When You Finish This Chapter, You Should

1. Know the content of and differences among strategies, marketing plans, and a marketing program.

2. Understand, in detail, all of the elements of the marketing strategy planning process and the strategy decisions for the four Ps.

3. Understand why the product classes and typical mixes should be considered when developing a marketing plan.

4. Understand ways the marketing strategy and marketing plan is likely to need to change at different stages of the product life cycle.

5. Understand the basic forecasting approaches and why they are used to evaluate the profitability of potential strategies.

6. Know what is involved in preparing a marketing plan, including estimates of costs and revenue and specification of other time-related details.

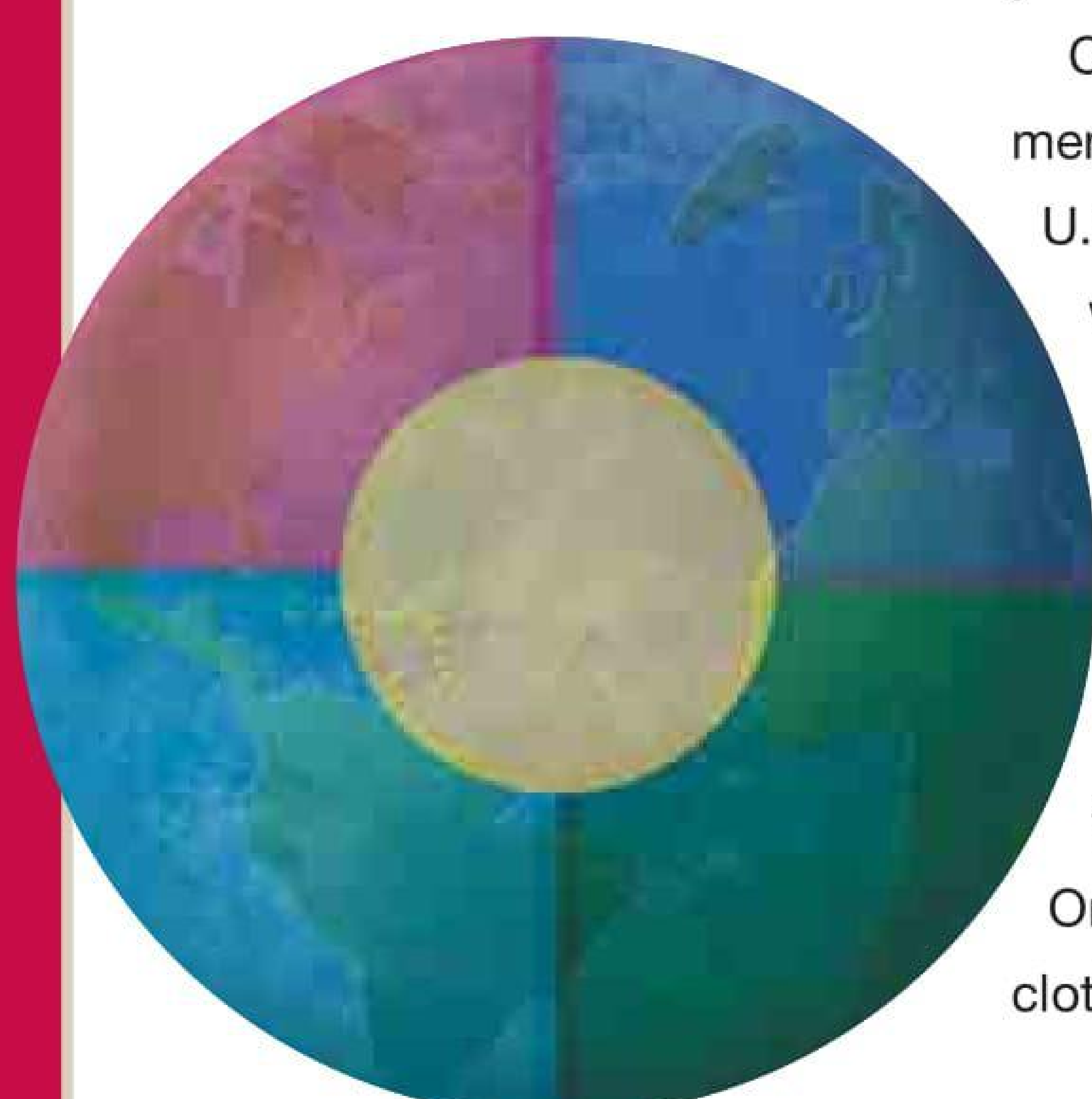
7. Understand the different ways a firm can plan to become involved in international marketing.

