of society.

Emphasis is on whole system

Like micro-marketing, macro-marketing is concerned with the flow of need-satisfying goods and services from producer to consumer. However, the emphasis with macro-marketing is not on the activities of individual organizations. Instead, the emphasis is on *how the whole marketing system works*. This includes looking at how marketing affects society, and vice versa.

Every society needs a macro-marketing system to help match supply and demand. Different producers in a society have different objectives, resources, and skills. Likewise, not all consumers share the same needs, preferences, and wealth. In other words, within every society there are both heterogeneous (highly varied) supply capabilities and heterogeneous demands for goods and services. The role of a macro-marketing system is to effectively match this heterogeneous supply and demand *and* at the same time accomplish society's objectives.

Is it effective and fair?

The effectiveness and fairness of a particular macro-marketing system must be evaluated in terms of that society's objectives. Obviously, all nations don't share the same objectives. For example, Swedish citizens receive many "free" services—like health care and retirement benefits. Goods and services are fairly evenly distributed among the Swedish population. By contrast, Iraq places little emphasis on producing goods and services for individual consumers and more on military spending. In India the distribution of goods and services is very uneven—with a big gap between the "have-nots" and the elite "haves." Whether each of these systems is judged "fair" or "effective" depends on the objectives of the society.

Let's look more closely at macro-marketing.[5] And to make this more meaningful to you, consider (1) what kind of a macro-marketing system you have and (2) how effective and fair it is.

Every Society Needs an Economic System

All societies must provide for the needs of their members. Therefore, every society needs some sort of **economic system**—the way an economy organizes to use scarce resources to produce goods and services and distribute them for consumption by various people and groups in the society.

How an economic system operates depends on a society's objectives and the nature of its political institutions.[6] But regardless of what form these take, all economic systems must develop some method—along with appropriate economic institutions—to decide what and how much is to be produced and distributed by whom, when, to whom, and why. How these decisions are made may vary from nation to nation. But the macro-level objectives are basically similar: to create goods and services and make them available when and where they are needed—to maintain or improve each nation's standard of living or other socially defined objective.

How Economic Decisions Are Made

There are two basic kinds of economic systems: planned systems and market-directed systems. Actually, no economy is entirely planned or market-directed. Most are a mixture of the two extremes.

Government planners may make the decisions

In a **planned economic system,** government planners decide what and how much is to be produced and distributed by whom, when, to whom, and why. Producers generally have little choice about what goods and services to produce. Their main task is to meet their assigned production quotas. Prices are set by government planners and tend to be very rigid—not changing according to supply and demand. Consumers usually have some freedom of choice—it's impossible to control every single detail! But the assortment of goods and services may be quite limited. Activities such as market research, branding, and advertising usually are neglected. Sometimes they aren't done at all.

Government planning may work fairly well as long as an economy is simple and the variety of goods and services is small. It may even be necessary under certain conditions—during wartime, drought, or political instability, for example. However, as economies become more complex, government planning becomes more difficult. It may even break down. Planners may be overwhelmed by too many complex decisions. And consumers may lose patience if the planners don't respond to their needs. The collapse of communism in Eastern Europe dramatically illustrates this. Citizens of what was the Soviet Union were not satisfied with the government's plan—because products consumers wanted and needed were not available. To try to reduce consumer dissatisfaction, government planners tried to put more emphasis on making consumer goods available, but they were not able to produce the results consumers wanted. In short, it was consumer dissatisfaction with decisions made by government planners that brought about a revolution—one that is leading to the development of market-directed economies in the republics of Eastern Europe.[7]

Countries such as China, North Korea, and Cuba still rely primarily on planned economic systems. Even so, around the world there is a broad move toward market-directed economic systems—because they are more effective in meeting consumer needs.

A market-directed economy adjusts itself

In a **market-directed economic system,** the individual decisions of the many producers and consumers make the macro-level decisions for the whole economy. In a pure market-directed economy, consumers make a society's production decisions when they make their choices in the marketplace. They decide what is to be produced and by whom—through their dollar "votes."

Price is a measure of value

Prices in the marketplace are a rough measure of how society values particular goods and services. If consumers are willing to pay the market prices, then apparently they feel they are getting at least their money's worth. Similarly, the cost of labor and materials is a rough measure of the value of the resources used in the production of goods and services to meet these needs. New consumer needs that can be served profitably—not just the needs of the majority—will probably be met by some profit-minded businesses.

In summary, in a market-directed economic system the prices in both the production sector (for resources) and the consumption sector (for goods and services) vary to allocate resources and distribute income according to consumer preferences. Over time, the result is a balance of supply and demand and the coordination of the economic activity of many individuals and institutions.

Greatest freedom of choice

Consumers in a market-directed economy enjoy great freedom of choice. They are not forced to buy any goods or services, except those that must be provided for the good of society—things such as national defense, schools, police and fire protection, highway systems, and public-health services. These are provided by the community—and the citizens are taxed to pay for them.

Similarly, producers are free to do whatever they wish—provided that they stay within the rules of the game set by government *and* receive enough dollar "votes" from consumers. If they do their job well, they earn a profit and stay in business. But profit, survival, and growth are not guaranteed.

Conflicts can arise

Producers and consumers making free choices can cause conflicts and difficulties. This is called the **micro-macro dilemma.** What is "good" for some producers and consumers may not be good for society as a whole.

Gun control in the U.S. is an example. Each year thousands of people are killed with handguns. Yet there are producers who make and sell handguns at a profit. And there are many consumers who feel strongly about their right to own guns. But

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others argue that handguns are a threat to society. They want handgun sales banned and sales of all weapons limited—as is the case in many countries. Should gun producers be allowed to sell guns to consumers who want them?

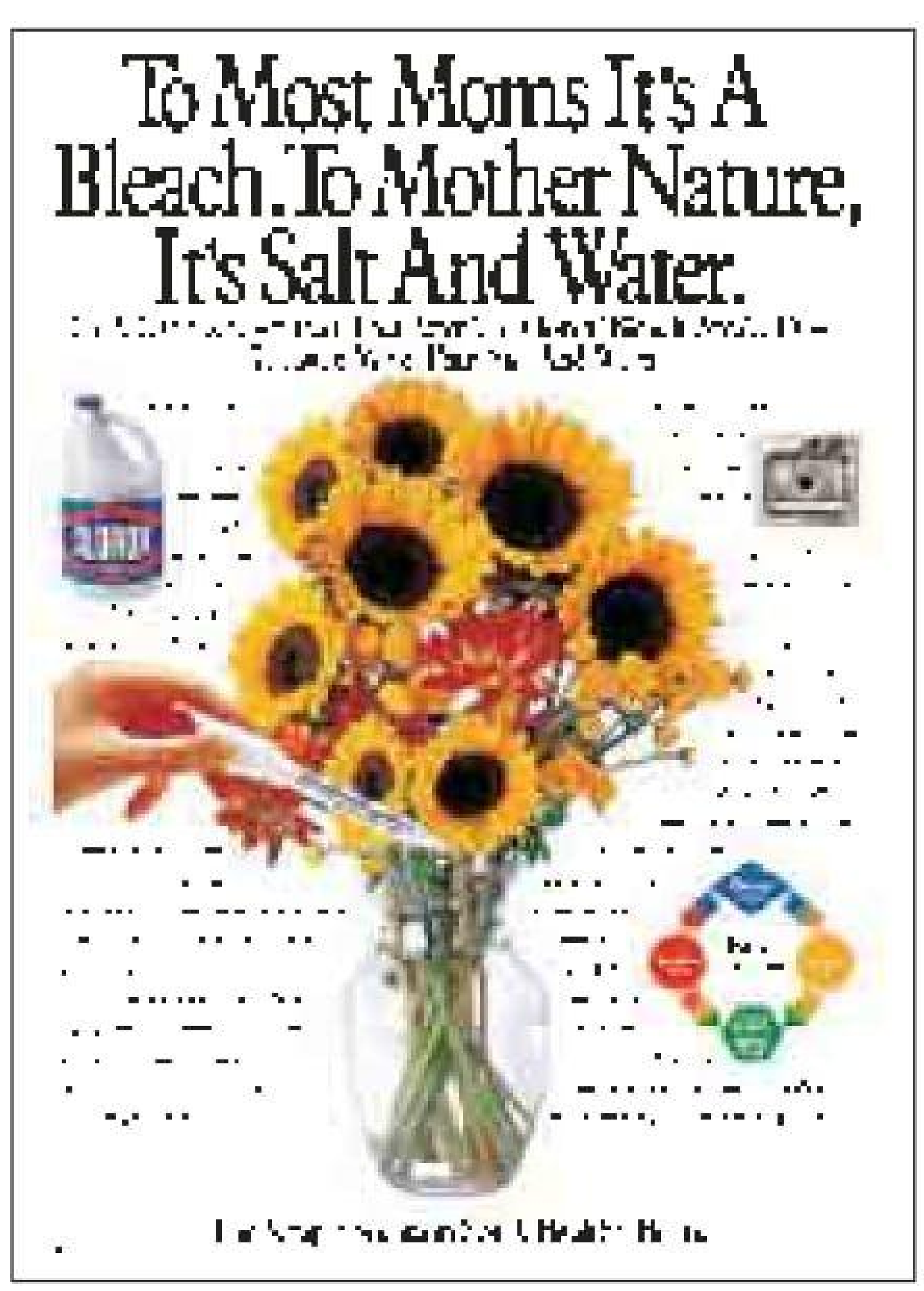
Decisions don't have to involve life and death issues to be important. Many Americans want the convenience of disposable products and products in easy-to-use, small-serving packages. But these same "convenient" products and packages often lead to pollution of the environment and inefficient use of natural resources. Should future generations be left to pay the consequences of pollution that is the result of "free choice" by today's consumers?

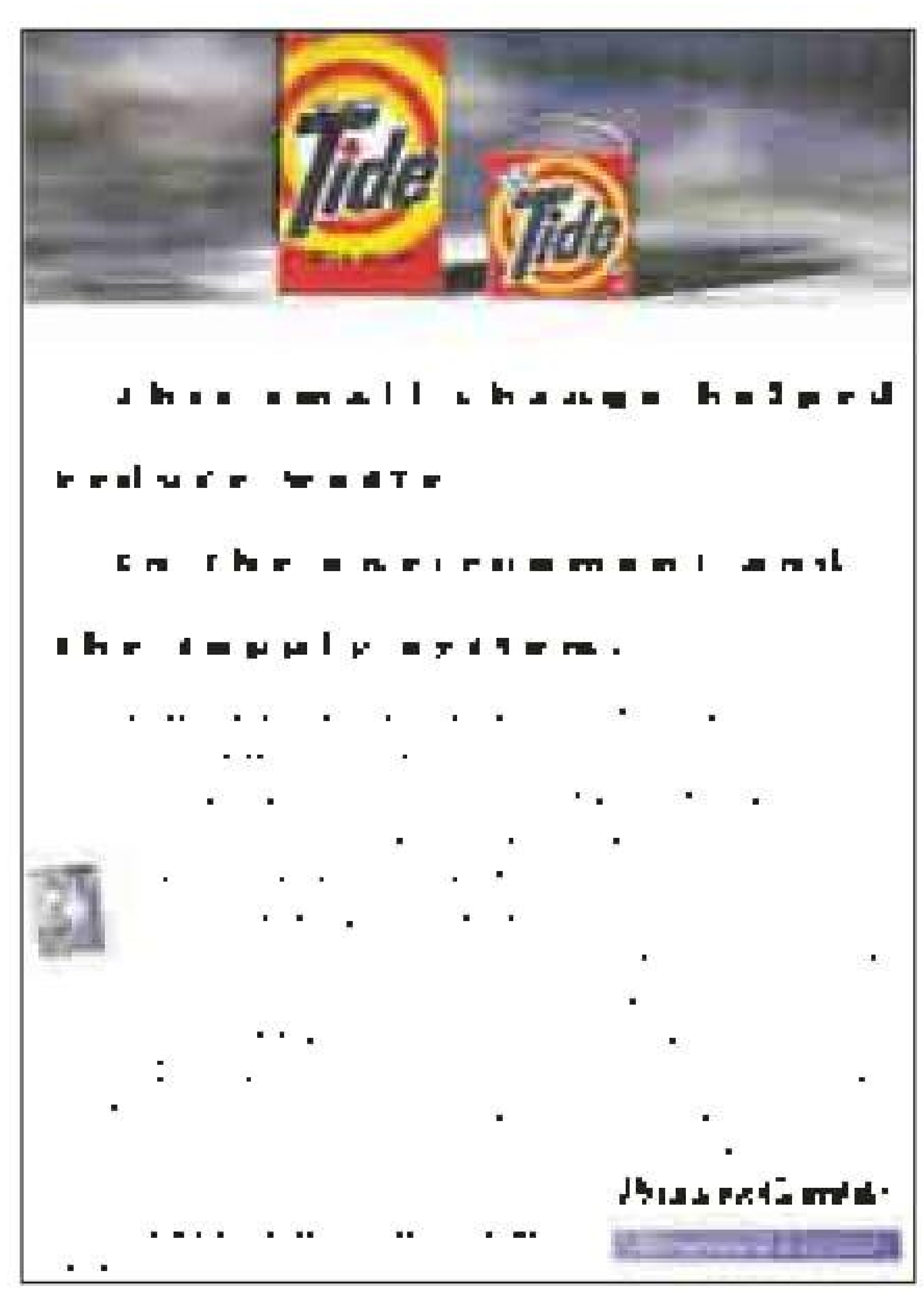
Questions like these are not easy to answer. The basic reason is that many different people may have a stake in the outcomes—and social consequences—of the choices made by individual managers *and* consumers in a market-directed system. As you read this book and learn more about marketing, you will also learn more about social responsibility in marketing and why it must be taken seriously.

The role of government

The American economy and most other Western economies are mainly market-directed—but not completely. Society assigns supervision of the system to the government. For example, besides setting and enforcing the "rules of the game," government agencies control interest rates and the supply of money. They also set import and export rules that affect international competition, regulate radio and TV broadcasting, sometimes control wages and prices, and so on. Government also tries to be sure that property is protected, contracts are enforced, individuals are not exploited, no group unfairly monopolizes markets, and producers deliver the kinds and quality of goods and services they claim to be offering.

Socially responsible marketing managers are concerned about the environmental impact of their decisions, and some firms are finding innovative ways to both help the environment and improve customer satisfaction.





You can see that we need some of these government activities to make sure the economy runs smoothly. However, some people worry that too much government "guidance" threatens the survival of a market-directed system and the economic and political freedom that goes with it. For example, in the past 15 years the U.S. government has done much less "interfering"—especially in markets for services such as electricity, banking, transportation, and communications. The vigorous competition among telephone companies is a good example of what follows. About 15 years ago AT&T was the only long-distance service provider and a government agency controlled its prices and services. Now many different types of telecom companies compete for that business, and decisions about prices and services are made by marketing managers and by what consumers choose.

The U.S. is not alone in reducing regulation and government control of markets. One clear indication of this is the trend toward privatization, which means that an activity previously owned and operated by the government is sold to private sector owners who manage it in a competitive market. For example, many countries that previously owned airlines have sold the airlines and changed regulations so that there is more competition among various carriers.

On the other hand, there are some areas where there seems to be a more active government role in planning and control—including health care and issues related to the environment. Some consumers might benefit by such changes, yet more government control would reduce consumer choice.[8]

All Economies Need Macro-Marketing Systems

At this point, you may be saying to yourself: All this sounds like economics—where does marketing fit in? Studying a *macro*-marketing system is a lot like studying an economic system except we give more detailed attention to the "marketing" components of the system—including consumers and other customers, wholesalers and retailers, and other marketing specialists. We focus on the activities they perform and how the interaction of the components affects the effectiveness and fairness of a particular system.

In general, we can say that no economic system—whether centrally planned, market-directed, or a mix of the two—can achieve its objectives without an effective macro-marketing system. To see why this is true, we will look at the role of marketing in primitive societies. Then we will see how macro-marketing tends to become more and more complex in advanced economic systems.

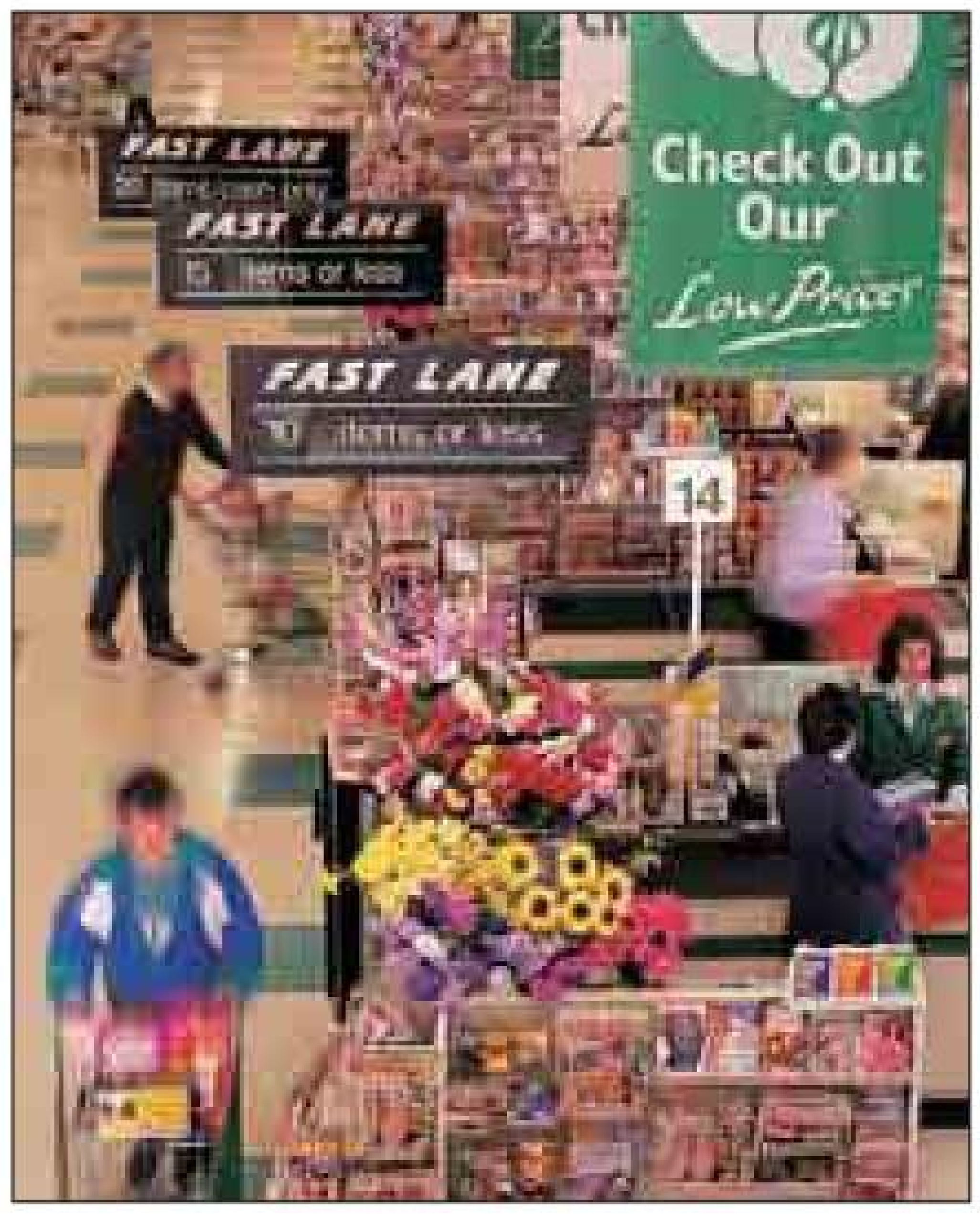
Marketing involves exchange

In a **pure subsistence economy,** each family unit produces everything it consumes. There is no need to exchange goods and services. Each producer–consumer unit is totally self-sufficient, although usually its standard of living is relatively low. No marketing takes place because *marketing doesn't occur unless two or more parties are willing to exchange something for something else.*

What is a market?

The term *marketing* comes from the word **market**—which is a group of potential customers with similar needs who are willing to exchange something of value with sellers offering various goods and/or services—that is, ways of satisfying those needs. Of course, some negotiation may be needed. This can be done face-to-face at some physical location (for example, a farmers' market). Or it can be done indirectly—through a complex network that links middlemen, buyers, and sellers living far apart.

In primitive economies, exchanges tend to occur in central markets. **Central markets** are convenient places where buyers and sellers can meet one-on-one to



In advanced economies, a complex network of wholesalers, retailers, and other marketing specialists bring goods and services to consumers; in developing economies like Vietnam, central markets are often more basic.

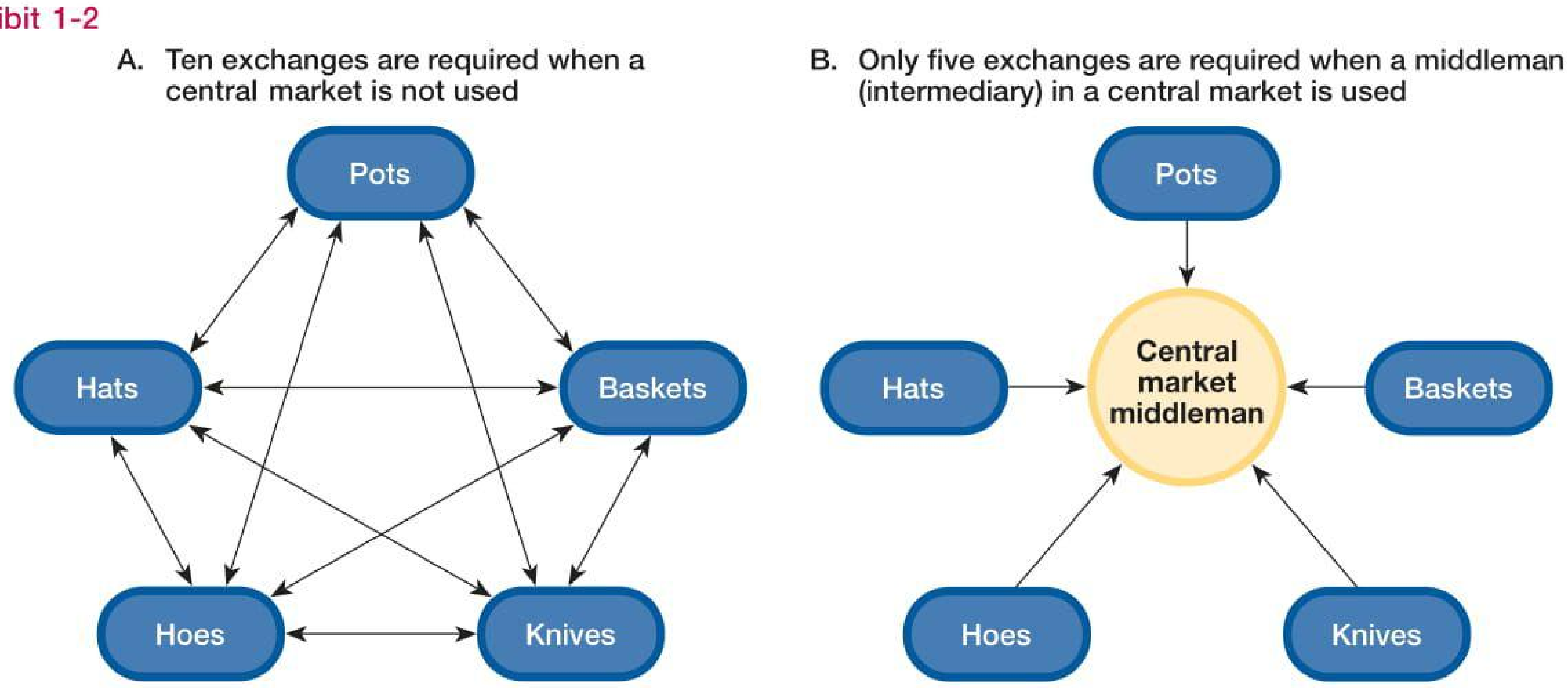
exchange goods and services. In our information age, central markets take a variety of forms—ranging from suburban shopping centers to websites that operate in cyberspace. But you will understand macro-marketing better if you see how and why central markets develop. We'll start with a very simple case, but thinking about it will clarify what happens when a more complex system is involved.

Central markets help exchange

Imagine a small village of five families—each with a special skill for producing some need-satisfying product. After meeting basic needs, each family decides to specialize. It's easier for one family to make two pots and another to make two baskets than for each one to make one pot and one basket. Specialization makes labor more efficient and more productive. It can increase the total amount of form utility created. Specialization also can increase the task utility in producing services, but for the moment we'll focus on products that are physical goods.

If these five families each specialize in one product, they will have to trade with each other. As Exhibit 1-2A shows, it will take the five families 10 separate exchanges to obtain some of each of the products. If the families live near each

Exhibit 1-2



High-Tech Access to Market Information in the Low-Tech World

When consumers in the U.S. think about technology and marketing, many think about shopping on the Internet. After all, 135 million people in the U.S. have online access to the Internet. Fancy shopping malls seem old hat. Contrast that with Bangladesh, one of the poorest countries in the world, where about 90 percent of the 68,000 villages don't even have access to a phone. But Grameen Bank, a private firm based in Dhaka, Bangladesh, is doing something about that problem. It is making loans so that someone in a village can buy a cell phone and then provide phone service to others. For example, Delora Begum bought a phone and now reigns as the "phone lady" in her village. And her business is helping the market system work better. For example, farmers pay to use the cell phone to learn the fair value of their rice and vegetables; often in the past they were exploited because they did not get a fair price. One local businessman routinely had to take a two-hour bus ride to order furnace oil for his brick factory. Now he can just call and place an order—and save a bone-jarring half day on a bus. Similarly, a local carpenter uses the cell phone to check the current price for wood so that he can make a profit when he prices the chairs and cabinets he makes. These are just a few examples, but in a country with an extremely ineffective macro-marketing system the Grameen Bank's cell phone venture is doing a lot to improve the quality of life of people in remote villages.[9]

other, the exchange process is relatively simple. But if they are far apart, travel back and forth will take time. Who will do the traveling—and when?

Faced with this problem, the families may agree to come to a central market and trade on a certain day. Then each family makes only one trip to the market to trade with all the others. This reduces the total number of trips to five, which makes exchange easier, leaves more time for producing and consuming, and also provides for social gatherings.

A money system simplifies trading

While a central meeting place simplifies exchange, the individual bartering transactions still take a lot of time. Bartering only works when someone else wants what you have, and vice versa. Each trader must find others who have products of about equal value. After trading with one group, a family may find itself with extra baskets, knives, and pots. Then it has to find others willing to trade for these products.

A common money system changes all this. Sellers only have to find buyers who want their products and agree on the price. Then sellers are free to spend this income to buy whatever they want. If some buyers and sellers use *different* money systems—some use dollars and others use yen—they must also agree on the rate at which the money will be exchanged.

Middlemen intermediaries may help exchange even more

The development of a central market and a money system simplifies the exchange process among the five families in our imaginary village. But the families still need to make 10 separate transactions. So it still takes a lot of time and effort for the five families to exchange goods.

This clumsy exchange process is made much simpler by a **middleman** (or **intermediary**)—someone who specializes in trade rather than production. A middleman is willing to buy each family's goods and then sell each family whatever it needs. The middleman intermediary charges for this service, of course. But this charge may be more than offset by savings in time and effort.

In our simple example, using an intermediary at a central market reduces the necessary number of exchanges for all five families from 10 to 5. See Exhibit 1-2B. Each family has more time for production, consumption, and leisure. Also, each family can specialize in producing what it produces best—creating more form and task utility. Meanwhile, by specializing in trade, the intermediary provides additional time, place, and possession utility. In total, all the villagers may enjoy greater economic utility—and greater consumer satisfaction—by using an intermediary in the central market.

Note that the reduction in transactions that results from using an intermediary in a central market becomes more important as the number of families increases.

Intermediaries develop and offer specialized services that facilitate exchange between producers and customers.

For example, if the population of our imaginary village increases from 5 to 10 families, 45 transactions are needed without an intermediary. Using an intermediary requires only one transaction for each family.

Central market and intermediaries may develop in cyberspace

We've introduced the concept of a central market, the role of a money system for exchange, and the development of middlemen specialists by discussing a simple example in the context of a primitive society. But, you should realize that these same ideas are just as relevant in a modern society. Today, the intermediaries have permanent trading facilities and are known as *wholesalers* and *retailers*. In fact, the advantages of working with intermediaries multiply with increases in the number of producers and consumers, their distance from or difficulties in communicating with each other, and the number and variety of competing products. That is why there are so many wholesalers and retailers in modern economies.

On the other hand, technology is allowing some customers and some producers to meet for exchange in a central market that is located in "cyberspace"—that is, on the Internet—rather than in a mutually convenient geographic location. Computer systems developed by a new form of market specialist allow sellers and buyers to communicate and engage in exchange even if they are thousands of miles apart. In fact, the Internet makes it possible for sellers to hold auctions in which thousands of potential buyers from different parts of the world bid against each other to determine the price that will ultimately be paid for a good or service. Obviously, this is a very different type of central market, but it is important to see that it is simply a variation of the same basic idea. From a macro-marketing perspective, the main purpose of markets and market intermediaries is to make exchange easier and allow greater time for production, consumption, and other activities—including leisure.[10]

Internet

Internet Exercise eBay features a number of online auctions in which different sellers auction off computers, consumer electronics, and other products to buyers. Visit the eBay website (www.ebay.com) and review an open auction for a consumer electronics product. What are the advantages and disadvantages of this market for sellers? For buyers?

The Role of Marketing in Economic Development

Effective marketing system is necessary

Although it is tempting to conclude that more effective macro-marketing systems are the result of greater economic development, just the opposite is true. *An effective macro-marketing system is necessary for economic development*. Improved marketing is often the key to growth in less-developed nations.

Breaking the vicious circle of poverty

Without an effective macro-marketing system, many people in less-developed nations are not able to leave their subsistence way of life. They can't produce for the market because there are no buyers. And there are no buyers because everyone else is producing for their own needs. As a result, distribution systems and intermediaries do not develop.

Breaking this "vicious circle of poverty" may require major changes in the inefficient micro- and macro-marketing systems that are typical in less-developed nations. At the least, more market-oriented middlemen are needed to move surplus output to markets—including foreign markets—where there is more demand.[11]

Less-developed nations have inefficient systems

In Chapter 5 we will go into more detail on how countries at different levels of economic development differ. However, to get a sense for differences in macro-marketing systems, let's consider a case that involves India. This case also illustrates the links between the macro-marketing systems of countries at different stages of development.

Two-thirds of the over one billion people in India still live in rural farm areas. Many don't have life's basic comforts. For example, three out of four use wood as fuel to cook. Only about 40 percent have electricity, and less than 20 percent have piped water. Most can't afford a refrigerator. A person who works in the sugarcane fields, for example, only earns about $1 a day. Many rural Indians have never even held a tube of toothpaste. Rather, they clean their mouths with charcoal powder and the stem of a local plant.

Colgate is interested in introducing toothpaste in India, but it can't rely on U.S.-style ads—or the local drugstore—to do the selling job. Half of the rural population can't read, and very few have a TV. They also don't go to stores. Rather, once a week the men go to a central market in a nearby village to get basic supplies they can't grow themselves. To reach these people, Colgate sends a van that is equipped with a generator and video gear into a village on market day. Music attracts the shoppers, and then an entertaining half-hour video (infomercial) explains the benefits of using Colgate toothpaste. Of course, not many villagers can spend a day's wages to buy a standard tube. So Colgate offers a small (30 gram) tube for six rupees (about 18¢).

Colgate's micro-marketing effort in India is expensive because the macro-marketing system is ineffective. Colgate managers think that over the long run these efforts will pay off for the company. For now, they are paid for by Colgate's profits from more developed nations. So, you can see that it will take a long time before these villagers have basic comforts—or the type of efficient macro-marketing system—that those of us from the developed economies take for granted.[12]

Nations' Macro-Marketing Systems Are Connected

As a nation grows, its international trade grows

All countries trade to some extent—we live in an interdependent world. Trade expands as a country develops and industrializes. In fact, the largest changes in world trade are usually seen in rapidly developing economies. Over the last 20 years, for example, exports from China, India, and the "Four Dragons" (South Korea, Taiwan, Hong Kong, and Singapore) have risen dramatically and have fueled domestic economic growth at record levels.

Even so, the largest traders are highly developed nations. For example, the top industrial nations—the U.S., Canada, the countries of Western Europe, and Japan—account for about half of the world's total economic output, with the U.S. at about 23 percent, the countries of Western Europe at about 20 percent, and Japan at about 7 percent. These countries also account for about two-thirds of total world exports and about 63 percent of world imports. These statistics help you see why the U.S., Japan, and the countries of Western Europe are seen as the three economic superpowers presumably destined to compete for mastery in international markets on into the 21st century.[13]

Because trade among nations is so important in economic development, most countries—whether highly developed or not—are eager to be able to sell their goods and services in foreign markets. Yet at the same time they often don't want their local customers to spend cash on foreign-made products. They want the money—and the opportunities for jobs and economic growth—to stay in the local economy.

Tariffs and quotas may reduce trade

Taxes and restrictions at national or regional borders greatly reduce the free flow of goods and services between the macro-marketing systems of different countries. **Tariffs**—taxes on imported products—vary, depending on whether a country is trying to raise revenue or limit trade. Restrictive tariffs often block all movement. But even revenue-producing tariffs increase prices, discourage free movement of products, and cause red tape. This is what Caterpillar encounters trying to sell its construction equipment in Brazil. Brazil's 15 percent tariff adds nearly $40,000 to the cost of a $250,000 machine. Worse, Brazilian customs delays make it difficult for Caterpillar to honor its sales promise to deliver repair parts within 24 hours.[14]

Quotas act like restrictive tariffs. **Quotas** set the specific quantities of products that can move into or out of a country. Great market opportunities may exist in the markets of a unified Europe, for example, but import quotas (or export controls applied against a specific country) may discourage outsiders from entering.

The impact of such restrictions can be seen in the Russian market. At first it appeared that with the fall of communism, the Russian market would be more open to foreign automobile producers. However, big Russian import tariffs and taxes resulted in very high prices. For example, in 1997 a Taurus that sold for about $22,000 in the U.S. cost over $48,000 in Russia. Thus, the resulting high price severely limited the number of Russians who were willing or able to pay that much for a car. To get around this problem, Ford, Daewoo, and other producers decided to set up assembly plants in Russia.[15]

Trade restrictions can be a potential source of conflict between nations. For example, the U.S. government is hammering China for more access to its insurance, food, and telecommunications markets; China, in turn, complains about U.S. import quotas and tariffs on textiles. China isn't the only country affected. U.S. tariffs on textiles run as high as 30 percent.

As this suggests, the U.S. has held fast to some protectionist policies even though it is the world's cheerleader for free trade. U.S. consumers pay more for Florida orange juice because orange juice concentrate from groves in Brazil and other countries gets hit with a 30 percent tariff. Similarly, the U.S. is a big exporter of services, but Japanese and European airlines are not allowed to land in a U.S. city, pick up paying passengers, and fly to another U.S. destination.[16]

Markets may rely on international countertrade

To overcome the problems of trade restrictions, many firms have turned to **countertrade**—a special type of bartering in which products from one country are traded for products from another country. For example, McDonnell Douglas Helicopter turned to countertrade when the Ugandan government wanted to buy 18 helicopters to help stamp out illegal elephant hunting. Uganda didn't have $25 million to pay for the helicopters, so a countertrade specialist for the helicopter company set up local projects to generate the money. One Ugandan factory now turns local pineapples and passion fruit into concentrated juice. The concentrate is sold to European buyers identified by the countertrade specialist. Similarly, soft-drink bottlers in Mexico trade locally grown broccoli for Pepsi concentrate; then Pepsi finds a market for the broccoli in the U.S.

Distribution systems and middlemen intermediaries have not yet developed in these countries to handle this sort of exchange. So, in pursuing their own opportunities, companies like Pepsi and McDonnell Douglas are stimulating economic development. While deals such as this may seem unusual, that is not the case. Countertrade is becoming an extremely important part of foreign trade for both large and small companies. In fact, experts say that the use of countertrade doubled in the last decade. Now, about 20 to 25 percent of all U.S. exports rely on countertrade.[17]

Global trade is increasing

There are still many obstacles to free trade among nations. And trade "wars" among nations are likely to continue. Even so, the trend shows a slow movement toward fewer restrictions on trade among different countries. Perhaps the most visible evidence of this trend is the creation in 1995 of the **World Trade Organization (WTO)**—the only international body dealing with the rules of trade between nations. At its heart are the WTO agreements, the legal ground rules for international commerce and for trade policy. The agreements have three main objectives: (1) to help trade flow as freely as possible, (2) to provide an impartial means of settling disputes, and (3) to facilitate further negotiation. The WTO agreements in general try to encourage competition, discourage protectionism, and seek to provide more predictable policies.

Because each trade rule affects different countries in different ways, reaching agreements is a slow and complicated process. Even with the WTO in place, some people feel that there is more talk than change. Yet, progress is slowly being made. The WTO agreements cover services and intellectual property as well as goods; prior agreements were limited to goods. Thus, with the formation of the WTO global trade is becoming an even more important factor in economic development—and a more important source of opportunity for individual firms.[18]

Internet

Internet Exercise The World Trade Organization is a very important force behind the global move toward free trade, but sometimes there are still disputes. Go to the WTO website (www.wto.org) and find out how the WTO settles disputes. Do you think that this procedure favors the developed nations, the less-developed nations, or neither? Give your thinking.

Can Mass Production Satisfy a Society's Consumption Needs?

Urbanization brings together large numbers of people. They must depend on others to produce most of the goods and services they need to satisfy their basic needs. Also, in advanced economies, many consumers have higher discretionary incomes. They can afford to satisfy higher-level needs as well as basic ones. A modern economy faces a real challenge to satisfy all these needs.

Economies of scale mean lower cost

Fortunately, advanced economies can often take advantage of mass production with its **economies of scale**—which means that as a company produces larger numbers of a particular product, the cost for each of these products goes down. You can

Most consumers who drink tea live far from where it is grown. To overcome this spatial separation, someone must first perform a variety of marketing functions, like standardizing and grading the tea leaves, transporting and storing them, and buying and selling them.

see that a one-of-a-kind, custom-built car would cost much more than a mass-produced standard model.

Of course, even in advanced societies, not all goods and services can be produced by mass production or with economies of scale. Consider medical care. It's difficult to get productivity gains in labor-intensive medical services—like brain surgery. Nevertheless, from a macro-marketing perspective, it is clear that we are able to devote resources to meeting these "quality-of-life" needs because we are achieving efficiency in other areas.

Thus, modern production skills can help provide great quantities of goods and services to satisfy large numbers of consumers. But mass production alone does not solve the problem of satisfying consumers' needs. We also need effective marketing.

Effective marketing is needed to link producers and consumers

Effective marketing means delivering the goods and services that consumers want and need. It means getting products to them at the right time, in the right place, and at a price they're willing to pay. It means keeping consumers satisfied after the sale, and bringing them back to purchase again when they are ready. That's not an easy job—especially if you think about the variety of goods and services a highly developed economy can produce and the many kinds of goods and services consumers want.

Effective marketing in an advanced economy is more difficult because producers and consumers are often separated in several ways. As Exhibit 1-3 shows, exchange between producers and consumers is hampered by spatial separation, separation in time, separation of information and values, and separation of ownership. "Discrepancies of quantity" and "discrepancies of assortment" further complicate exchange between producers and consumers. That is, each producer specializes in producing and selling large amounts of a narrow assortment of goods and services, but each consumer wants only small quantities of a wide assortment of goods and services.[19]

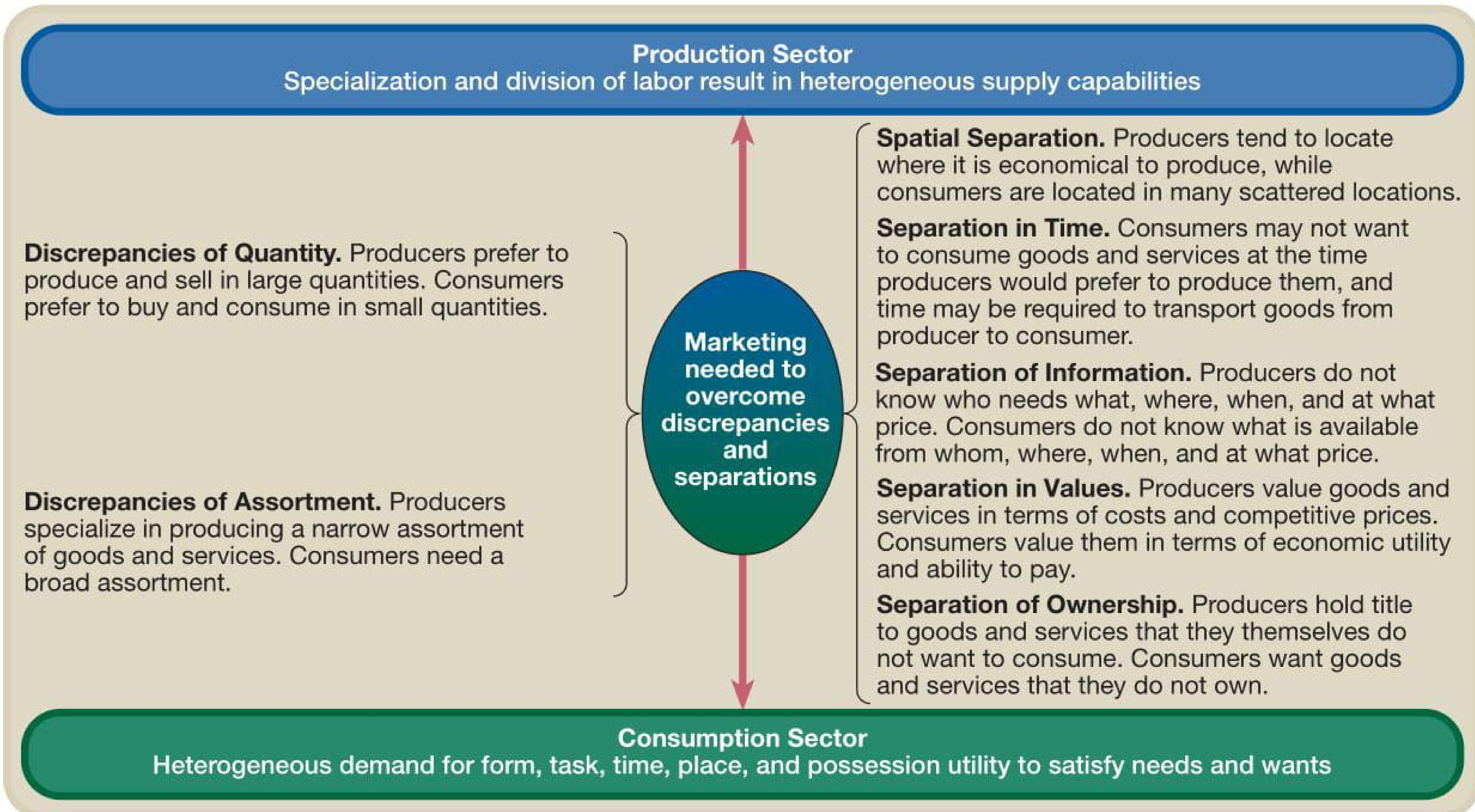
Marketing functions help narrow the gap

The purpose of a macro-marketing system is to overcome these separations and discrepancies. The "universal functions of marketing" help do this.

The **universal functions of marketing** are: buying, selling, transporting, storing, standardization and grading, financing, risk taking, and market information. They must be performed in all macro-marketing systems. *How* these functions are performed—and *by whom*—may differ among nations and economic systems. But they are needed in any macro-marketing system. Let's take a closer look at them now.

Exchange usually involves buying and selling. The **buying function** means looking for and evaluating goods and services. The **selling function** involves promoting the product. It includes the use of personal selling, advertising, and other direct and mass-selling methods. This is probably the most visible function of marketing.

Exhibit 1-3 Marketing Facilitates Production and Consumption



The **transporting function** means the movement of goods from one place to another. The **storing function** involves holding goods until customers need them.

Standardization and grading involve sorting products according to size and quality. This makes buying and selling easier because it reduces the need for inspection and sampling. **Financing** provides the necessary cash and credit to produce, transport, store, promote, sell, and buy products. **Risk taking** involves bearing the uncertainties that are part of the marketing process. A firm can never be sure that customers will want to buy its products. Products can also be damaged, stolen, or outdated. The **market information function** involves the collection, analysis, and distribution of all the information needed to plan, carry out, and control marketing activities, whether in the firm's own neighborhood or in a market overseas.

Who Performs Marketing Functions?

Producers, consumers, and marketing specialists

From a macro-level viewpoint, these marketing functions are all part of the marketing process and must be done by someone. None of them can be eliminated. In a planned economy, some of the functions may be performed by government agencies. Others may be left to individual producers and consumers. In a market-directed system, marketing functions are performed by producers, consumers, and a variety of marketing specialists (see Exhibit 1-4). Regardless of who performs the marketing functions, in general they must be performed effectively or the performance of the whole macro-marketing system will suffer.