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

Chapter Twenty-One

Developing Innovative Marketing Plans

Marketing managers recently went through the marketing strategy planning process to develop an innovative plan that created profitable growth for Maytag by offering target customers superior value. Let's look at what they did. This case is longer than others we've covered—to help you review what is in a marketing plan and the process of creating one. As you read the case, relate it to the ideas you've studied throughout the text.



Changes in the external environment called for a new strategy. The U.S. Department of Energy (DOE) was considering new regulations to require that clothes washers use less water and energy. The U.S. uses three times as much water a day—1,300 gallons per person—as the average European country. One reason is that front-loading clothes washers have long been

place price promotion produc

standard in Europe. This is in part an economic issue. Front-loaders heat less water so less energy is used, and Europeans face steeper energy costs. There is also a cultural difference. North Americans are more convenience-oriented, but front-loaders make you stoop, they spill water on the floor, and you can't throw in a stray sock during the wash cycle.

Maytag's R&D people thought that they could use technology to improve the design of a front-loading washer to make it more convenient and to conserve water and energy as well. With inputs from marketers about broader needs in the clothes care product-market they looked at needs beyond just cleaning. It appeared that a consumer-oriented design could improve basic benefits like easier loading and gentler care of fabrics.

Competitors were also on the move. Frigidaire came out with a front-load unit just in time to be the only one tested for a *Consumer Reports* article. It tested well on cleaning, but Maytag thought it fell short in improving other customer benefits. GE was further behind in working on a front-loader. But these were strong competitors, so if Maytag didn't move quickly they could get a lead.

Maytag formed a cross-functional new-product development team to quickly focus the effort. It screened various product ideas and strategies on criteria such as potential for superior customer value, initial costs, long-term growth, social responsibility, and profitability. Using nearly 40 pieces of consumer research, the team refined what the strategy might be and what it would cost.

S.W.O.T. analysis showed that Maytag's advantages included a strong dealer network, the technical skills to develop the product, and the financial resources to do it. Major threats were mainly related to competitors' efforts and consumers' prior attitudes about front-loading machines. Addressing those threats would take informing and real persuading.

Market segmentation helped to narrow down to a target market. Various segments could be identified. For example, there was a homogeneous business market. It consisted of owners of coin-operated laundries who were mainly interested in operating costs and attracting customers. Consumer segments were more varied. Relevant needs focused on cleaning, removing stains, caring for fabric, and saving water or energy. Some people just wanted less hassle on wash days and a care-free washer. Maytag decided not to target just the segment that conserved energy; that was not a qualifying dimension. Instead they combined several segments into a larger target market. The main qualifying dimension was the ability to pay for a dependable washer that provided superior cleaning. Determining dimensions were interests in saving time, hassle, and expense while getting better results.

The design of the washing machine evolved from target consumers' needs, so it is different from most washers. The stainless steel tub tilts at a 15-degree angle, which improves visibility and reach. Cutting out the normal agitator increases load capacity by about a third while decreasing damage to clothes. It also increases access space for bulky items and makes loading and unloading easier. Fins inside lift the clothes and then plop them back in the shallow basin of water. This eliminates spills because the water level is below the door. In fact, it uses half the water and energy of regular machines but removes tough stains better. As Maytag's design progressed, consumer tests showed that consumers liked the unique benefits and were willing to pay for them. Financial analysis of the marketing plan for this new product indicated that it could meet Maytag's objectives, so Maytag invested the money to put the plan into action.

The new product needed a memorable brand name—Neptune. The existing marketing program positioned Maytag as "the dependability people," so the plan called for a strategy that would build on that base but also position the new product as really new and superior—as "the washer for the new millennium."

The plan specified a warranty that would signal real dependability to consumers. It called for a 10-year warranty on the drive motor or rust damage and for lifetime coverage on the stainless steel wash basket.

Coverage of other parts was two years, and a year on labor. The plan also specified a way to further differentiate Neptune with an unprecedented level of after-sale support. Neptune buyers would get Priority One Service that offers dedicated toll-free assistance and priority scheduling should any in-home calls be required. The plan also got down to details: The easy-to-remember toll-free number is 888-4-MAYTAG.

In stores, the washer is displayed out of the carton, so the plan focused on a package designed to protect the product during handling and, by using bar codes and clear model labels, make logistics in the channel more efficient. But the thrust of the packaging was to protect, not promote.

While our focus here is on the washer, the plan also considered product-line issues. It called for a matching dryer designed so that the length of wash and dry cycles would be virtually the same. This means that a user can move load after load from washer to dryer without the waiting that's typical with conventional laundry pairs. What's more, the dryer handles Neptune's extra large loads with ease and uses the same angled styling—so transferring a load to the dryer is easier than ever.

To reduce start-up costs and keep the effort focused, the initial plan called for only one model of the Neptune washer. However, a full-sized stacked version of a combination washer/dryer was planned for later.

The plan called for a national rollout using Maytag's established dealers. Making a product available in so many places at once added difficulties, but it was consistent with the plan of using national promotion to give the product a big introduction.

To help coordinate efforts in the channel, Maytag released stories in *Merchandiser*, a magazine it publishes for dealers. As channel captain, Maytag kept dealers informed about the specific timing of the program, including when stock would be available. Maytag salespeople got dealers' orders and helped them to plan their own strategies.

The plan anticipated that product availability could be a constraint if the introduction went extremely well. So dealers could participate in a program that allowed consumers to reserve one of the early units off the production line. This preselling activity improved inventory management, reduced stock-outs, and got sales early in the program.

Even with these efforts at coordination, the promotion portion of the plan was developed recognizing that some independent dealers were skeptical about carrying and promoting a premium-price front-loader. So the plan called for a mix of push and pull promotion.

Details of promotion planning was handled as a team effort by Maytag and Leo Burnett, its Chicago agency. The plan called for integrated marketing communications. To make it easy for the sales force, dealers, customers, and potential customers to remember all of Neptune's benefits, the promotion effort consistently focused on Neptune's four Cs—Cleaning, Convenience, Clothes Care, and Conservation. (You can probably figure out where a group of marketing folks got the idea of using a catchy acronym like that.)

The plan relied on different promotion methods to emphasize different benefits and objectives. For example, much of the prerelease publicity focused on conservation of water, energy, and related costs. Then initial advertising focused on availability and cleaning benefits. The marketing plan also specified tests by independent laboratories so that there would be evidence to support claims of superiority.

The distinctive advantages of the Neptune offered a particularly good opportunity to use publicity to create broad awareness and generate interest. Thus, the plan set out an extensive set of public relations events, including a glitzy media launch at New York's Lincoln Center. It featured famous TV moms talking about the Maytag washer they used—followed by the introduction of the Neptune, "the washer for the next millennium." This garnered widespread media attention just a few weeks before the product launch.

The plan also laid out an attention-getting venture with the Department of Energy that involved benchmarking the water and energy usage of all of the washers in a small, water-starved town in Kansas and then replacing half of them with Neptune washers. The test showed that the Neptune produced savings of 39 percent in water usage and 58 percent in energy usage. Media coverage ranged from "NBC Nightly News" to the front page of *USA Today*.

An unknown new product calls for attention-getting advertising, and that is exactly what the plan specified. A big-budget TV commercial debuted at precisely the same moment on both CBS and NBC and then was scheduled for frequent repetitions over the next three months. The ad features Maytag's Lonely Repairman out for a late-night walk with his dog. Ol' Lonely spills a cupful of coffee down his front when the pooch starts racing in circles. You see why when a spaceship appears overhead, beaming down a Neptune washer and three happy little aliens. In a flash, they strip the coffee-stained uniform off Ol' Lonely and throw it in the washer. Following a demo of the washer's tumbling action, the now-spotless uniform reappears on the famous repairman. As the Neptunians depart in their spaceship, Ol' Lonely says, "They're never gonna believe this. A washer that removes stains."