Keep in mind that the macro-marketing systems for different nations may interact. For example, producers based in one nation may serve consumers in another country, perhaps with help from intermediaries and other specialists from both countries. What happened to food distribution in East Germany after the fall of the

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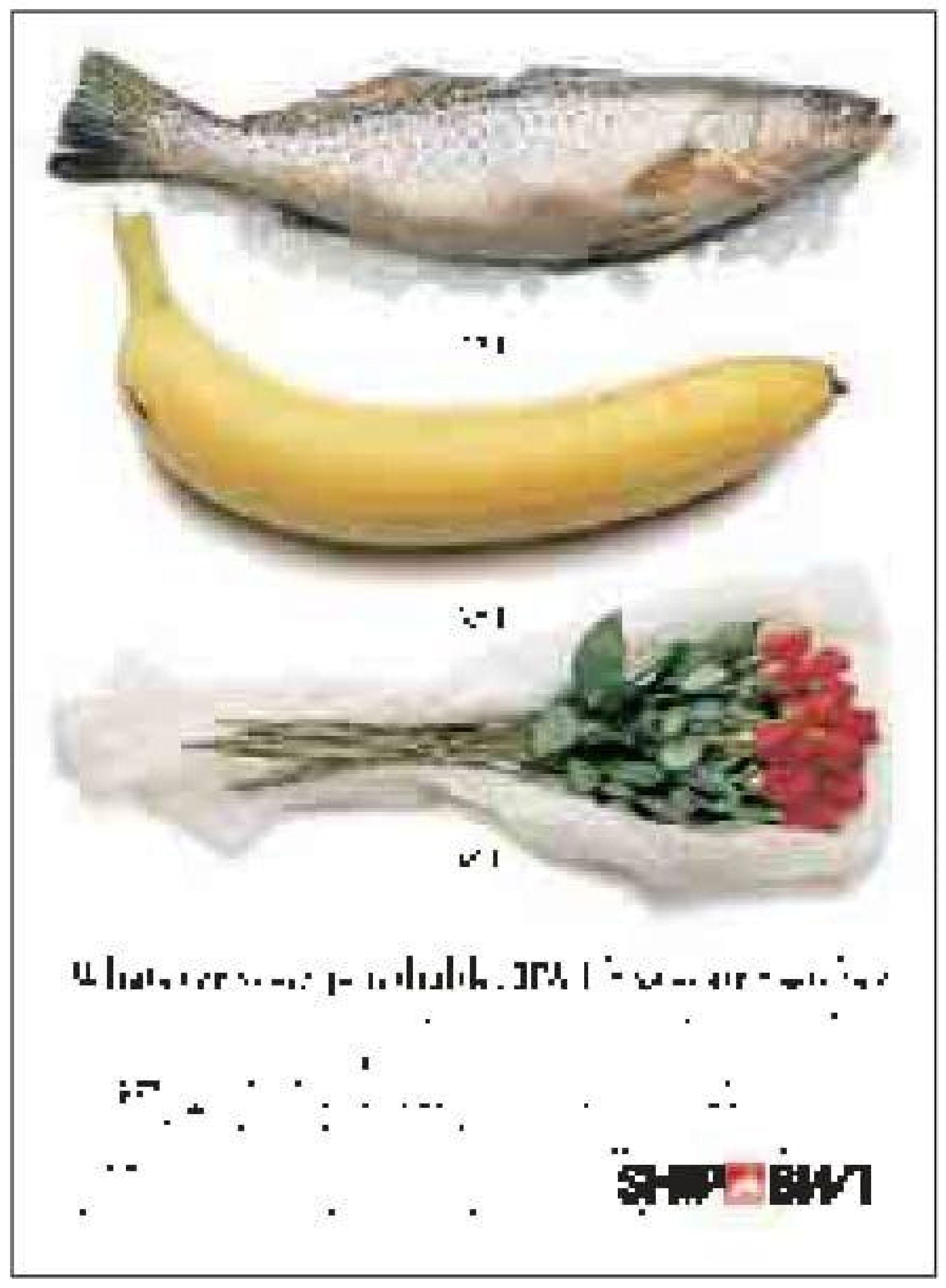
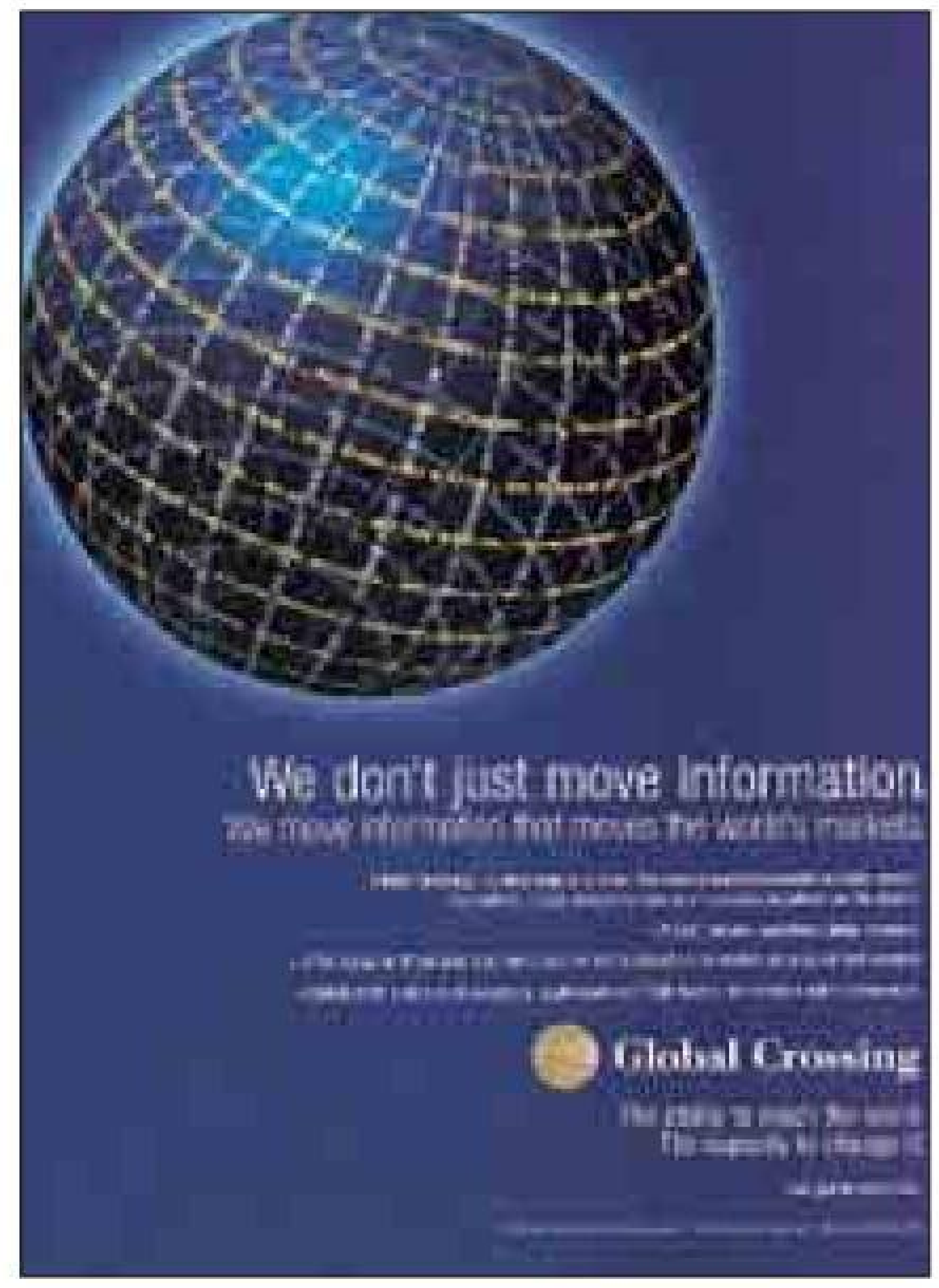
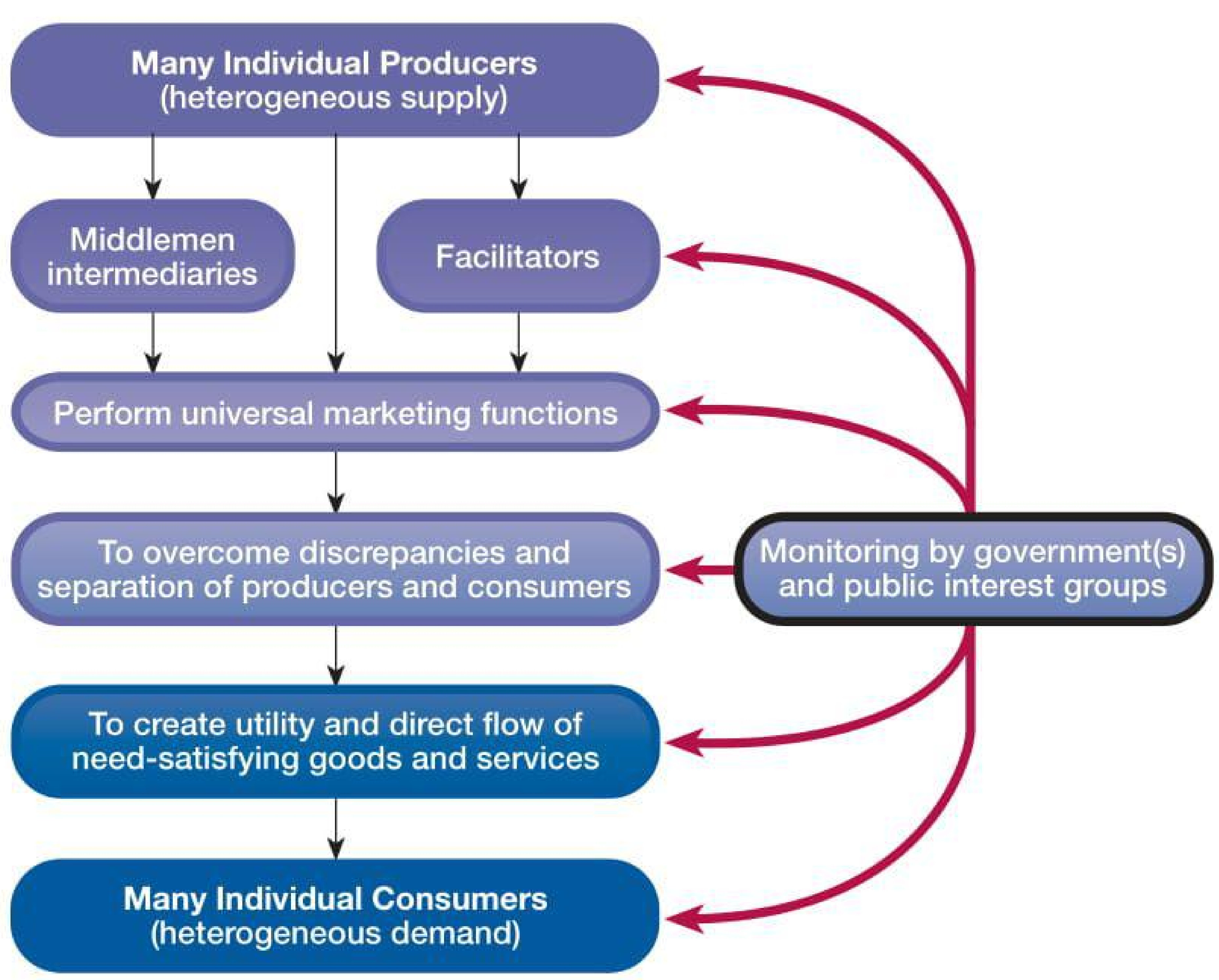




Facilitators—including the delivery firms that handle perishable cargo at Baltimore/Washington International Airport and Internet service providers like Global Crossing—may help a marketing manager with one or more of the marketing functions.

Berlin Wall illustrates this point. With the reunification of Germany, the political limits on trade were gone. Yet consumers still faced problems getting the food they wanted. Eastern Germany had no efficient wholesalers to supply the chain of 170 Konsum retail stores, which were previously state-owned. And it was expensive for producers in the West who wanted to reach the market in the East to do it without help. However, the Tegut grocery chain in the West saw the opportunity and quickly did something about it. Tegut established an automated warehouse in the East to supply the Konsum stores. The warehouse made it economical to assemble needed assortments of products from many different producers. Further, Tegut set up a computer network to provide timely reordering from the warehouse, online

Exhibit 1-4
Model of a Market-Directed Macro-Marketing System



management of inventories and distribution, and even payment control. With the help of middlemen like Tegut, both local and foreign producers are better able to meet consumer needs.[20]

Specialists perform some functions

Earlier in the chapter you saw how producers and consumers can benefit when a middleman takes over some buying and selling. The Tegut example shows that producers and consumers also benefit when marketing specialists perform the other marketing functions. In fact, we find marketing functions being performed not only by middlemen but also by a variety of other **facilitators**—firms that provide one or more of the marketing functions other than buying or selling. These include advertising agencies, marketing research firms, independent product-testing laboratories, Internet service providers, public warehouses, transporting firms, communications companies, and financial institutions (including banks). Through specialization or economies of scale, marketing intermediaries and facilitators are often able to perform the marketing functions better—and at a lower cost—than producers or consumers can. This allows producers and consumers to spend more time on production and consumption.

Functions can be shifted and shared

From a macro viewpoint, all of the marketing functions must be performed by someone. But *from a micro viewpoint, not every firm must perform all of the functions. Further, not all goods and services require all the functions at every level of their production.* "Pure services"—like a plane ride—don't need storing, for example. But storing is required in the production of the plane and while the plane is not in service.

Some marketing specialists perform all the functions. Others specialize in only one or two. Marketing research firms, for example, specialize only in the market information function. Further, technology may make a certain function easier to perform. For example, the buying process may require that a customer first identify relevant sellers and where they are. Even though that might be accomplished quickly and easily on the Internet, the function hasn't been cut out. The important point to remember is this: *Responsibility for performing the marketing functions can be shifted and shared in a variety of ways, but no function can be completely eliminated.*

How Well Does Our Macro-Marketing System Work?

It connects remote producers and consumers

A macro-marketing system does more than just deliver goods and services to consumers—it allows mass production with its economies of scale. Also, mass communication, computer information systems, including the Internet, and mass transportation allow products to be shipped where they're needed. Oranges from California are found in Minnesota stores—even in December—and electronic parts made in Taiwan are used in making products all over the world.[21]

It encourages growth and new ideas

In addition to making mass production possible, a market-directed, macro-marketing system encourages **innovation**—the development and spread of new ideas and products. Competition for consumers' money forces firms to think of new and better ways of satisfying consumer needs. And the competition that marketing fosters drives down prices and gives consumers more choices and a higher standard of living.

Macro-marketing system is becoming more efficient

In combination, the forces of competition and the choices made by customers to support those firms that do the best job of meeting their needs drive our macro-marketing system to be more efficient.

Some changes come quickly. A good example is the speed with which firms have adopted e-commerce. **E-commerce** refers to exchanges between individuals or

A market-directed, macro-marketing system encourages marketing managers to develop innovative ways to meet customers' needs.

organizations—and activities that facilitate those exchanges—based on applications of information technology. The technology-mediated exchanges fostered by e-commerce are helping to cut costs from almost every aspect of marketing while at the same time helping firms to better satisfy their customers. Collectively, these developments have had a significant impact on the efficiency of our macro-marketing system. For example, most experts believe that the growth of the U.S. economy during the last decade, coupled with low levels of price increases (inflation), is due to the fact that e-commerce has helped sellers reduce costs.

Throughout this text we will detail the many ways in which e-commerce is increasing the efficiency and effectiveness of different areas of marketing. On the other hand, keep in mind that the upward trend in the macro-marketing system does not ensure a successful outcome for any individual firm or its customers. The headlines of the past few years provide ample evidence of this. Many individual dot-com firms—companies established to do business over the Internet—failed. These companies were started by people who thought they had come up with "a better mousetrap," but customers didn't always see it that way. These failures are expensive, and ultimately that expense is shared by members of the society. That's because money spent on a business that fails—that does not make a positive contribution to the macro-marketing system—could have had a positive effect if it was spent more wisely in some other way. So, it is important to see that if individual managers make poor decisions it may affect many people. Throughout this text we will be focusing on how managers can make better decisions—to improve both micro-marketing performance and the performance of the whole macro-marketing system.

Marketing has its critics

In explaining marketing's role in society, we described some of the benefits of a market-directed macro-marketing system. We can see this in the macro-marketing system of the United States. It provides—at least in material terms—one of the highest standards of living in the world. It seems to be "effective" and "fair" in many ways.

We must admit, however, that marketing—as it exists in the United States and other developed societies—has many critics. Marketing activity is especially open to criticism because it is the part of business most visible to the public. There is nothing like a pocketbook issue for getting consumers excited!

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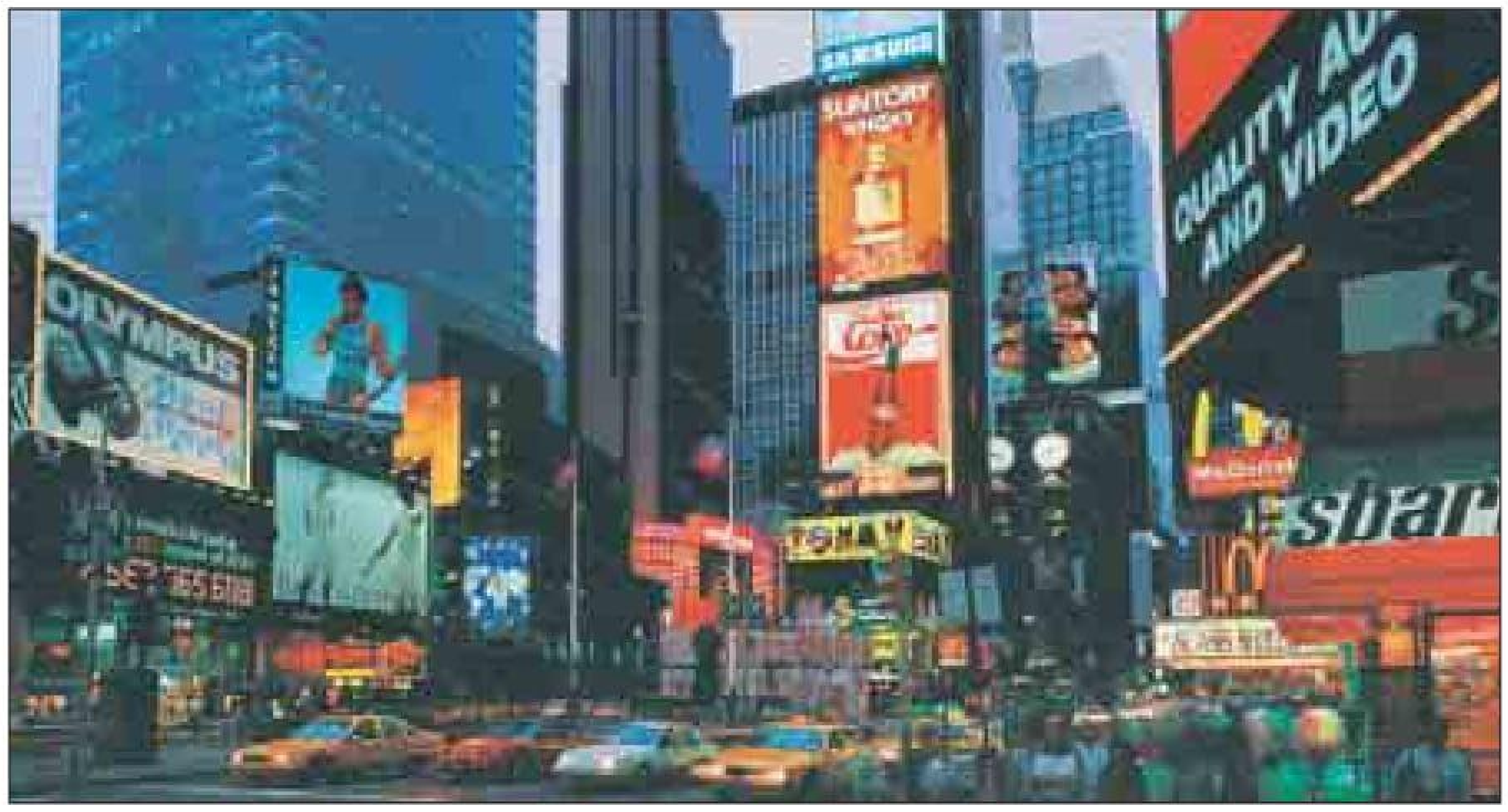

Marketing has its critics, including those who express concern that advertising is too pervasive in all aspects of our lives.

A number of typical complaints about marketing are summarized in Exhibit 1-5. Think about these criticisms and whether you agree with them or not. What complaints do you have that are not covered by one of the categories in Exhibit 1-5?

Such complaints cannot and should not be taken lightly. They show that many people aren't happy with some parts of the marketing system. Certainly, the strong public support for consumer protection laws proves that not all consumers feel they are being treated like royalty.

As you consider the various criticisms of marketing, keep in mind that some of them deal with the marketing practices of specific firms and are micro-marketing oriented. Others are really criticisms of the whole macro-marketing system. This is an important distinction.[22]

Is it an ethical issue?

Certainly some complaints about marketing arise because some individual firm or manager was intentionally unethical and cheated the market. But at other times, problems and criticism may arise because a manager did not fully consider the ethical implications of a decision. In either case, there is no excuse for sloppiness when it comes to **marketing ethics**—the moral standards that guide marketing decisions and actions. Each individual develops moral standards based on his or her own values. That helps explain why opinions about what is right or wrong often vary from one person to another, from one society to another, and among different groups

Exhibit 1-5 Sample Criticisms of Marketing

- Advertising is everywhere, and it's often annoying, misleading, or wasteful.
- The quality of products is poor and often they are not even safe.
- There are too many unnecessary products.
- Packaging and labeling are often confusing and deceptive.
- Middlemen add too much to the cost of distribution and just raise prices without providing anything in return.
- Marketing serves the rich and exploits the poor.
- Service stinks, and when a consumer has a problem nobody cares.
- Marketing creates interest in products that pollute the environment.
- Private information about consumers is collected and used to sell them things they don't want.
- Marketing makes people too materialistic and motivates them toward "things" instead of social needs.
- Easy consumer credit makes people buy things they don't need and can't afford.

within a society. It is sometimes difficult to say whose opinions are "correct." Even so, such opinions may have a very real influence on whether an individual's (or a firm's) marketing decisions and actions are accepted or rejected. So marketing ethics are not only a philosophical issue, they are also a pragmatic concern. Throughout the text we will be discussing the types of ethical issues individual marketing managers face. But we won't be moralizing and trying to tell you how you should think on any given issue. Rather, by the end of the course we hope that *you* will have some firm personal opinions about what is and is not ethical in micro-marketing activities.[23]

Keep in mind, however, that not all criticisms of marketing focus on ethical issues; fortunately, the prevailing practice of most businesspeople is to be fair and honest. Moreover, not all criticisms are specific to the micro-marketing activities of individual firms. Some of the complaints about marketing really focus on the basic idea of a market-directed macro-marketing system—and these criticisms often occur because people don't understand what marketing is—or how it works. As you go through this book, we'll discuss some of these criticisms. Then in our final chapter, we will return to a more complete appraisal of marketing in our consumer-oriented society.

Conclusion

In this chapter, we defined two levels of marketing: micro-marketing and macro-marketing. Macro-marketing is concerned with the way the whole global economy works. Micro-marketing focuses on the activities of individual firms. We discussed the role of marketing in economic development and the functions of marketing and who performs them. We ended by raising some of the criticisms of marketing—both of the whole macro system and of the way individual firms work.

We emphasized macro-marketing in this chapter, but the major thrust of this book is on micro-marketing. By learning more about market-oriented decision making, you will be able to make more efficient and socially responsible decisions. This will help improve the performance of individual firms and organizations (your employers). And eventually, it will help our macro-marketing system work better.

We'll see marketing through the eyes of the marketing manager—maybe *you* in the near future. And we will show how you can contribute to the marketing process. Along the way, we'll discuss the impact of micro-level decisions on society, and the ethical issues that marketing managers face. Then in Chapter 22—after you have had time to understand how and why producers and consumers think and behave the way they do—we will evaluate how well both micro-marketing and macro-marketing perform in a market-directed economic system.