The plan also called for promotion support for dealers. For example, to attract attention Maytag dealers received 20-foot-high balloons that looked like Ol' Lonely to put on top of their stores, as well as in-store banners, posters, and brochures.

Maytag didn't miss the opportunity to plan interactive marketing communications. At the website (www.maytag.com) consumers could see pictures and read about the benefits of the Neptune. A website visitor who was ready to buy could even reserve a Neptune that would be delivered by the local dealer or use an interactive dealer locator to find a store.

The plan didn't ignore the coin-laundry segment. The website featured a special section on how the Neptune could help improve profits for those firms. It went into detail about savings on energy, water, and sewer costs, as well as technical matters related to maintenance.

Of course, the plan called for dealers to pitch in with some promotion efforts of their own, such as setting up displays to demo the Neptune in action. Dealers were required to correctly and attractively display point-of-purchase materials. And salespeople were brought up-to-speed about Neptune's four Cs so they could explain its benefit and help customers determine if it met their needs.

The plan called for an initial suggested list price of $1,099, which was high relative to most washers. The washer-dryer combination was about $1,700. Some dealers, however, cut that price because the plan allowed dealers a higher than normal dollar profit.

The plan anticipated that Frigidaire and GE might cut prices when faced with competition (and in fact that later happened). However, Maytag stuck with its planned higher price because many consumers viewed its design as offering a better value. Further, the plan provided information to help salespeople reduce price sensitivity by reminding consumers that water and energy savings from the Neptune are about $100 a year, so it pays for itself in 10 years.

The plan did not include use of rebates, but some utility companies offered rebates to customers who purchased a Neptune. For example, one water company handed out 1,500 rebates of $50 each. It figures that those Neptunes save 18,000 gallons of water a day.

With the plan finally in operation, Neptunes flew off the dealers' floors and truckload orders began rolling in. This caused some implementation problems, but Maytag production workers went into overdrive and moved Neptunes off the loading docks around the clock. Swiftly, new tooling was installed to raise plant production rates.

As this product-market moves along in the growth stage, competition could get tough. So far, however, Maytag marketers have developed creative strategies and thorough plans that have stimulated growth in sales and profit. And along the way, they've helped raise the social responsibility bar on conservation.[1]

Marketing Planning Process Is More than Assembling the Four Ps

The Maytag case shows that developing a successful marketing plan is a creative process. But it is also a logical process. And the logic that leads to a sound strategy may need to change as the market environment and target customers change.

Even so, the strategy planning process is guided by basic principles. The marketing concept emphasizes that all of a firm's activities should focus on its target markets. Further, a firm should try to find a competitive advantage in meeting the needs of some target market(s) that it can satisfy very well. If it can do that, it provides target customers with superior value. The target market(s) should be large enough to support the firm's efforts and yield a profit. And ideally, the strategy should take advantage of trends in the external market, not buck them.

As we explained in Chapter 3, the marketing strategy planning process involves narrowing down from a broad set of possible marketing opportunities to a specific strategy the firm will pursue. A marketing *strategy* consists of a target market and a marketing mix; it specifies what a firm will do in some target market. A marketing *plan* includes the time-related details—including expected costs and revenues—for that strategy. In most firms, the marketing manager must ultimately combine the different marketing plans into an overall marketing *program*.

3M plans and develops different marketing mixes—including different products, promotion, and pricing—for different target markets around the world.

We'll start with a review of the many variables that must be considered in the marketing strategy planning process. You'll recognize that most of these are highlighted in the Maytag case. Next we'll look at some of the key ways a marketing manager can identify the right blend of the marketing mix for an innovative strategy. Then we'll discuss how these ideas come together in a marketing plan.

We'll also discuss ways to forecast target market potential and sales, which is important not only in evaluating opportunities but also in developing the time-related details for a plan. Of course, plans must ultimately be blended into an overall program—and we'll suggest ways to approach that task. Planning strategies for international markets presents some special challenges, so we'll conclude the chapter by describing the different ways a marketer can address these challenges.