Questions and Problems

1. List your activities for the first two hours after you woke up this morning. Briefly indicate how marketing affected your activities.
2. It is fairly easy to see why people do not beat a path to a mousetrap manufacturer's door, but would they be similarly indifferent if some food processor developed a revolutionary new food product that would provide all necessary nutrients in small pills for about $100 per year per person?
3. If a producer creates a really revolutionary new product and consumers can learn about it and purchase it at a website on the Internet, is any additional marketing effort really necessary? Explain your thinking.
4. Distinguish between macro- and micro-marketing. Then explain how they are interrelated, if they are.
5. Distinguish between how economic decisions are made in a planned economic system and how they are made in a market-directed economy.
6. A committee of the American Marketing Association defined marketing as "the process of planning

and executing the conception, pricing, promotion, and distribution of ideas, goods, and services to create exchanges that satisfy individual and organizational objectives." Does this definition consider macro-marketing? Explain your answer.

7. Identify a "central market" in your city and explain how it facilitates exchange.
8. Identify a website on the Internet that serves as a "central market" for some type(s) of good(s) or service(s). Give the address (www.___.___) of the website and briefly explain the logic of your choice.
9. Explain why tariffs and quotas affect international marketing opportunities.
10. Discuss the nature of marketing in a socialist economy. Would the functions that must be provided and the development of wholesaling and retailing systems be any different from those in a market-directed economy?
11. Discuss how the micro-macro dilemma relates to each of the following products: high-powered engines in cars, nuclear power, bank credit cards, and pesticides that improve farm production.
12. Describe a recent purchase you made. Indicate why that particular product was available at a store and, in particular, at the store where you bought it.
13. Refer to Exhibit 1-3, and give an example of a purchase you made recently that involved separation of information and separation in time between you and the producer. Briefly explain how these separations were overcome.
14. Online computer shopping at websites on the Internet makes it possible for individual consumers to get direct information from hundreds of companies they would not otherwise know about. Consumers can place an order for a purchase that is then shipped to them directly. Will growth of these services ultimately eliminate the need for retailers and wholesalers? Explain your thinking, giving specific attention to what marketing functions are involved in these "electronic purchases" and who performs them.
15. Define the functions of marketing in your own words. Using an example, explain how they can be shifted and shared.
16. Explain, in your own words, why this text emphasizes micro-marketing.
17. Explain why a small producer might want a marketing research firm to take over some of its information-gathering activities.
18. Explain why a market-directed macro-marketing system encourages innovation. Give an example.

Suggested Cases

1. McDonald's "Seniors" Restaurant
4. Bidwell Carpet Cleaning, Inc.

Computer-Aided Problem

1. **Revenue, Cost, and Profit Relationships**

This problem introduces you to the computer-aided problem (CAP) software—which is on the CD that accompanies this text—and gets you started with the use of spreadsheet analysis for marketing decision making. This problem is simple. In fact, you could work it without the software. But by starting with a simple problem, you will learn how to use the program more quickly and see how it will help you with more complicated problems. Instructions for the software are available at the end of this text.

Sue Cline, the business manager at Magna University Student Bookstore, is developing plans for the next academic year. The bookstore is one of the university's nonprofit activities, but any "surplus" (profit) it earns is used to support the student activities center.

Two popular products at the bookstore are the student academic calendar and notebooks with the school name. Sue Cline thinks that she can sell calendars to 90 percent of Magna's 3,000 students, so she has had 2,700 printed. The total cost, including artwork and printing, is $11,500. Last year the calendar sold for $5.00, but Sue is considering changing the price this year.

Sue thinks that the bookstore will be able to sell 6,000 notebooks if they are priced right. But she knows that many students will buy similar notebooks (without the school name) from stores in town if the bookstore price is too high.

Sue has entered the information about selling price, quantity, and costs for calendars and notebooks in the spreadsheet program so that it is easy to evaluate the effect of different decisions. The spreadsheet is also set up to calculate revenue and profit, based on

$$\text{Revenue} = (\text{Selling price}) \times (\text{Quantity sold})$$

$$\text{Profit} = (\text{Revenue}) - (\text{Total cost})$$

Use the program to answer the questions below. Record your answers on a separate sheet of paper.

a. *From the Spreadsheet Screen, how much revenue does Sue expect from calendars? How much revenue from notebooks? How much profit will the store earn from calendars? From notebooks?*

b. *If Sue increases the price of her calendars to $6.00 and still sells the same quantity, what is the expected revenue? The expected profit? (Note: Change the price from $5.00 to $6.00 on the spreadsheet and the program will recompute revenue and profit.) On your sheet of paper, show the calculations that confirm that the program has given you the correct values.*

c. *Sue is interested in getting an overview of how a change in the price of notebooks would affect revenue and profit, assuming that she sells all 6,000 notebooks she is thinking of ordering. Prepare a table—on your sheet of paper—with column headings for three variables: selling price, revenue, and profit. Show the value for revenue and profit for different possible selling prices for a notebook—starting at a minimum price of $1.60 and adding 8 cents to the price until you reach a maximum of $2.40. At what price will selling 6,000 notebooks contribute $5,400.00 to profit? At what price would notebook sales contribute only $1,080.00? (Hint: Use the What If analysis feature to compute the new values. Start by selecting "selling price" for notebooks as the value to change, with a minimum value of $1.60 and a maximum value of $2.40. Select the revenue and profit for notebooks as the values to display.)*

For additional questions related to this problem, see Exercise 1-4 in the *Learning Aid for Use with Basic Marketing*, 14th edition.

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When You Finish This Chapter, You Should

1. Know what the marketing concept is—and how it should affect strategy planning in a firm or nonprofit organization.

2. Understand what customer value is and why it is important to customer satisfaction.

3. Understand what a marketing manager does.

4. Know what marketing strategy planning is—and why it will be the focus of this book.

5. Understand target marketing.

6. Be familiar with the four Ps in a marketing mix.

7. Know the difference between a marketing strategy, a marketing plan, and a marketing program.

8. Understand the important new terms (shown in red).

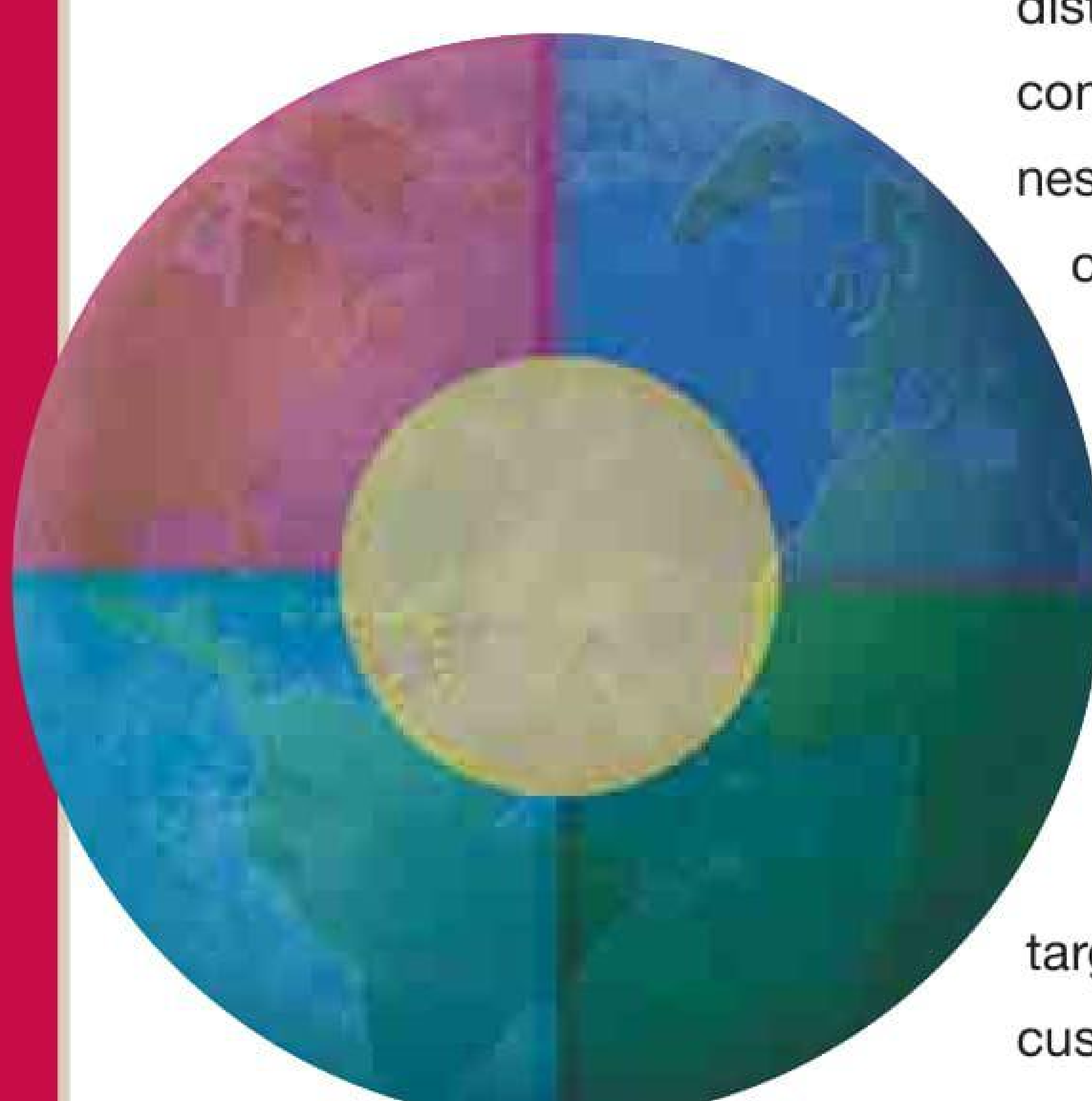
Chapter Two

Marketing's Role within the Firm or Nonprofit Organization

As you saw in Chapter 1, marketing and marketing management are important in our society—and in business firms and nonprofit organizations. To get you thinking about the marketing strategy planning ideas we will be developing in this chapter and the rest of the book, let's consider Dell Computers.

As a freshman in college, Michael Dell started buying and reselling computers from his dorm room. At that time, the typical marketing mix for PCs emphasized distribution through specialized computer stores that sold to business users and some final consumers. Often the dealers' service quality didn't justify the high prices they charged, the features of the PCs they had in stock didn't match what customers wanted, and repairs were a hassle.

Dell decided there was a target market of price-conscious customers who would respond to a



price

place

promotion

produc

different marketing mix. He used direct-response advertising in computer magazines—and customers called a toll-free number to order a computer with the exact features they wanted. Dell built computers to match the specific orders that came in and used UPS to quickly ship orders directly to the customer. Prices were low, too—because the direct channel meant there was no retailer markup and the build-to-order approach reduced inventory costs. This approach also kept Dell in constant contact with customers. Problems could be identified quickly and corrected. Dell also implemented the plan well—with constant improvements—to make good on its promise of reliable machines and superior service. For example, Dell pioneered a system of guaranteed on-site service—within 24 hours. Dell also set up ongoing programs to train all employees to work together to please customers.

Of course, it's hard to satisfy everyone all of the time. For example, profits fell when Dell's laptop design didn't measure up. Customers simply didn't see them as a good value. However, smart marketers learn from and fix mistakes. Dell quickly got its product line back on the bull's eye.

As sales grew, Dell put more money into advertising. Its ad agency crafted ads to position Dell in consumers' minds as an aggressive, value-oriented source of computers. At the same time, Dell added a direct sales force to call on big government and corporate buyers—because they expected in-person selling and a relationship, not just a telephone contact. And when these important customers said they wanted Dell to offer high-power machines to run their corporate networks, Dell put money into R&D to create what they needed.

price
place
promotion
product

www.mhhe.com/fourps
www.mhhe.com/fourps

Dell also saw the prospect for international growth. Many firms moved into Europe by exporting. But Dell set up its own operations there. Dell knew it would be tough to win over skeptical European buyers. They had never bought big-ticket items such as PCs on the phone. Yet, in less than five years, sales in Europe grew to 40 percent of Dell's total revenue and Dell pushed into Asian markets for more growth. That also posed challenges, so Dell's advertising manager invited major ad agencies to make presentations on how Dell could be more effective with its $80 million global advertising campaign.

By the mid 1990s, other firms were trying to imitate Dell's direct-order approach. For example, IBM set up Ambra, a direct-sales division. However, the retailers who were selling the bulk of IBM's computers were not happy about facing price competition from their own supplier! So IBM couldn't simply copy Dell's strategy. It was in conflict with the rest of IBM's marketing program.

As computer prices fell, many firms were worried about how to cope with slim profits. But Dell saw an opportunity for profitable growth by extending its direct model to a website (www.dell.com) that was recently generating about $1.5 billion in sales each month! Moreover, online selling lowered expenses and reduced supply and inventory costs. For example, when a customer ordered a PC produced in one factory and a monitor produced in another, the two pieces were brought together enroute to the customer. This cost cutting proved to be especially important when the economy softened and demand for PCs fell off. Building on its strengths, Dell cut prices in what many competitors saw as an "irrational" price war. But the design of Dell's website and sales system allowed it to charge different prices to different segments to match demand with supply. For example, high-margin laptops were priced lower to educational customers—to stimulate demand—than to government buyers who were less price sensitive. Similarly, if the supply of 17-inch monitors fell short, Dell could use an online promotion for 19-inch monitors and shift demand. To create more profit opportunities from its existing customers, Dell also put more emphasis on selling extended-care service agreements.

Clearly, the growth of the PC market is tapering off. That means that Dell's future profits will depend even more heavily on careful strategy planning. But perhaps Dell can continue to find new ways to satisfy customers' PC-related needs—or even identify other new, high-growth opportunities to pursue.[1]

We've mentioned only a few of many decisions marketing managers at Dell had to make in developing marketing strategies, but you can see that each of these decisions affects the others. Further, making marketing decisions is never easy and strategies may need to change. Yet, knowing what basic decision areas to consider helps you to plan a more successful strategy. This chapter will get you started by giving you a framework for thinking about all the marketing management decision areas—which is what the rest of this book is all about.

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Marketing's Role Has Changed a Lot Over the Years

From our Dell case, it's clear that marketing decisions are very important to a firm's success. But marketing hasn't always been so complicated. In fact, understanding how marketing thinking has evolved makes the modern view clearer. So, we will discuss five stages in marketing evolution: (1) the simple trade era, (2) the production era, (3) the sales era, (4) the marketing department era, and (5) the marketing company era. We'll talk about these eras as if they applied generally to all firms—but keep in mind that *some managers still have not made it to the final stages*. They are stuck in the past with old ways of thinking.

Specialization permitted trade—and middlemen met the need

When societies first moved toward some specialization of production and away from a subsistence economy where each family raised and consumed everything it produced, traders played an important role. Early "producers for the market" made products that were needed by themselves and their neighbors. (Recall the five-family example in Chapter 1.) As bartering became more difficult, societies moved into the **simple trade era**—a time when families traded or sold their "surplus" output to local middlemen. These specialists resold the goods to other consumers or distant middlemen. This was the early role of marketing—and it is still the focus of marketing in many of the less-developed areas of the world. In fact, even in the United States, the United Kingdom, and other more advanced economies, marketing didn't change much until the Industrial Revolution brought larger factories a little over a hundred years ago.

Customer satisfaction isn't always a life and death matter as it can be with Bell's bike helmets, but over time firms that can't satisfy their customers don't survive.

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From the production to the sales era

From the Industrial Revolution until the 1920s, most companies were in the production era. The **production era** is a time when a company focuses on production of a few specific products—perhaps because few of these products are available in the market. "If we can make it, it will sell" is management thinking characteristic of the production era. Because of product shortages, many nations—including China and many of the post-communist republics of Eastern Europe—continue to operate with production era approaches.

By about 1930, most companies in the industrialized Western nations had more production capability than ever before. Now the problem wasn't just to produce—but to beat the competition and win customers. This led many firms to enter the sales era. The **sales era** is a time when a company emphasizes selling because of increased competition.

To the marketing department era

For most firms in advanced economies, the sales era continued until at least 1950. By then, sales were growing rapidly in most areas of the economy. The problem was deciding where to put the company's effort. Someone was needed to tie together the efforts of research, purchasing, production, shipping, and sales. As this situation became more common, the sales era was replaced by the marketing department era. The **marketing department era** is a time when all marketing activities are brought under the control of one department to improve short-run policy planning and to try to integrate the firm's activities.

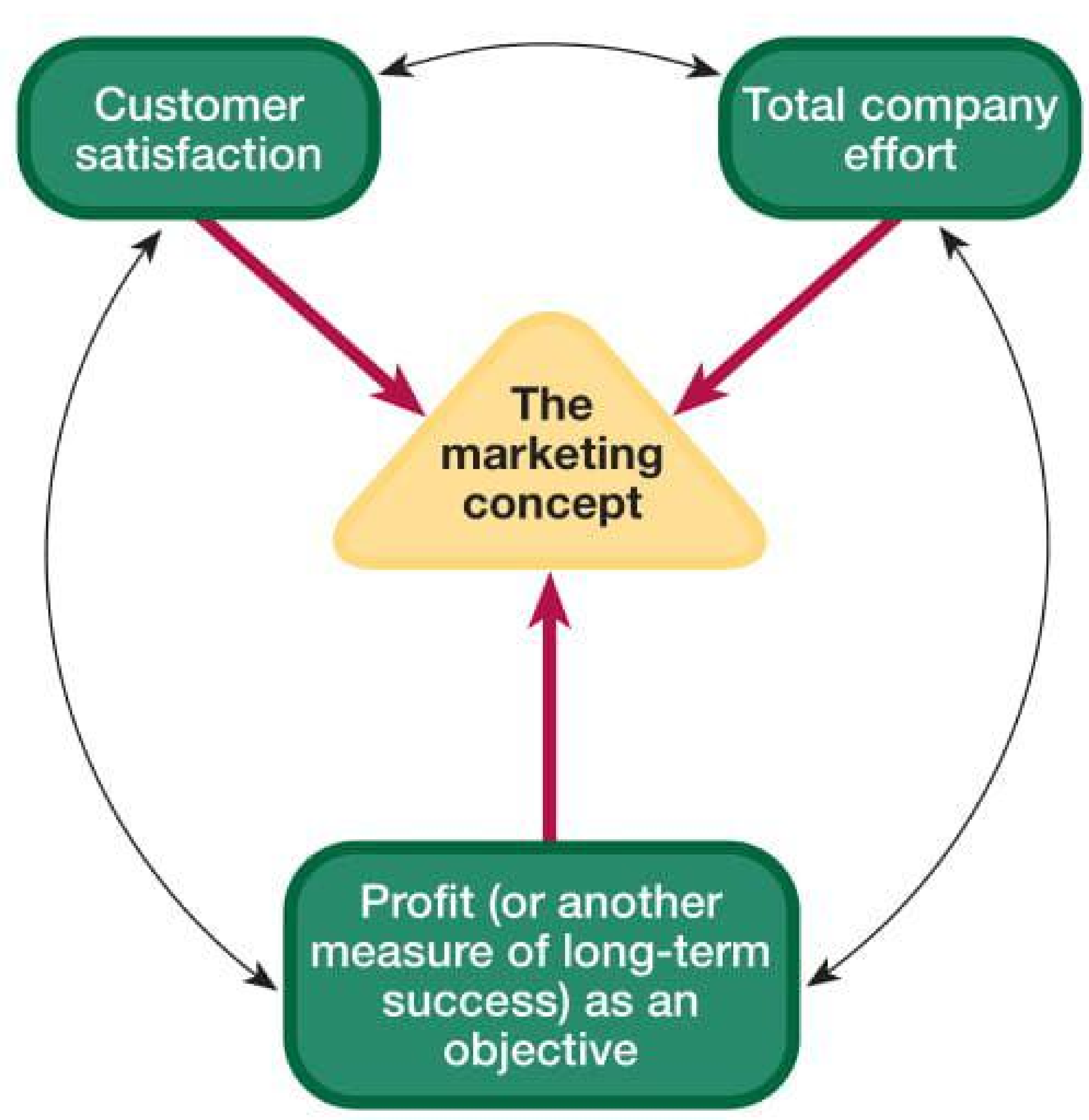
To the marketing company era

Since 1960, most firms have developed at least some staff with a marketing management outlook. Many of these firms have even graduated from the marketing department era into the marketing company era. The **marketing company era** is a time when, in addition to short-run marketing planning, marketing people develop long-range plans—sometimes five or more years ahead—and the whole company effort is guided by the marketing concept.

What Does the Marketing Concept Mean?

The **marketing concept** means that an organization aims *all* its efforts at satisfying its *customers*—at a profit. The marketing concept is a simple but very important idea. See Exhibit 2-1.

Exhibit 2-1
Organizations with a Marketing Orientation Carry Out the Marketing Concept



Ford Motor Company has a program, called Consumer Insight Experience, in which thousands of individual Ford customers have met with Ford employees from different departments to give them a deeper understanding of consumer wants and needs.

The marketing concept is not a new idea—it's been around for a long time. But some managers act as if they are stuck at the beginning of the production era—when there were shortages of most products. They show little interest in customers' needs. These managers still have a **production orientation**—making whatever products are easy to produce and *then* trying to sell them. They think of customers existing to buy the firm's output rather than of firms existing to serve customers and—more broadly—the needs of society.

Well-managed firms have replaced this production orientation with a marketing orientation. A **marketing orientation** means trying to carry out the marketing concept. Instead of just trying to get customers to buy what the firm has produced, a marketing-oriented firm tries to offer customers what they need.

Three basic ideas are included in the definition of the marketing concept: (1) customer satisfaction, (2) a total company effort, and (3) profit—not just sales—as an objective. These ideas deserve more discussion.

Customer satisfaction guides the whole system

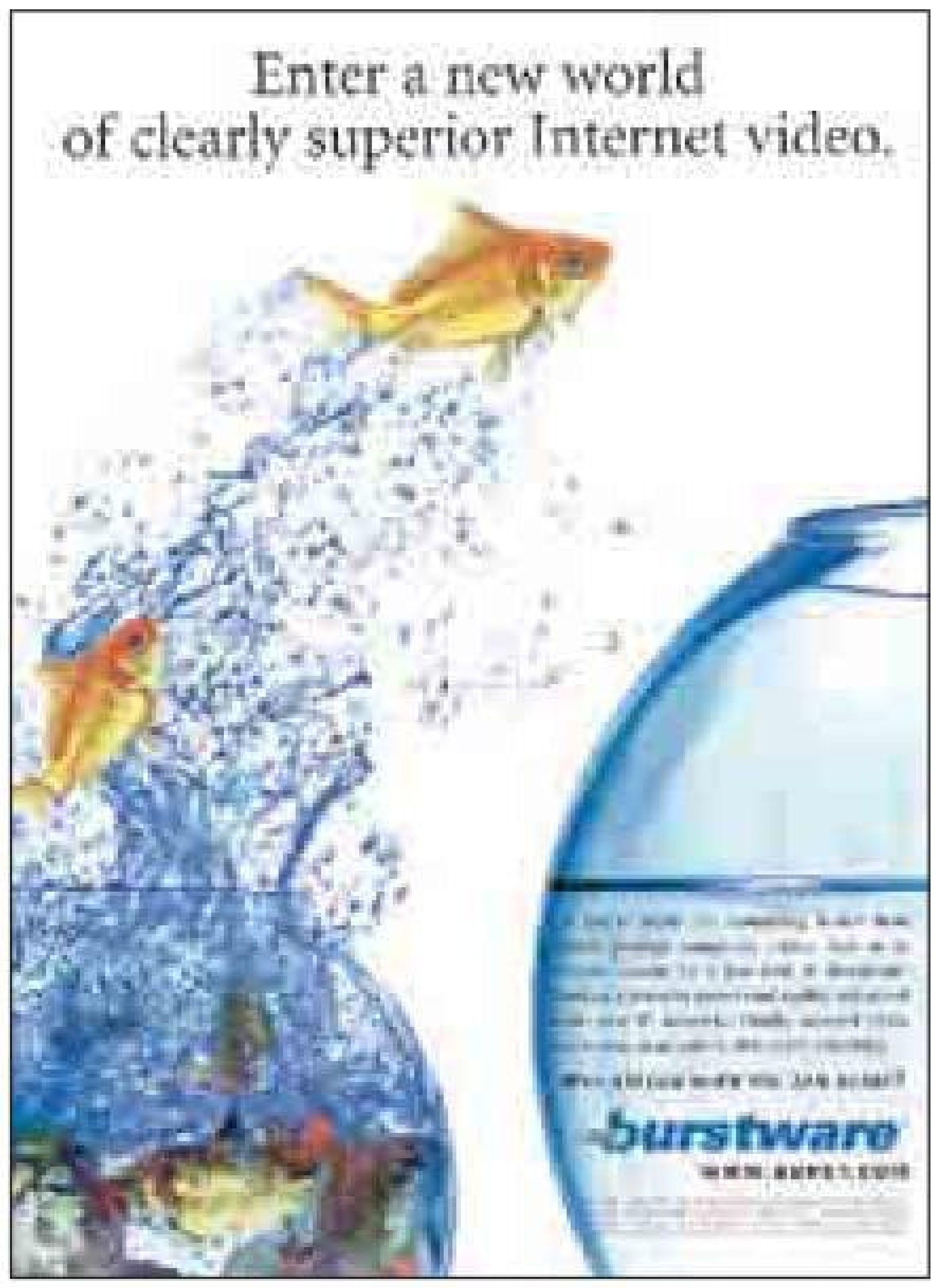
"Give the customers what they need" seems so obvious that it may be hard for you to see why the marketing concept requires special attention. However, people don't always do the logical and obvious—especially when it means changing what they've done in the past. In a typical company 35 years ago, production managers thought mainly about getting out the product. Accountants were interested only in balancing the books. Financial people looked after the company's cash position. And salespeople were mainly concerned with getting orders for whatever product was in the warehouse. Each department thought of its own activity as the center of the business—with others working around "the edges." No one was concerned with the whole system. As long as the company made a profit, each department went merrily on—doing its own thing. Unfortunately, this is still true in many companies today.

Work together to do a better job

Ideally, all managers should work together as a team because the output from one department may be the input to another. And every department may directly or indirectly impact short-term and long-term customer satisfaction. But some managers tend to build "fences" around their own departments. There may be meetings to try to get them to work together—but they come and go from the meetings worried only about protecting their own turf.

We use the term *production orientation* as a shorthand way to refer to this kind of narrow thinking—and lack of a central focus—in a business firm. But keep in mind that this problem may be seen in sales-oriented sales representatives, advertising-oriented agency people, finance-oriented finance people, directors of nonprofit organizations, and so on. It is not a criticism of people who manage production. They aren't necessarily any more guilty of narrow thinking than anyone else.

Firms that adopt the marketing concept want consumers and others in the channel of distribution to know that they provide superior customer value.



The fences come down in an organization that has accepted the marketing concept. There may still be departments because specialization often makes sense. But the total system's effort is guided by what customers want—instead of what each department would like to do.

In Chapter 20, we'll go into more detail on the relationship between marketing and other functions. Here, however, you should see that the marketing concept provides a guiding focus that *all* departments adopt. It should be a philosophy of the whole organization, not just an idea that applies to the marketing department.

Survival and success require a profit

Firms must satisfy customers, or the customers won't continue to "vote" for the firm's survival and success with their money. But a manager must also keep in mind that it may cost more to satisfy some needs than any customers are willing to pay. Or, it may be much more costly to try to attract new customers than it is to build a strong relationship with—and repeat purchases from—existing customers. So profit—the difference between a firm's revenue and its total costs—is the bottom-line measure of the firm's success and ability to survive. It is the balancing point that helps the firm determine what needs it will try to satisfy with its total (sometimes costly!) effort.

Adoption of the Marketing Concept Has Not Been Easy or Universal

The marketing concept was first accepted by consumer products companies such as General Electric and Procter & Gamble. Competition was intense in their markets—and trying to satisfy customers' needs more fully was a way to win in this competition. Widespread publicity about the success of the marketing concept at these companies helped spread the message to other firms.[2]

Producers of industrial commodities—steel, coal, paper, glass, and chemicals—have accepted the marketing concept slowly if at all. Similarly, many traditional retailers have been slow to accept the marketing concept.

Service industries are catching up

Service industries—including airlines, power and telephone companies, banks, investment firms, lawyers, physicians, accountants, and insurance companies—were slow to adopt the marketing concept, too. But in recent years this has changed dramatically. This is partly due to changes in government regulations that forced many of these businesses to be more competitive.

Banks used to be open for limited hours that were convenient for bankers—not customers. Many closed during lunch hour! But now financial services are less regulated, and banks compete with companies like Fidelity Investments and BMW (the car company!) for checking accounts and retirement investments. Banks have ATMs or branches in grocery stores and other convenient places. They stay open longer, often during evenings and on Saturdays. They also offer more services, like banking over the Internet or a "personal banker" to give financial advice. Most banks aggressively promote their special services.[3]

It's easy to slip into a production orientation

The marketing concept seems so logical that you would think that most firms would have adopted it. But this isn't the case. Many firms are still production-oriented. Even firms that try to embrace the marketing concept can easily slip back into a production-oriented way of thinking. For example, a busy manager at a retail store might send the signal that a consumer with a complaint is a big inconvenience or "impossible to please." You've probably had that happen, even when all you wanted was for the store to deliver on its promises.

Problems also occur because some manager has a clever idea for a new offering and the firm rushes to bring it to market—rather than first finding out if it will fill an unsatisfied need or if it can be offered at a profit. Many firms in high-technology businesses fall into this trap. They think that technology is the source of their success. They forget that technology is only a means to meet customer needs and that ultimately profits come from satisfying customers. In recent years, thousands of new dot-com firms failed for these reasons. They may have had a vision of what the technology could do, but they didn't stop to figure out all that it would take to satisfy customers or make a profit. Imagine how parents felt when eToys.com failed to deliver online purchases of Christmas toys on time. If you had that experience, would you ever shop there again? What would you tell others?

Take a look at Exhibit 2-2. It shows some differences in outlook between adopters of the marketing concept and typical production-oriented managers. As the exhibit suggests, the marketing concept—if taken seriously—is really very powerful. It forces the company to think through what it is doing—and why. And it motivates the company to develop plans for accomplishing its objectives.

The Marketing Concept and Customer Value

Take the customer's point of view

A manager who adopts the marketing concept sees customer satisfaction as the path to profits. And to better understand what it takes to satisfy a customer, it's useful to take the customer's point of view.

A customer may look at a market offering from two perspectives. One deals with the potential benefits of that offering; the other concerns what the customer has to give up to get those benefits. For example, consider a student who has just finished an exam and is thinking about getting a cup of Mocha Latte from Starbucks. Our coffee lover might see this as a great-tasting snack, a personal reward, a quick pick-me-up, and even as a way to break the ice and get to know an attractive classmate. Clearly, there are different needs associated with these different benefits. The cost of getting these benefits would include the price of the coffee and any tip, but there might be other nondollar costs as well. For example, how far it is to the Starbucks and how difficult it will be to park are convenience costs. Slow service would be an aggravation. And you might worry about another kind of cost if the professor whose exam you have the next day sees you "wasting time" at Starbucks.

Exhibit 2-2 Some Differences in Outlook between Adopters of the Marketing Concept and the Typical Production-Oriented Managers

Topic	Marketing Orientation	Production Orientation
Attitudes toward customers	Customer needs determine company plans.	They should be glad we exist, trying to cut costs and bringing out better products.
An Internet website	A new way to serve customers.	If we have a website customers will flock to us.
Product offering	Company makes what it can sell.	Company sells what it can make.
Role of marketing research	To determine customer needs and how well company is satisfying them.	To determine customer reaction, if used at all.
Interest in innovation	Focus on locating new opportunities.	Focus is on technology and cost cutting.
Importance of profit	A critical objective.	A residual, what's left after all costs are covered.
Role of packaging	Designed for customer convenience and as a selling tool.	Seen merely as protection for the product.
Inventory levels	Set with customer requirements and costs in mind.	Set to make production more convenient.
Focus of advertising	Need-satisfying benefits of products and services.	Product features and how products are made.
Role of sales force	Help the customer to buy if the product fits customer's needs, while coordinating with rest of firm.	Sell the customer, don't worry about coordination with other promotion efforts or rest of firm.
Relationship with customer	Customer satisfaction before and after sale leads to a profitable long-run relationship.	Relationship is seen as short term—ends when a sale is made.
Costs	Eliminate costs that do not give value to customer.	Keep costs as low as possible.

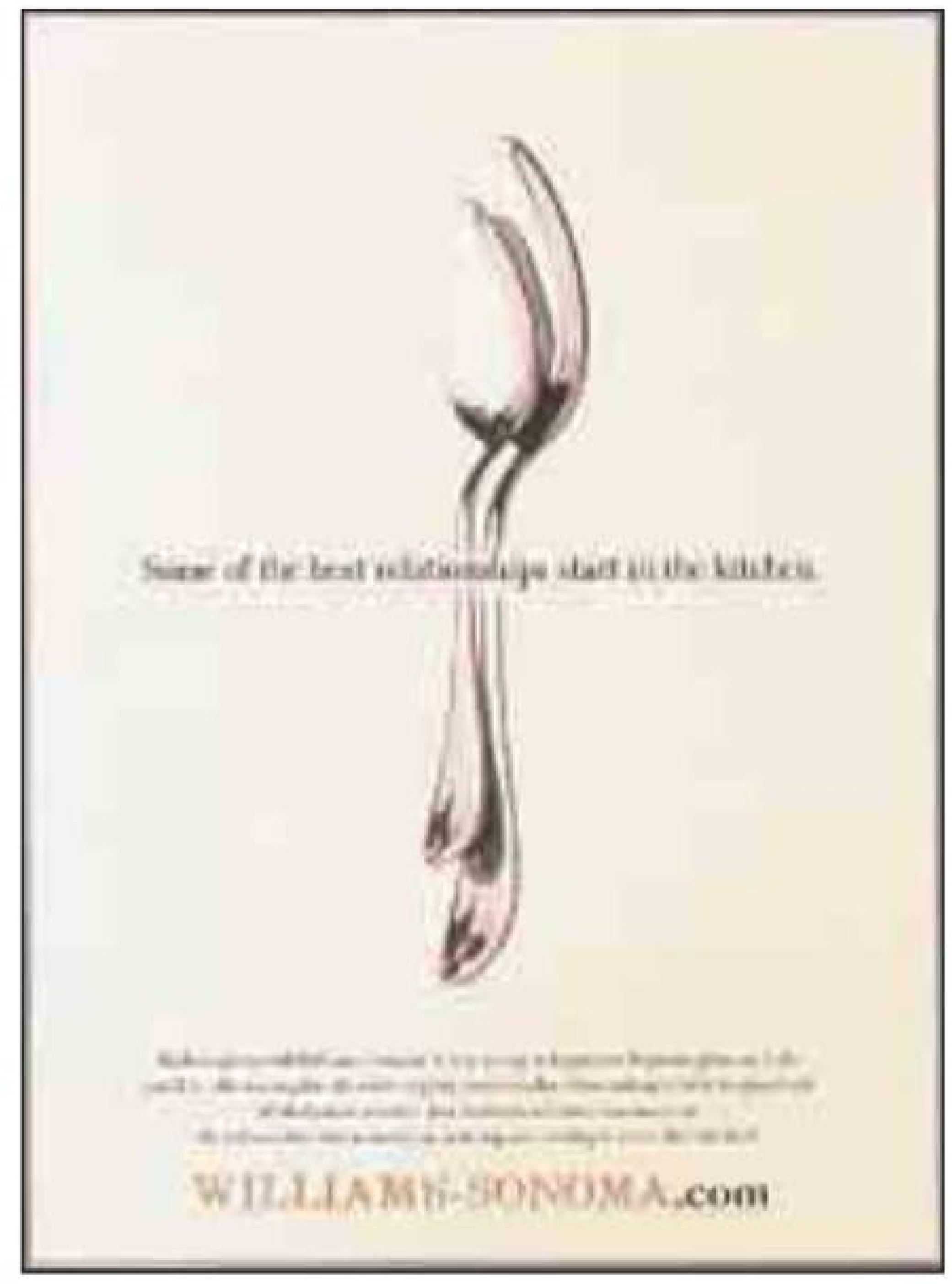
Customer value reflects benefits and costs

As this example suggests, both benefits and costs can take many different forms, perhaps ranging from economic to emotional. They also may vary depending on the situation. However, it is the customer's view of the various benefits and costs that is important. And combining these two perspectives leads us to the concept of **customer value**—the difference between the benefits a customer sees from a market offering and the costs of obtaining those benefits. A consumer is likely to be more satisfied when the customer value is higher—when benefits exceed costs by a larger margin. On the other hand, a consumer who sees the costs as greater than the benefits isn't likely to become a customer.

Some people think that low price and high customer value are the same thing. But, you can see that may not be the case at all. To the contrary, a good or service that doesn't meet a consumer's needs results in low customer value, even if the price is very low. Yet, a high price may be more than acceptable when it obtains the desired benefits. Think again about our Starbucks example. You can get a cup of coffee for a much lower price, but Starbucks offers more than *just* a cup of coffee.

Customer may not think about it very much

It's useful for a manager to evaluate ways to improve the benefits, or reduce the costs, of what the firm offers customers. However, this doesn't mean that customers stop and compute some sort of customer value score before making each purchase. If they did, there wouldn't be much time in life for anything else. So, a manager's objective and thorough analysis may not accurately reflect the customer's



Many marketers are looking for ways to build long-term relationships with customers. For example, Payless Shoes gets the relationship off on the right foot by offering new parents a free pair of baby shoes. Williams-Sonoma offers a free online bridal registry, which builds relationships with newlyweds, a key target market.

impressions. Yet, it is the customer's view that matters—even when the customer has not thought about it.

Where does competition fit?

You can't afford to ignore competition. Consumers usually have choices about how they will meet their needs. So, a firm that offers superior customer value is likely to win and keep customers. This may be crucial when what different firms have to offer is very similar.

Some critics say that the marketing concept does not go far enough in today's highly competitive markets. They think of marketing as "warfare" for customers—and argue that a marketing manager should focus on competitors, not customers. That view, however, misses the point. Often the best way to improve customer value, and beat the competition, is to be first to find and satisfy a need that others have not even considered.

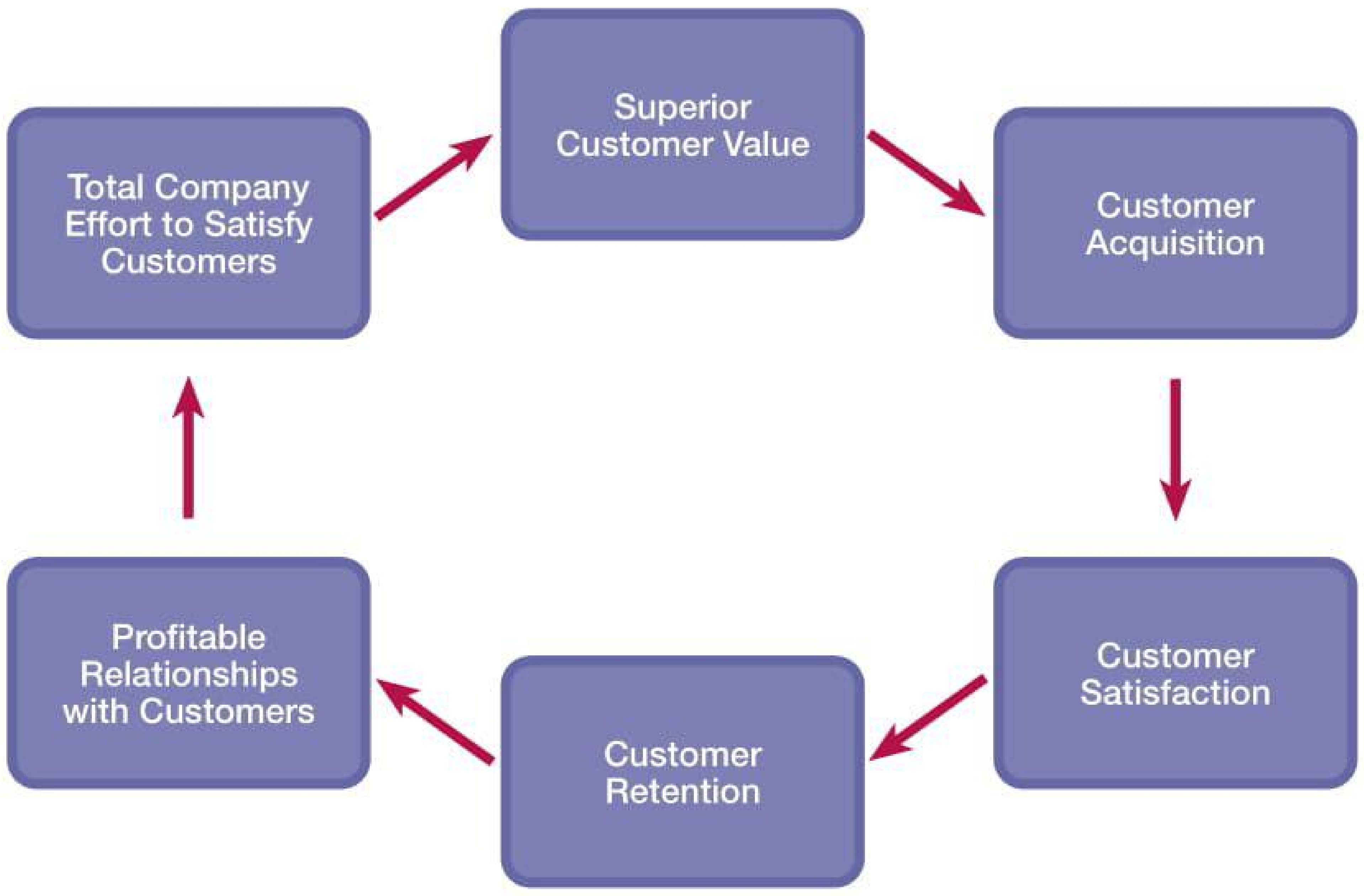
The competition between Pepsi and Coke illustrates this. Coke and Pepsi were spending millions of dollars on promotion—fighting head-to-head for the same cola customers. They put so much emphasis on the cola competition that they missed other opportunities. That gave firms like Snapple the chance to enter the market and steal away customers. For these customers, the desired benefits—and the greatest customer value—came from the variety of a fruit-flavored drink, not from one more cola.

Build relationships with customer value

Firms that embrace the marketing concept seek ways to build a profitable long-term relationship with each customer. This is an important idea. Even the most innovative firm faces competition sooner or later. And trying to get new customers by taking them away from a competitor is usually more costly than retaining current customers by really satisfying their needs. Satisfied customers buy again and again. This makes their buying job easier, and it also increases the selling firm's profits.

Building mutually beneficial relationships with customers requires that everyone in an organization work together to provide customer value before *and after* each purchase. If there is a problem with a customer's bill, the accounting people can't just leave it to the salesperson to straighten it out or, even worse, act like it's "the customer's problem." Rather, it's the firm's problem. The long-term relationship with the customer—and the lifetime value of the customer's future purchases—is threatened if the accountant, the salesperson, and anyone else who might be involved

Exhibit 2-3
Satisfying Customers with Superior Customer Value to Build Profitable Relationships



don't work together quickly to make things right for the customer. Similarly, the firm's advertising people can't just develop ads that try to convince a customer to buy once. If the firm doesn't deliver on the benefits promised in its ads, the customer is likely to go elsewhere the next time the need arises. And the same ideas apply whether the issue is meeting promised delivery dates, resolving warranty problems, giving a customer help on how to use a product, or even making it easy for the customer to return a purchase made in error.

In other words, any time the customer value is reduced—because the benefits to the customer decrease or the costs increase—the relationship is weakened.[4]

Exhibit 2-3 summarizes the important ideas we've been discussing. In a firm that has adopted the marketing concept everyone focuses on customer satisfaction. They offer superior customer value. That helps attract customers in the first place—and keeps them satisfied after they buy. Because customers are satisfied, they want to purchase from the firm again. The ongoing relationship with customers is profitable, so the firm is encouraged to continue to find new and better ways to offer superior customer value. In other words, when a firm adopts the marketing concept, it wins and so do its customers.

L. L. Bean delivers superior value

L. L. Bean illustrates these ideas. It is a firm that builds enduring relationships with its customers. It offers good customer value to consumers who are interested in enjoying the outdoors. Bean's quality products are well suited to a wide variety of outdoor needs—whether it's clothing for hikers or equipment for campers. The firm field-tests all its products—to be certain they live up to the firm's "100% satisfaction" guarantee. Although Bean operates a retail store in Freeport, Maine, its Internet website (www.llbean.com) and catalogs reach customers all over the world. Bean's computers track what each customer is buying, so new catalogs are mailed directly to the people who are most interested. To make ordering convenient, customers can call toll-free 24 hours a day—and they get whatever advice they need because the salespeople are real experts on what they sell. Bean also makes it easy for consumers to return a product, and encourages them to complain about any problem. That way, Bean can solve the problem before it disrupts the relationship. Bean's prices are competitive with other outdoor sporting specialty stores, but Bean retains its loyal customers because they like the benefits of the relationship.[5]

Internet

Internet Exercise The L. L. Bean website (www.llbean.com) offers consumers a lot of information, including an "Outdoors Online" section with information about national parks. Do you think that this helps Bean to build relationships with its target customers?

The Marketing Concept Applies in Nonprofit Organizations

Newcomers to marketing thinking

The marketing concept is as important for nonprofit organizations as it is for business firms. However, prior to 1970 few people in nonprofits paid attention to the role of marketing. Now marketing is widely recognized as applicable to all sorts of public and private nonprofit organizations—ranging from government agencies, health care organizations, educational institutions, and religious groups to charities, political parties, and fine arts organizations. Some nonprofit organizations operate just like a business. For example, there may be no practical difference between the gift shop at a museum and a for-profit shop located across the street. And some unprofitable dot-com firms have now resurfaced as nonprofits. On the other hand, some nonprofits differ from business firms in a variety of ways.

Support may not come from satisfied "customers"

As with any business firm, a nonprofit organization needs resources and support to survive and achieve its objectives. Yet support often does not come directly from those who receive the benefits the organization produces. For example, the World Wildlife Fund protects animals. If supporters of the World Wildlife Fund are not satisfied with its efforts—don't think the benefits are worth what it costs to provide them—they will, and should, put their time and money elsewhere.

Just as most firms face competition for customers, most nonprofits face competition for the resources and support they need. The Air Force faces a big problem if it can't attract new recruits. A shelter for the homeless may fail if supporters decide to focus on some other cause, such as AIDS education. A community theater group that decides to do a play that the actors and the director like—never stopping to consider what the audience might want to see—may find that the theater is empty.

What is the "bottom line"?

As with a business, a nonprofit must take in as much money as it spends or it won't survive. However, a nonprofit organization does not measure "profit" in the same way as a firm. And its key measures of long-term success are also different. The YMCA, colleges, symphony orchestras, and the post office, for example, all seek to achieve different objectives and need different measures of success.

Profit guides business decisions because it reflects both the costs and benefits of different activities. In a nonprofit organization, it is sometimes more difficult to be objective in evaluating the benefits of different activities relative to what

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Marketing is now widely accepted by many nonprofit organizations, including the National Kidney Foundation, which wants to increase the number of organ donors.

they cost. However, if everyone in an organization agrees to *some* measure of long-run success, it helps serve as a guide to where the organization should focus its efforts.

May not be organized for marketing

Some nonprofits face other challenges in organizing to adopt the marketing concept. Often no one has overall responsibility for marketing activities. A treasurer or accountant may keep the books, and someone may be in charge of "operations"—but marketing may somehow seem less crucial, especially if no one understands what marketing is all about. Even when some leaders do the marketing thinking, they may have trouble getting unpaid volunteers with many different interests to all agree with the marketing strategy. Volunteers tend to do what they feel like doing!

The marketing concept provides focus

We have been discussing some of the differences between nonprofit and business organizations. However, the marketing concept is helpful in *any* type of organization. Success is most likely when everyone pulls together to strive for common objectives that can be achieved with the available resources. Adopting the marketing concept helps to bring this kind of focus. After all, each organization is trying to satisfy some group of consumers in some way.[6]

Nonprofits achieve objectives by satisfying needs

A simple example shows how marketing thinking helped a small town reduce robberies. Initially the chief of police asked the town manager for a larger budget—for more officers and patrol cars. Instead of a bigger budget, the town manager suggested a different approach. She put two officers in charge of a community watch program. They helped neighbors to organize and notify the police of any suspicious situations. They also set up a program to engrave ID numbers on belongings. And new signs warned thieves that a community watch was in effect. Break-ins all but stopped—without increasing the police budget. What the town *really* needed was more effective crime prevention—not just more police officers.

Throughout this book, we'll be discussing the marketing concept and related ideas as they apply in many different settings. Often we'll simply say "in a firm" or "in a business"—but remember that most of the ideas can be applied in *any* type of organization.

The Marketing Concept, Social Responsibility, and Marketing Ethics

Society's needs must be considered

The marketing concept is so logical that it's hard to argue with it. Yet when a firm focuses its efforts on satisfying some consumers—to achieve its objectives—there may be negative effects on society. (Remember that we discussed this micro–macro dilemma in Chapter 1.) This means that marketing managers should be concerned with **social responsibility**—a firm's obligation to improve its positive effects on society and reduce its negative effects. Being socially responsible sometimes requires difficult trade-offs.

Consider, for example, the environmental problems created by CFCs, chemicals used in hundreds of critical products including fire extinguishers, cooling systems, and electronic circuit boards. We now know that CFCs deplete the earth's ozone layer. Yet when this was learned it was not possible to immediately stop producing and using all CFCs. For many products critical to society, there was no feasible short-term substitute for CFCs. Du Pont and other producers of CFCs worked hard to balance these conflicting demands. Yet you can see that there are no easy answers for how such conflicts should be resolved.[7]

The issue of social responsibility in marketing also raises other important questions—for which there are no easy answers.

Should all consumer needs be satisfied?

Some consumers want products that may not be safe or good for them in the long run. Some critics argue that businesses should not offer high-heeled shoes, alcoholic beverages, sugar-coated cereals, diet soft drinks, and many processed foods because they aren't "good" for consumers in the long run.

Similarly, bicycles and roller blades are among the most dangerous products identified by the Consumer Product Safety Commission. Should Schwinn stop production? What about skis, mopeds, and scuba equipment? Who should decide if these products will be offered to consumers? Is this a micro-marketing issue or a macro-marketing issue?

What if it cuts into profits?

Being more socially conscious often seems to lead to positive customer response. For example, many Wal-Mart customers praise the company as a "safe haven" for kids to shop because it does not carry "stickered" CDs (those with a warning label stating that the content might not be suitable for children), lewd videos, plastic guns that look authentic, and video games judged to be too violent. Green Mountain Power has had a very good response to electric power produced with less pollution (even though the price is higher). And some consumers buy only from firms that certify that their overseas factories don't rely on child labor.[8]

Yet as the examples above show, there are times when being socially responsible conflicts with a firm's profit objective. Concerns about such conflicts have prompted critics to raise the basic question: Is the marketing concept really desirable?

Many socially conscious marketing managers are trying to resolve this problem. Their definition of customer satisfaction includes long-range effects—as well as immediate customer satisfaction. They try to balance consumer, company, *and* social interests.

You too will have to make choices that balance these social concerns—either in your role as a consumer or as a manager in a business firm. So throughout the text we will be discussing many of the social issues faced by marketing management.

The marketing concept guides marketing ethics

Organizations that have adopted the marketing concept are concerned about marketing ethics as well as broader issues of social responsibility. It is simply not possible for a firm to be truly consumer-oriented and at the same time intentionally unethical.

Exhibit 2-4 Code of Ethics, American Marketing Association

CODE OF ETHICS

Members of the American Marketing Association (AMA) are committed to ethical professional conduct. They have joined together in subscribing to this Code of Ethics embracing the following topics:

Responsibilities of the Marketer

Marketers must accept responsibility for the consequences of their activities and make every effort to ensure that their decisions, recommendations, and actions function to identify, serve, and satisfy all relevant publics: customers, organizations and society.

Marketers' professional conduct must be guided by:

1. The basic rule of professional ethics: not knowingly to do harm;
2. The adherence to all applicable laws and regulations;
3. The accurate representation of their education, training and experience; and
4. The active support, practice and promotion of this Code of Ethics.

Honesty and Fairness

Marketers shall uphold and advance the integrity, honor, and dignity of the marketing profession by:

1. Being honest in serving consumers, clients, employees, suppliers, distributors and the public;
2. Not knowingly participating in conflict of interest without prior notice to all parties involved; and
3. Establishing equitable fee schedules including the payment or receipt of usual, customary and/or legal compensation for marketing exchanges.

Rights and Duties of Parties in the Marketing Exchange Process

Participants in the marketing exchange process should be able to expect that:

1. Products and services offered are safe and fit for their intended uses;
2. Communications about offered products and services are not deceptive;
3. All parties intend to discharge their obligations, financial and otherwise, in good faith; and
4. Appropriate internal methods exist for equitable adjustment and/or redress of grievances concerning purchases.

It is understood that the above would include, but is not limited to, the following responsibilities of the marketer:

In the area of product development and management,

- disclosure of all substantial risks associated with product or service usage;
- identification of any product component substitution that might materially change the product or impact on the buyer's purchase decision;
- identification of extra-cost added features.

In the area of promotions,

- avoidance of false and misleading advertising;
- rejection of high pressure manipulations, or misleading sales tactics;
- avoidance of sales promotions that use deception or manipulation.

In the area of distribution,

- not manipulating the availability of a product for purpose of exploitation;
- not using coercion in the marketing channel;
- not exerting undue influence over the reseller's choice to handle a product.

In the area of pricing,

- not engaging in price fixing;
- not practicing predatory pricing;
- disclosing the full price associated with any purchase.

In the area of marketing research,

- prohibiting selling or fund raising under the guise of conducting research;
- maintaining research integrity by avoiding misrepresentation and omission of pertinent research data;
- treating outside clients and suppliers fairly.

Organizational Relationships

Marketers should be aware of how their behavior may influence or impact on the behavior of others in organizational relationships. They should not demand, encourage or apply coercion to obtain unethical behavior in their relationships with others, such as employees, suppliers or customers.

1. Apply confidentiality and anonymity in professional relationships with regard to privileged information;
2. Meet their obligations and responsibilities in contracts and mutual agreements in a timely manner;
3. Avoid taking the work of others, in whole, or in part, and represent this work as their own or directly benefit from it without compensation or consent of the originator or owner;
4. Avoid manipulation to take advantage of situations to maximize personal welfare in a way that unfairly deprives or damages the organization or others.

Any AMA member found to be in violation of any provision of this Code of Ethics may have his or her Association membership suspended or revoked.

Individual managers in an organization may have different values. As a result, problems may arise when someone does not share the same marketing ethics as others in the organization. One person operating alone can damage a firm's reputation and even survival. Because the marketing concept involves a companywide focus, it is a foundation for marketing ethics common to everyone in a firm—and helps to avoid such problems.

To be certain that standards for marketing ethics are as clear as possible, many organizations have developed their own written codes of ethics. Consistent with the marketing concept, these codes usually state—at least at a general level—the ethical standards that everyone in the firm should follow in dealing with customers and other people. Many professional societies have also adopted such codes. For example, the American Marketing Association's code of ethics—see Exhibit 2-4—sets specific ethical standards for many aspects of the management job in marketing.[9]

The Management Job in Marketing

Now that you know about the marketing concept—a philosophy to guide the whole firm—let's look more closely at how a marketing manager helps a firm to achieve its objectives. The marketing manager is a manager, so let's look at the marketing management process.

The **marketing management process** is the process of (1) *planning* marketing activities, (2) directing the *implementation* of the plans, and (3) *controlling* these plans. Planning, implementation, and control are basic jobs of all managers—but here we will emphasize what they mean to marketing managers.

Exhibit 2-5 shows the relationships among the three jobs in the marketing management process. The jobs are all connected to show that the marketing management process is continuous. In the planning job, managers set guidelines for the implementing job—and specify expected results. They use these expected results in the control job—to determine if everything has worked out as planned. The link from the control job to the planning job is especially important. This feedback often leads to changes in the plans—or to new plans.

Marketing managers should seek new opportunities

Marketing managers cannot be satisfied just planning present activities. Markets are dynamic. Consumers' needs, competitors, and the environment keep changing. Consider Parker Brothers, a company that seemed to have a "Monopoly" in family games. While it continued selling board games, firms like Sega and Nintendo zoomed in with video game competition. Of course, not every opportunity is good for every company. Really attractive opportunities are those that fit with what the whole company wants to do and is able to do well.

Strategic management planning concerns the whole firm

The job of planning strategies to guide a whole company is called **strategic (management) planning**—the managerial process of developing and maintaining a match between an organization's resources and its market opportunities. This is a top-management job. It includes planning not only for marketing but also for production, finance, human resources, and other areas. In Chapter 20, we'll look at links between marketing and these areas.

Although marketing strategies are not whole-company plans, company plans should be market-oriented. And the marketing plan often sets the tone and direction for the whole company. So we will use *strategy planning* and *marketing strategy planning* to mean the same thing.[10]

Exhibit 2-5
The Marketing Management Process

What Is Marketing Strategy Planning?

Marketing strategy planning means finding attractive opportunities and developing profitable marketing strategies. But what is a "marketing strategy"? We have used these words rather casually so far. Now let's see what they really mean.

What is a marketing strategy?

A **marketing strategy** specifies a target market and a related marketing mix. It is a big picture of what a firm will do in some market. Two interrelated parts are needed:

1. A **target market**—a fairly homogeneous (similar) group of customers to whom a company wishes to appeal.
2. A **marketing mix**—the controllable variables the company puts together to satisfy this target group.

Exhibit 2-6
A Marketing Strategy

The importance of target customers in this process can be seen in Exhibit 2-6, where the customer—the "C"—is at the center of the diagram. The customer is surrounded by the controllable variables that we call the "marketing mix." A typical marketing mix includes some product, offered at a price, with some promotion to tell potential customers about the product, and a way to reach the customer's place.

The Learning Company's marketing strategy for its software aims at a specific group of target customers: young parents who have a computer at home and want their kids to learn while playing. The strategy calls for a variety of educational software products—like *Reader Rabbit* and *Where in the World Is Carmen Sandiego?* The firm's software is designed with entertaining graphics and sound, and it's tested on kids to be certain that it is easy to use. To make it convenient for target customers to buy the software, it can be ordered from the firm's own website (www.learningco.com) or from other retailers like Babbages. Promotion has helped build customer interest in the software. For example, when marketing managers released *Where in Time Is Carmen Sandiego?* they not only placed ads in family-oriented computer magazines but also sent direct-mail flyers to registered customers of the firm's other products. Some firms sell less-expensive games for kids, but parents are loyal to The

Learning Co. because it caters to their needs and offers first-class customer service—including a 90-day, no-questions-asked guarantee that assures the buyer of good customer value.[11]

Selecting a Market-Oriented Strategy Is Target Marketing

Target marketing is not mass marketing

Note that a marketing strategy specifies some *particular* target customers. This approach is called "target marketing" to distinguish it from "mass marketing." **Target marketing** says that a marketing mix is tailored to fit some specific target customers. In contrast, **mass marketing**—the typical production-oriented approach—vaguely aims at "everyone" with the same marketing mix. Mass marketing assumes that everyone is the same—and it considers everyone to be a potential customer. It may help to think of target marketing as the "rifle approach" and mass marketing as the "shotgun approach." See Exhibit 2-7.

Mass marketers may do target marketing

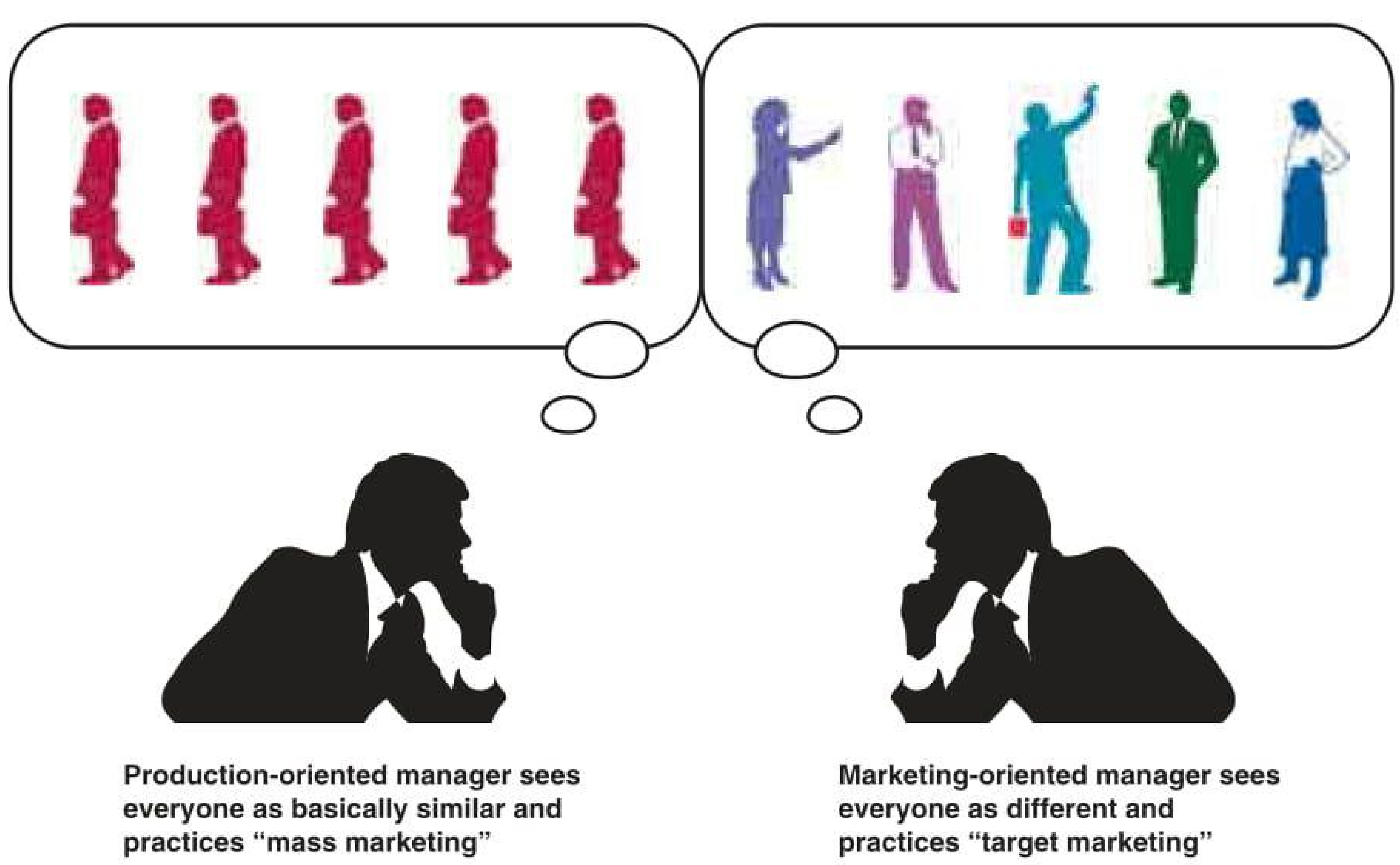
Commonly used terms can be confusing here. The terms *mass marketing* and *mass marketers* do not mean the same thing. Far from it! *Mass marketing* means trying to sell to "everyone," as we explained above. *Mass marketers* like Kraft Foods and Wal-Mart are aiming at clearly defined target markets. The confusion with mass marketing occurs because their target markets usually are large and spread out.

Target marketing can mean big markets and profits

Target marketing is not limited to small market segments—only to fairly homogeneous ones. A very large market—even what is sometimes called the "mass market"—may be fairly homogeneous, and a target marketer will deliberately aim at it. For example, a very large group of parents of young children are homogeneous on many dimensions—including their attitudes about changing baby diapers. In the United States alone, this group spends about $3.5 billion a year on disposable diapers—so it should be no surprise that it is a major target market for companies like Kimberly-Clark (Huggies) and Procter & Gamble (Pampers).

The basic reason to focus on some specific target customers is to gain a competitive advantage—by developing a more satisfying marketing mix that should also be more profitable for the firm. For example, Tianguis, a small grocery chain in Southern

Exhibit 2-7
Production-Oriented and Marketing-Oriented Managers Have Different Views of the Market



California, attracts Hispanic customers with special product lines and Spanish-speaking employees. E*trade uses an Internet site (www.etrade.com) to target knowledgeable investors who want a convenient, low-cost way to buy and sell stocks online without a lot of advice (or pressure) from a salesperson.

Developing Marketing Mixes for Target Markets

There are many marketing mix decisions

There are many possible ways to satisfy the needs of target customers. A product might have many different features. Customer service levels before or after the sale can be adjusted. The package, brand name, and warranty can be changed. Various advertising media—newspapers, magazines, cable, the Internet—may be used. A company's own sales force or other sales specialists can be used. The price can be changed, discounts can be given, and so on. With so many possible variables, is there any way to help organize all these decisions and simplify the selection of marketing mixes? The answer is yes.

The four "Ps" make up a marketing mix

It is useful to reduce all the variables in the marketing mix to four basic ones:

Product.
Place.
Promotion.
Price.

It helps to think of the four major parts of a marketing mix as the "four Ps." Exhibit 2-8 emphasizes their relationship and their common focus on the customer—"C."

Exhibit 2-8
A Marketing Strategy—Showing the Four Ps of a Marketing Mix

Customer is not part of the marketing mix

The customer is shown surrounded by the four Ps in Exhibit 2-8. Some students assume that the customer is part of the marketing mix—but this is not so. The customer should be the *target* of all marketing efforts. The customer is placed in the center of the diagram to show this. The C stands for some specific customers—the target market.

Exhibit 2-9 shows some of the strategy decision variables organized by the four Ps. These will be discussed in later chapters. For now, let's just describe each P briefly.

Product—the good or service for the target's needs

The Product area is concerned with developing the right "product" for the target market. This offering may involve a physical good, a service, or a blend of both. Keep in mind that Product is not limited to "physical goods." For example, the Product of H & R Block is a completed tax form. The Product of a political party is the set of causes it will work to achieve. The important thing to remember is that your good and/or service should satisfy some customers' needs.

Along with other Product-area decisions like branding, packaging, and warranties, we will talk about developing and managing new products and whole product lines.

Place—reaching the target

Place is concerned with all the decisions involved in getting the "right" product to the target market's Place. A product isn't much good to a customer if it isn't available when and where it's wanted.

A product reaches customers through a channel of distribution. A **channel of distribution** is any series of firms (or individuals) who participate in the flow of products from producer to final user or consumer.

Exhibit 2-9
Strategy Decision Areas Organized by the Four Ps

Product
- Physical good
- Service
- Features
- Benefits
- Quality level
- Accessories
- Installation
- Instructions
- Warranty
- Product lines
- Packaging
- Branding

Place
- Objectives
- Channel type
- Market exposure
- Kinds of middlemen
- Kinds and locations of stores
- How to handle transporting and storing
- Service levels
- Recruiting middlemen
- Managing channels

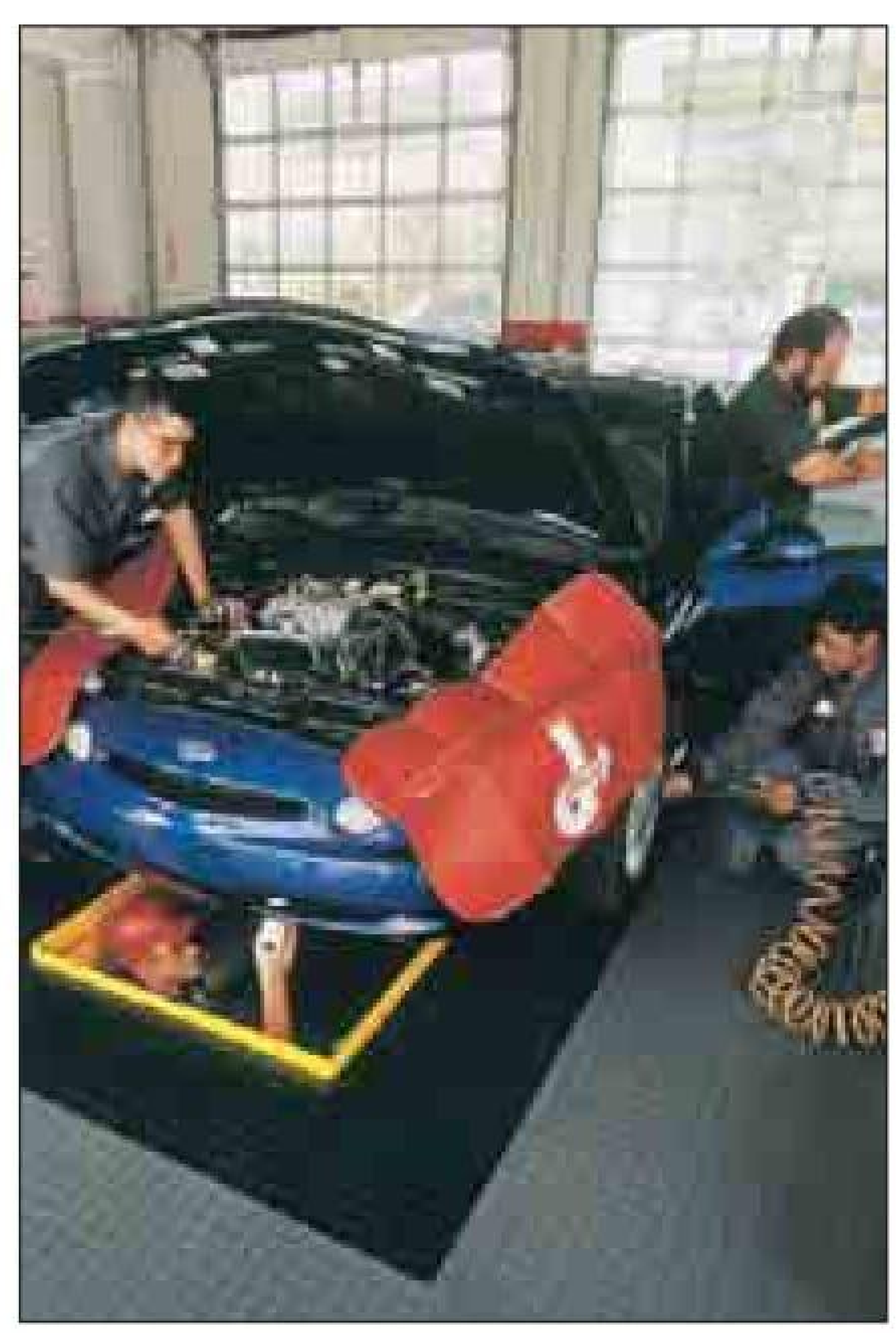
Promotion
- Objectives
- Promotion blend
- Salespeople
  - Kind
  - Number
  - Selection
  - Training
  - Motivation
- Advertising
  - Targets
  - Kinds of ads
  - Media type
  - Copy thrust
  - Prepared by whom
- Sales promotion
- Publicity

Price
- Objectives
- Flexibility
- Level over product life cycle
- Geographic terms
- Discounts
- Allowances

Sometimes a channel system is quite short. It may run directly from a producer to a final user or consumer. This is especially common in business markets and in the marketing of services. The channel is direct when a producer uses an online website to handle orders by target customers, whether the customer is a final consumer or an organization. So, direct channels have become much more common since the development of the Internet.

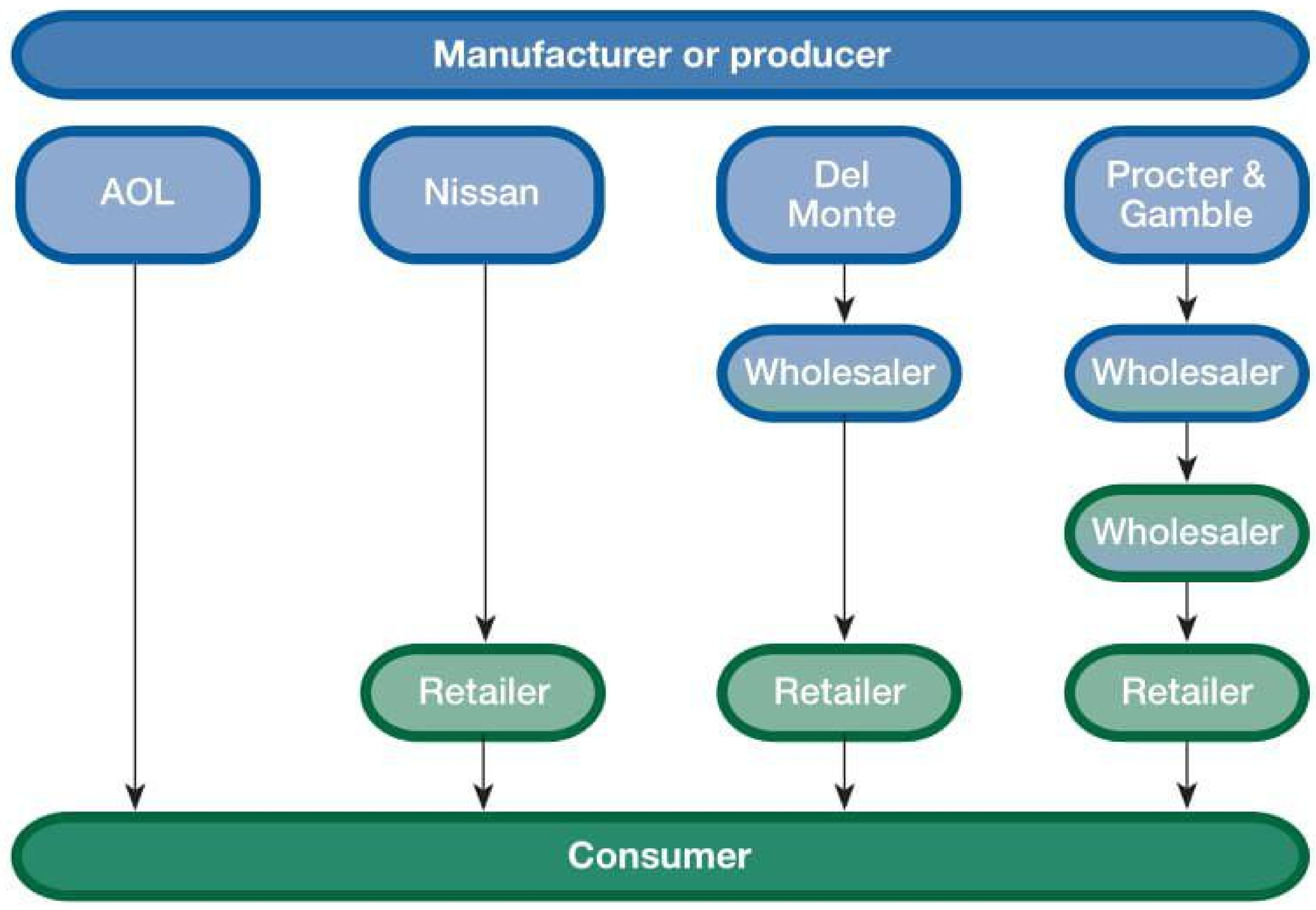
On the other hand, often the channel system is much more complex—involving many different retailers and wholesalers. See Exhibit 2-10 for some examples. When a marketing manager has several different target markets, several different channels of distribution may be needed.

We will also see how physical distribution service levels and decisions concerning logistics (transporting, storing, and handling products) relate to the other Place decisions and the rest of the marketing mix.



A firm's product may involve a physical good, a service, or a combination of both.

Exhibit 2-10
Four Examples of Basic Channels of Distribution for Consumer Products



Promotion—telling and selling the customer

The third P—Promotion—is concerned with telling the target market or others in the channel of distribution about the "right" product. Sometimes promotion is focused on acquiring new customers, and sometimes it's focused on retaining current customers. Promotion includes personal selling, mass selling, and sales promotion. It is the marketing manager's job to blend these methods of communication.

Personal selling involves direct spoken communication between sellers and potential customers. Personal selling usually happens face-to-face, but sometimes the communication occurs over the telephone. Personal selling lets the salesperson adapt the firm's marketing mix to each potential customer. But this individual attention comes at a price; personal selling can be very expensive. Often this personal effort has to be blended with mass selling and sales promotion.

Mass selling is communicating with large numbers of customers at the same time. The main form of mass selling is **advertising**—any *paid* form of nonpersonal presentation of ideas, goods, or services by an identified sponsor. **Publicity**—any *unpaid* form of nonpersonal presentation of ideas, goods, or services—is another important form of mass selling. Mass selling may involve a wide variety of media, ranging from newspapers and billboards to the Internet.

Sales promotion refers to those promotion activities—other than advertising, publicity, and personal selling—that stimulate interest, trial, or purchase by final customers or others in the channel. This can involve use of coupons, point-of-purchase materials, samples, signs, catalogs, novelties, and circulars.

Price—making it right

In addition to developing the right Product, Place, and Promotion, marketing managers must also decide the right Price. Price setting must consider the kind of competition in the target market and the cost of the whole marketing mix. A manager must also try to estimate customer reaction to possible prices. Besides this, the manager must know current practices as to markups, discounts, and other terms of sale. And if customers won't accept the Price, all of the planning effort is wasted.

Each of the four Ps contributes to the whole

All four Ps are needed in a marketing mix. In fact, they should all be tied together. But is any one more important than the others? Generally speaking, the answer is no—all contribute to one whole. When a marketing mix is being developed, all (final) decisions about the Ps should be made at the same time. That's why the four Ps are arranged around the customer (C) in a circle—to show that they all are equally important.

Lifetime Value of Customers Can Be Very High—or Very Low

Investors lost millions when stock market values of dot-com firms collapsed after an initial, frenzied run up. But why did values get so high in the first place, especially when most dot-coms were not yet profitable? The stock went up because many investors expected that the firms would earn profits in the future as more consumers went online and the early dot-coms accumulated customers. These hopes were fueled by dot-coms that made optimistic predictions about the lifetime value of the customers they were acquiring. The lifetime value of the customer concept is not new. For decades General Motors has known that a consumer who buys a GM car and is satisfied is likely to buy another one the next time. If that happens again and again, over a lifetime the happy customer would spend $250,000 on GM cars. Of course, this only works if the firm's marketing mix attracts the target customers and the relationship keeps them satisfied before, during, and after every purchase. If you don't satisfy and retain customers they don't have high lifetime value and don't generate sales. Of course, sales revenue alone does not guarantee profits. For example, a firm can't give away products—or spend so much on promotion to acquire new customers (or keep the ones it has)—that the revenue will never be able to offset the costs. Unfortunately, that is what happened with many of the dot-coms. They saw how the financial arithmetic might work—*assuming* that new customers kept buying and costs came under control. But without a sensible marketing strategy, that assumption was not realistic.[12]

www.mhhe.com/fourps

Let's sum up our discussion of marketing mix planning thus far. We develop a *Product* to satisfy the target customers. We find a way to reach our target customers' *Place*. We use *Promotion* to tell the target customers (and others in the channel) about the product that has been designed for them. And we set a *Price* after estimating expected customer reaction to the total offering and the costs of getting it to them.

Strategy jobs must be done together

It is important to stress—it cannot be overemphasized—that selecting a target market *and* developing a marketing mix are interrelated. Both parts of a marketing strategy must be decided together. It is *strategies* that must be evaluated against the company's objectives—not alternative target markets or alternative marketing mixes.

Understanding target markets leads to good strategies

The needs of a target market often virtually determine the nature of an appropriate marketing mix. So marketers must analyze their potential target markets with great care. This book will explore ways of identifying attractive market opportunities and developing appropriate strategies.

These ideas can be seen more clearly with an example in the children's fashion market.

Market-oriented strategy planning at Toddler University

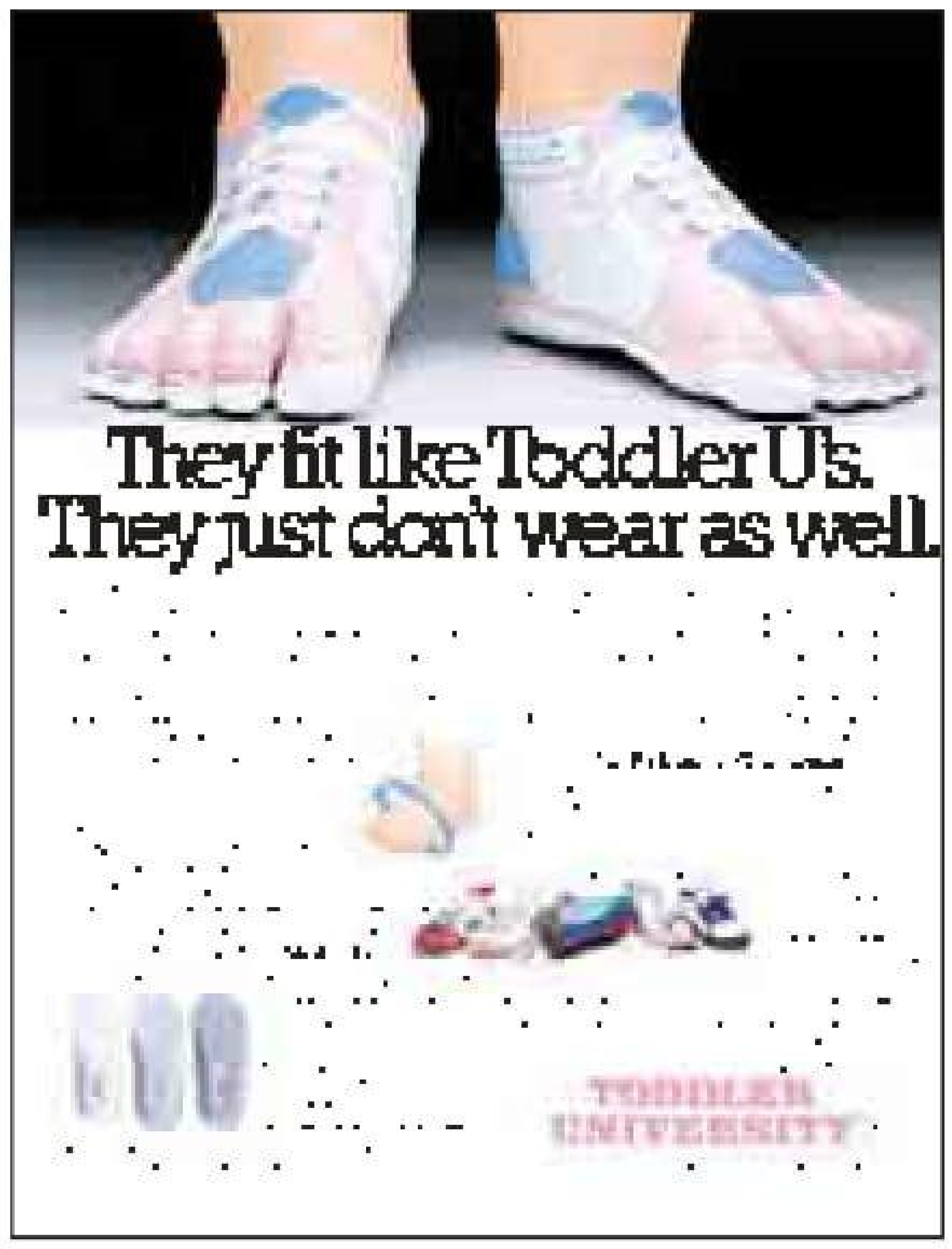
The case of Jeff Silverman and Toddler University (TU), Inc., a shoe company he started, illustrates the strategy planning process. During high school and college, Silverman worked as a salesperson at local shoe stores. He also gained valuable experience during a year working for Nike. From these jobs he learned a lot about customers' needs and interests. He also realized that some parents were not satisfied when it came to finding shoes for their preschool children.

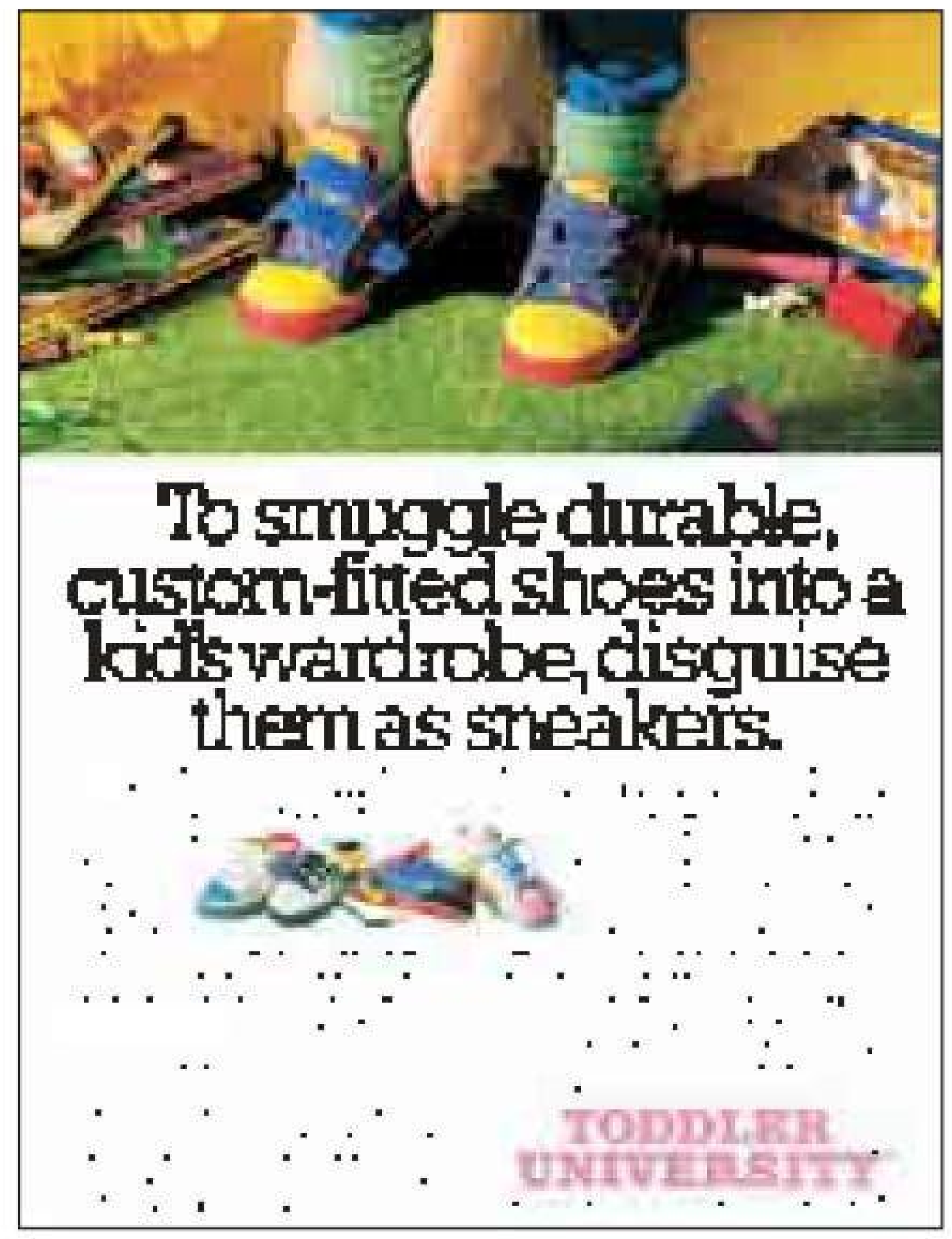
Silverman thought that there was a large, but hard to describe, mass market for general-purpose baby shoes—perhaps 60 or 70 percent of the potential for all kinds of baby shoes. Silverman did not focus on this market because it didn't make sense for his small company to compete head on with many other firms where he had no particular advantage. However, he identified four other markets that were quite different. In the following description of these markets, note that useful marketing mixes come to mind immediately.

The *Traditionalists* seemed to be satisfied with a well-manufactured shoe that was available from "quality" stores where they could seek help in selecting the right size and fit. They didn't mind if the design was old-fashioned and didn't change. They wanted a well-known brand that had a reputation for quality, even if it was a bit more expensive.

Many of the *Economy Oriented* parents were in the lower income group. They wanted a basic shoe at a low price. They saw baby shoes as all pretty much the

Toddler University's marketing strategy was successful because it developed a distinctive marketing mix that was precisely relevant to the needs of its target market.





same—so a "name" brand didn't have much appeal. They were willing to shop around to see what was on sale at local discount, department, or shoe stores.

The *Fashion Conscious* were interested in dressing up baby in shoes that looked like smaller versions of the latest styles that they bought for themselves. Fit was important, but beyond that a colorful design is what got their attention. They were more likely to look for baby-size shoes at the shop where they bought their own athletic shoes.

The *Attentive Parents* wanted shoes that met a variety of needs. They wanted shoes to be fun and fashionable and functional. They didn't want just a good fit but also design and materials that were really right for baby play and learning to walk. These well-informed, upscale shoppers were likely to buy from a store that specialized in baby items. They were willing to pay a premium price if they found the right product.

Silverman thought that Stride Rite and Buster Brown were meeting the needs of the Traditionalists quite well. The Economy Oriented and Fashion Conscious customers were satisfied with shoes from a variety of other companies, including Nike. But Silverman saw a way to get a toe up on the competition by targeting the Attentive Parents with a marketing mix that combined, in his words, "fit and function with fun and fashion." He developed a detailed marketing plan that attracted financial backers, and at age 24 his company came to life.

TU didn't have its own production facilities, so Silverman contracted with a producer in Taiwan to make shoes with his brand name and to his specs. And his specs were different—they improved the product for his target market. Unlike most rigid high-topped infant shoes, he designed softer shoes with more comfortable rubber soles. The shoes lasted longer because they are stitched rather than glued. An extrawide opening made fitting easier on squirming feet. He also patented a special insert so parents could adjust the width. This change also helped win support from retailers. Since there are 11 sizes of children's shoes—and five widths—retailers usually need to stock 55 pairs of each model. TU's adjustable width reduced this stocking problem and made it more profitable for retailers to sell the line. It also made it possible for TU to resupply sold-out inventory faster than competitors. Silverman's Product and Place decisions worked together well to provide customer value and also to give him a competitive advantage.

For promotion, Silverman developed print ads with close-up photos of babies wearing his shoes and informative details about their special benefits. Creative packaging also helped promote the shoe and attract customers in the store. For example, he put one athletic-style shoe in a box that looked like a gray gym locker.

Silverman also provided the stores with "shoe rides"—electric-powered rocking replicas of its shoes. The rides not only attracted kids to the shoe department, but since they were coin-operated, they paid for themselves in a year.

TU priced most of its shoes at $35 to $40 a pair. This is a premium price, but with today's smaller families, the Attentive Parents are willing to spend more on each child.

In just four years, TU's sales jumped from $100,000 to over $40 million. To keep growth going, Silverman expanded distribution to reach new markets in Europe. To take advantage of TU's relationship with its satisfied target customers, he also added shoes for older kids to the Toddler University product assortment. Then Silverman made his biggest sale of all: he sold his company to Genesco, one of the biggest firms in the footwear business.[13]

The Marketing Plan Is a Guide to Implementation and Control

Marketing plan fills out marketing strategy

As the Toddler University case illustrates, a marketing strategy sets a target market and a marketing mix. It is a big picture of what a firm will do in some market. A marketing plan goes farther. A **marketing plan** is a written statement of a marketing strategy *and* the time-related details for carrying out the strategy. It should spell out the following in detail: (1) what marketing mix will be offered, to whom (that is, the target market), and for how long; (2) what company resources (shown as costs) will be needed at what rate (month by month perhaps); and (3) what results are expected (sales and profits perhaps monthly or quarterly, customer satisfaction levels, and the like). The plan should also include some control procedures—so that whoever is to carry out the plan will know if things are going wrong. This might be something as simple as comparing actual sales against expected sales—with a warning flag to be raised whenever total sales fall below a certain level.

Implementation puts plans into operation

After a marketing plan is developed, a marketing manager knows *what* needs to be done. Then the manager is concerned with **implementation**—putting marketing plans into operation.

Strategies work out as planned only when they are effectively implemented. Many **operational decisions**—short-run decisions to help implement strategies—may be needed.

Managers should make operational decisions within the guidelines set down during strategy planning. They develop product policies, place policies, and so on as part of strategy planning. Then operational decisions within these policies probably will be necessary—while carrying out the basic strategy. Note, however, that as long as these operational decisions stay within the policy guidelines, managers are making no change in the basic strategy. If the controls show that operational decisions are not producing the desired results, however, the managers may have to reevaluate the whole strategy—rather than just working harder at implementing it.

It's easier to see the difference between strategy decisions and operational decisions if we illustrate these ideas using our Toddler University example. Possible four-P or basic strategy policies are shown in the left-hand column in Exhibit 2-11, and examples of operational decisions are shown in the right-hand column.

It should be clear that some operational decisions are made regularly—even daily—and such decisions should not be confused with planning strategy. Certainly, a great deal of effort can be involved in these operational decisions. They might take a good part of the sales or advertising manager's time. But they are not the strategy decisions that will be our primary concern.

Exhibit 2-11 Relation of Strategy Policies to Operational Decisions for Baby Shoe Company

Marketing Mix Decision Area	Strategy Policies	Likely Operational Decisions
Product	Carry as limited a line of colors, styles, and sizes as will satisfy the target market.	Add, change, or drop colors, styles, and/or sizes as customer tastes dictate.
Place	Distribute through selected "baby-products" retailers who will carry the full line and provide good in-store sales support and promotion.	In market areas where sales potential is not achieved, add new retail outlets and/or drop retailers whose performance is poor.
Promotion	Promote the benefits and value of the special design and how it meets customer needs.	When a retailer hires a new salesperson, send current training package with details on product line; increase use of local newspaper print ads during peak demand periods (before holidays, etc.).
Price	Maintain a "premium" price, but encourage retailers to make large-volume orders by offering discounts on quantity purchases.	Offer short-term introductory price "deals" to retailers when a new style is first introduced.

Our focus in this text is on developing marketing strategies. But, eventually marketing managers must develop, implement, and control marketing plans.[14]

Control is analyzing and correcting what you've done

The control job provides the feedback that leads managers to modify their marketing strategies. To maintain control, a marketing manager uses a number of tools—like computer sales analysis, marketing research surveys, and accounting analysis of expenses and profits. Chapter 19 considers the important topic of controlling marketing plans and programs.

In addition, as we talk about each of the marketing decision areas, we will discuss some of the control problems. This will help you understand how control keeps the firm on course—or shows the need to plan a new course.

All marketing jobs require planning and control

At first, it might appear that only high-level management or large companies need be concerned with planning and control. This is not true. Every organization needs planning—and without control it's impossible to know if the plans are working.

Several plans make a whole marketing program

Most companies implement more than one marketing strategy—and related marketing plan—at the same time. They may have several products—some of them quite different—that are aimed at different target markets. The other elements of the marketing mix may vary too. Gillette's Right Guard deodorant, its Mach3 razor blades, and its Duracell Ultra batteries all have different marketing mixes. Yet the strategies for each must be implemented at the same time.[15]

A **marketing program** blends all of the firm's marketing plans into one "big" plan. See Exhibit 2-12. This program, then, is the responsibility of the whole company. Typically, the whole *marketing program* is an integrated part of the whole-company strategic plan we discussed earlier.

We will emphasize planning one marketing strategy at a time, rather than planning—or implementing—a whole marketing program. This is practical because it is important to plan each strategy carefully. Too many marketing managers fall into sloppy thinking. They try to develop too many strategies all at once—and don't develop any very carefully. However, when new strategies are evaluated, it makes sense to see how well they fit with the existing marketing program. And, we'll talk about merging plans into a marketing program in Chapter 21.

Marketing strategy planning may be very important to you soon—maybe in your present job or college activities. In Appendix C on marketing careers, we present some strategy planning ideas for getting a marketing job.

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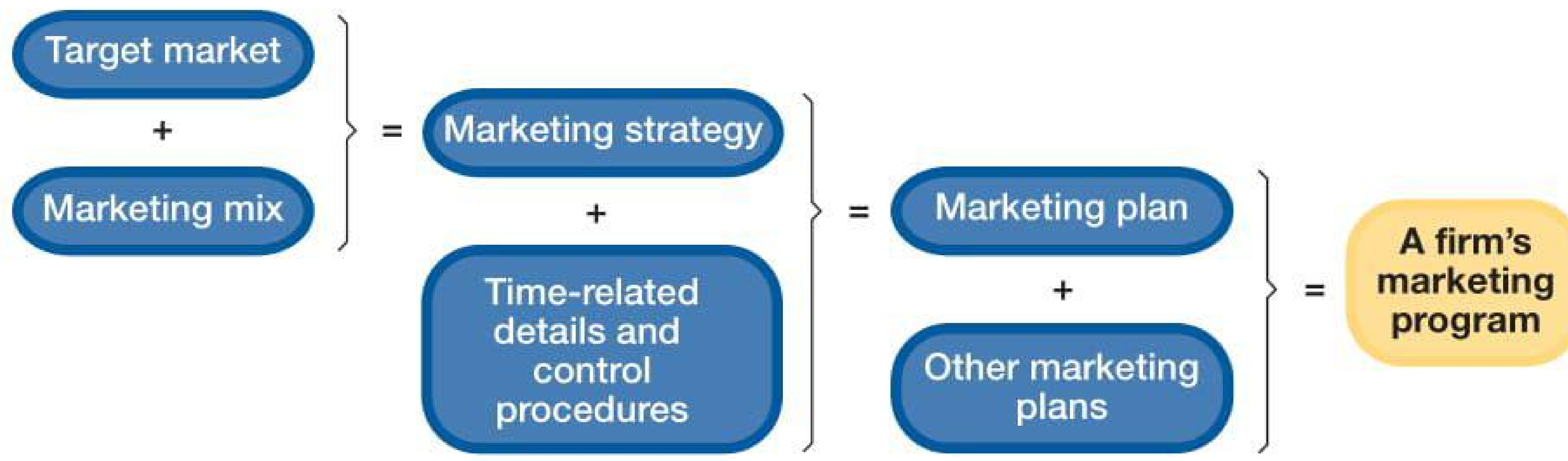
Exhibit 2-12
Elements of a Firm's Marketing Program



The Importance of Marketing Strategy Planning

We emphasize the planning part of the marketing manager's job for a good reason. The "one-time" strategy decisions—the decisions that decide what business the company is in and the strategies it will follow—usually determine success, or failure. An extremely good plan might be carried out badly and still be profitable, while a poor but well-implemented plan can lose money. The case history that follows shows the importance of planning and why we emphasize marketing strategy planning throughout this text.

Time for new strategies in the watch industry

The conventional watchmakers—both domestic and foreign—had always aimed at customers who thought of watches as high-priced, high-quality symbols to mark special events—like graduations or retirement. Advertising was concentrated around Christmas and graduation time and stressed a watch's symbolic appeal. Expensive jewelry stores were the main retail outlets.

This commonly accepted strategy of the major watch companies ignored people in the target market that just wanted to tell the time and were interested in a reliable, low-priced watch. So the U.S. Time Company developed a successful strategy around its Timex watches and became the world's largest watch company. Timex completely upset the watch industry—both foreign and domestic—not only by offering a good product (with a one-year repair or replace guarantee) at a lower price, but also by using new, lower-cost channels of distribution. Its watches were widely available in drugstores, discount houses, and nearly any other retail stores that would carry them.

Marketing managers at Timex soon faced a new challenge. Texas Instruments, a new competitor in the watch market, took the industry by storm with its low-cost but very accurate electronic watches—using the same channels Timex had originally developed. But other firms quickly developed a watch that used a more stylish liquid crystal display for the digital readout. Texas Instruments could not change quickly enough to keep up, and the other companies took away its customers. The competition became so intense that Texas Instruments stopped marketing watches altogether.

While Timex and others were focusing on lower-priced watches, Japan's Seiko captured a commanding share of the high-priced gift market for its stylish and accurate quartz watches by obtaining strong distribution. All of this forced many traditional watchmakers—like some of the once-famous Swiss brands—to close their factories.

Then Switzerland's Swatch launched its colorful, affordable plastic watches and changed what consumers see when they look at their watches. Swatch promoted its watches as fashion accessories and set them apart from those of other firms, whose ads squabbled about whose watches were most accurate and dependable. Swatch was also able to attract new retailers by focusing its distribution on upscale fashion and department stores. The total size of the watch market increased because many consumers bought several watches to match different fashions.

The economic downturn in the early 1990s brought more changes. Consumers were more cost conscious and less interested in expensive watches like those made

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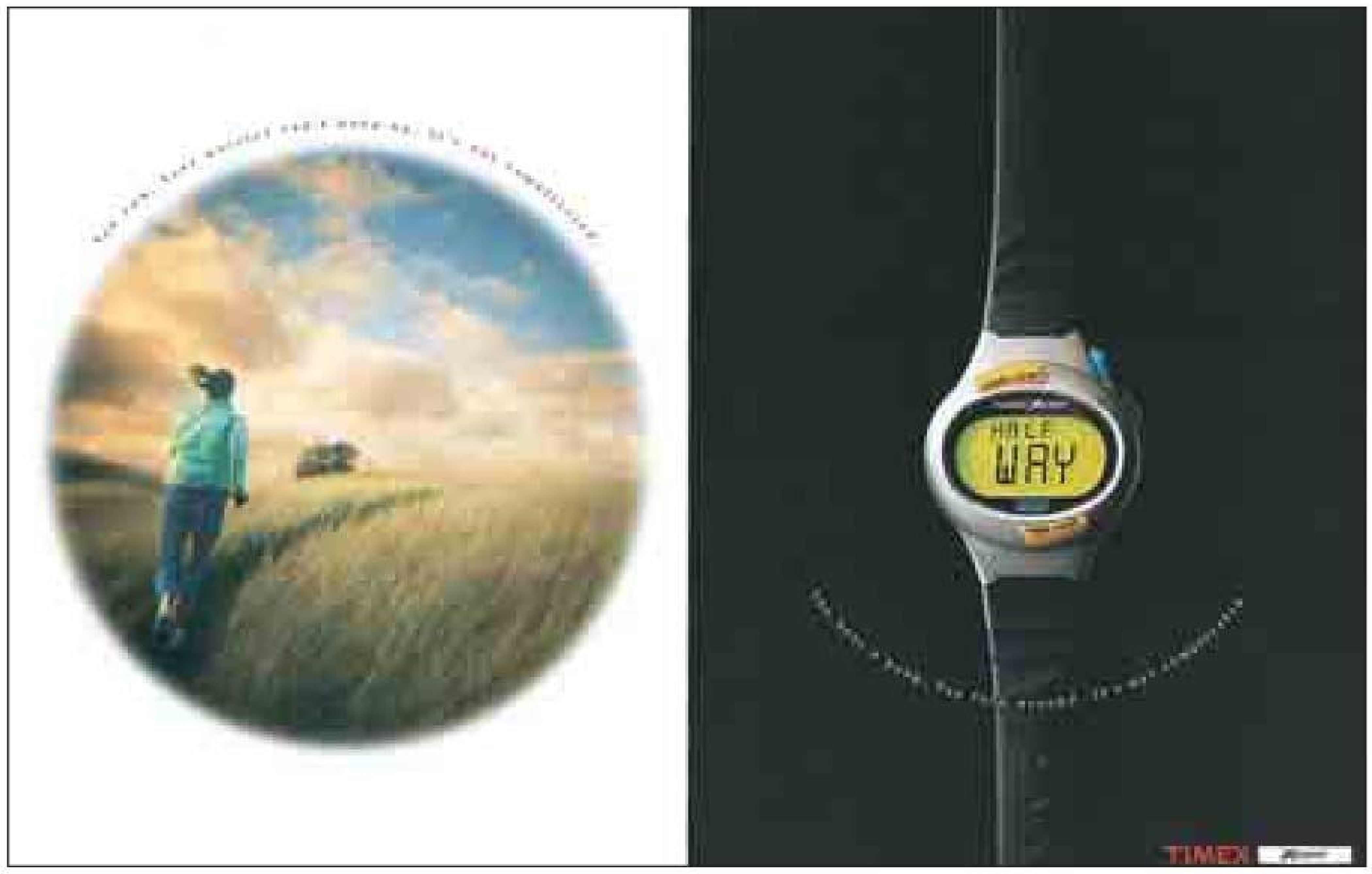
To better meet the needs of a specific target market, Timex has developed a line of Rush sportwatches for women. It is also developing other watches to meet specific needs, such as its iControl watches that are very easy to program.



by Rolex that were the "in" status symbol a few years earlier. The reemergence of value-seeking customers prompted Timex to return to its famous advertising tagline of the 1960s: "It takes a licking and keeps on ticking." Its position as the inexpensive-but-durable choice has helped it strengthen its distribution and has given it a leg up in getting shelf space for new products, such as its Indiglo line of watches.

By the turn of the century, the total market for watches was growing at only about 5 percent a year. To spark higher sales of its lines, Timex pushed to introduce more watches that combine time-telling and other needs. For example, its women's fitness watch includes a pulse timer and on-screen displays; and its Internet Messenger Watch, for about $100 and a monthly service charge, can receive short text messages, like an alert from the wearer's stock broker that it's time to sell. Of course, all the new features can make a watch more complicated to use, so Timex is refocusing on the need for simple convenience with its iControl technology, which it promotes with trendy ads and the tagline "Ridiculously easy to use." Competitors are on the move as well. For example, Casio has a watch with a global positioning system and Swatch is considering a watch with a smart chip that will also make it a debit card. With such changes always underway, marketing strategies must constantly be updated and revised.[16]

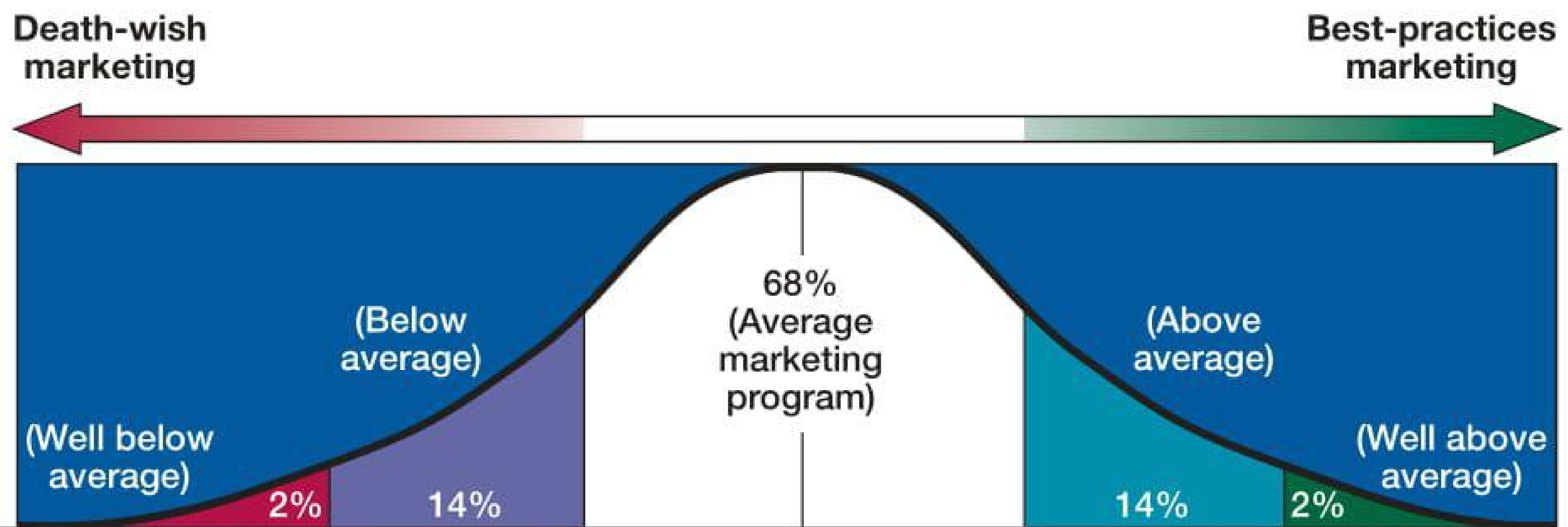
Internet

Internet Exercise Go to the Timex website (www.timex.com) and use the drop-down list or site map to go to the "Latest Products" section. Based on the needs that a product is designed to meet, can you identify the characteristics of the product's target market?

Creative Strategy Planning Needed for Survival

Dramatic shifts in strategy—like those described above—may surprise conventional, production-oriented managers. But such changes should be expected. Managers who embrace the marketing concept realize that they cannot just define

Exhibit 2-13 Distribution of Different Firms Based on Their Marketing Performance



MARKETING PERFORMANCE:	TOTAL FAILURE	POOR	FAIR	GOOD	EXCEPTIONAL
Marketing Share Growth	Precipitous Decline	Significant Decline	Modest Decline	Increase	Dramatic Increase
New Product Success Rate	0%	5%	10%	25%	40%+
Advertising ROI	Negative	0%	1–4%	5–10%	20%
Promotional Programs	Disaster	Unprofitable	Marginally Unprofitable	Profitable	Very Profitable
Customer Satisfaction	0–59%	60–69%	70–79%	80–89%	90–95%
Customer Acquisition Programs	Disturbing Losses	Significant Losses	Marginal Losses	Break Even	Profitable
Customer Retention/Loyalty	0–44%	45–59%	60–74%	75–89%	90–94%

their line of business in terms of the products they currently produce or sell. Rather, they have to think about the basic consumer needs they serve, how those needs may change in the future, and how they can improve the value they offer to customers. If they are too nearsighted, they may fail to see what's coming until too late.

Creative strategy planning is becoming even more important. Domestic and foreign competition threatens those who can't provide superior customer value and find ways to build stronger relationships with customers. New markets, new customers, and new ways of doing things must be found if companies are to operate profitably in the future—and contribute to the macro-marketing system.

Focus on "best practices" for improved results

The case studies and concepts in this chapter highlight effective marketing thinking. Throughout the text, we will continue with this thrust—focusing on marketing frameworks and concepts that produce good results. Some of these are new and innovative, and others are well established. What they have in common is that they all work well.

Sometimes we will warn you about marketing errors—so you can avoid them. But, we won't just give you laundry lists of different approaches and then leave it to you to guess what might work. Rather, our focus will be on "best-practices" marketing.

There is an important reason for this approach. In too many firms, managers do a poor job planning and implementing marketing strategies and programs. And, as shown in Exhibit 2-13, this type of "death-wish" marketing is both costly and ineffective. In fact, you can see that even the average marketing program isn't producing great results—and that accounts for the majority of firms!

Exhibit 2-13 was developed by experts at Copernicus, one of the premier marketing research and consulting firms in the world. As these experts indicate in the chart, some managers are creating marketing programs that produce exceptional results for their companies. This book will help you do exactly that.

Conclusion

Marketing's role within a marketing-oriented firm is to provide direction for the firm. The marketing concept stresses that the company's efforts should focus on satisfying some target customers—at a profit. Production-oriented firms tend to forget this. The various departments within a production-oriented firm let their natural conflicts of interest get in the way of providing superior customer value.

The job of marketing management is one of continuous planning, implementing, and control. The marketing manager must constantly study the environment—seeking attractive opportunities and planning new strategies. Possible target markets must be matched with marketing mixes the firm can offer. Then, attractive strategies—really, whole marketing plans—are chosen for implementation. Controls are needed to be sure that the plans are carried out successfully. If anything goes wrong along the way, continual feedback should cause the process to be started over again—with the marketing manager planning more attractive marketing strategies.

A marketing mix has four major decision areas: the four Ps—Product, Place, Promotion, and Price. Most of this text is concerned with developing profitable marketing mixes for clearly defined target markets. So after several chapters on the marketing strategy planning process and several on analyzing target markets, we will discuss each of the four Ps in greater detail.

While market-oriented strategy planning is helpful to marketers, it is also needed by accountants, production and personnel people, and all other specialists. A market-oriented plan lets everybody in the firm know what ballpark they are playing in and what they are trying to accomplish.

We will use the term *marketing manager* for editorial convenience, but really, when we talk about marketing strategy planning, we are talking about the planning that a market-oriented manager should do when developing a firm's strategic plans. This kind of thinking should be done—or at least understood—by everyone in the organization. And this means even the entry-level salesperson, production supervisor, retail buyer, or personnel counselor.

Questions and Problems

1. Define the marketing concept in your own words and then explain why the notion of profit is usually included in this definition.
2. Define the marketing concept in your own words and then suggest how acceptance of this concept might affect the organization and operation of your college.
3. Give examples of some of the benefits and costs that might contribute to the customer value of each of the following products: (*a*) a wrist watch, (*b*) a weight-loss diet supplement, (*c*) a cruise on a luxury liner, and (*d*) a checking account from a bank.
4. Distinguish between production orientation and marketing orientation, illustrating with local examples.
5. Explain why a firm should view its internal activities as part of a total system. Illustrate your answer for (*a*) a large grocery products producer, (*b*) a plumbing wholesaler, and (*c*) a department store chain.
6. Give an example of a recent purchase you made where the purchase wasn't just a single transaction but rather part of an ongoing relationship with the seller. Discuss what the seller has done (or could do better) to strengthen the relationship and increase the odds of you being a loyal customer in the future.
7. Distinguish clearly between a marketing strategy and a marketing mix. Use an example.
8. Distinguish clearly between mass marketing and target marketing. Use an example.
9. Why is the customer placed in the center of the four Ps in the text diagram of a marketing strategy (Exhibit 2-8)? Explain, using a specific example from your own experience.
10. If a company sells its products only from a website, which is accessible over the Internet to customers from all over the world, does it still need to worry about having a specific target market? Explain your thinking.
11. Explain, in your own words, what each of the four Ps involves.
12. Evaluate the text's statement, "A marketing strategy sets the details of implementation."
13. Distinguish between strategy decisions and operational decisions, illustrating for a local retailer.
14. Distinguish between a strategy, a marketing plan, and a marketing program, illustrating for a local retailer.

15. Outline a marketing strategy for each of the following new products: (*a*) a radically new design for a toothbrush, (*b*) a new fishing reel, (*c*) a new wonder drug, and (*d*) a new industrial stapling machine.
16. Provide a specific illustration of why marketing strategy planning is important for all businesspeople, not just for those in the marketing department.

Suggested Cases

2. Healthy Foods, Inc.
5. Republic Polymer Company
29. Metal Works, Inc.

Computer-Aided Problem

2. **Target Marketing**

Marko, Inc.'s managers are comparing the profitability of a target marketing strategy with a mass marketing "strategy." The spreadsheet gives information about both approaches.

The mass marketing strategy is aiming at a much bigger market. But a smaller percent of the consumers in the market will actually buy this product—because not everyone needs or can afford it. Moreover, because this marketing mix is not tailored to specific needs, Marko will get a smaller share of the business from those who do buy than it would with a more targeted marketing mix.

Just trying to reach the mass market will take more promotion and require more retail outlets in more locations—so promotion costs and distribution costs are higher than with the target marketing strategy. On the other hand, the cost of producing each unit is higher with the target marketing strategy—to build in a more satisfying set of features. But, because the more targeted marketing mix is trying to satisfy the needs of a specific target market, those customers will be willing to pay a higher price.

In the spreadsheet, "quantity sold" (by the firm) is equal to the number of people in the market who will actually buy one each of the product—multiplied by the share of those purchases won by the firm's marketing mix. Thus, a change in the size of the market, the percent of people who purchase, or the share captured by the firm will affect quantity sold. And a change in quantity sold will affect total revenue, total cost, and profit.

a. *On a piece of paper, show the calculations that prove that the spreadsheet "total profit" value for the target marketing strategy is correct. (Hint: Remember to multiply unit production cost and unit distribution cost by the quantity sold.) Which approach seems better—target marketing or mass marketing? Why?*
b. *If the target marketer could find a way to reduce distribution cost per unit by $.25, how much would profit increase?*
c. *If Marko, Inc., decided to use the target marketing strategy and better marketing mix decisions increased its share of purchases from 50 to 60 percent—without increasing costs—what would happen to total profit? What does this analysis suggest about the importance of marketing managers knowing enough about their target markets to be effective target marketers?*

For additional questions related to this problem, see Exercise 2-4 in the *Learning Aid for Use with Basic Marketing,* 14th edition.