Blending the Four Ps Takes Understanding of a Target Market

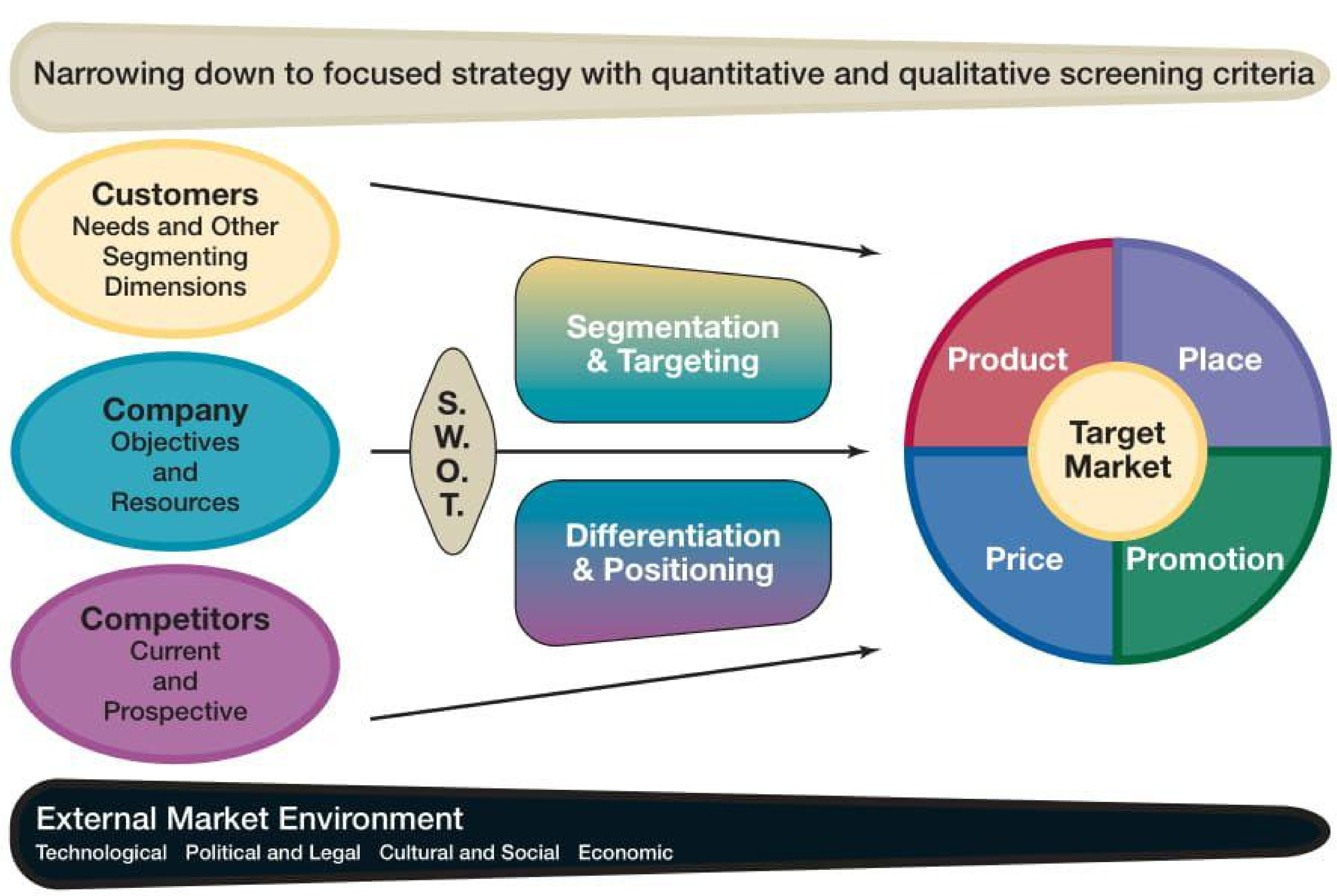
Marketing strategy planning process brings focus to efforts

Developing a good marketing strategy and turning the strategy into a marketing plan requires blending the ideas we've discussed throughout this text. Exhibit 21-1 provides a broad overview of the major areas we've been talking about. You've seen this before in Chapter 3—before you learned what's really involved in each idea. Now we must integrate ideas about these different areas to narrow down to logical marketing mixes, marketing strategies, marketing plans—and a marketing program.

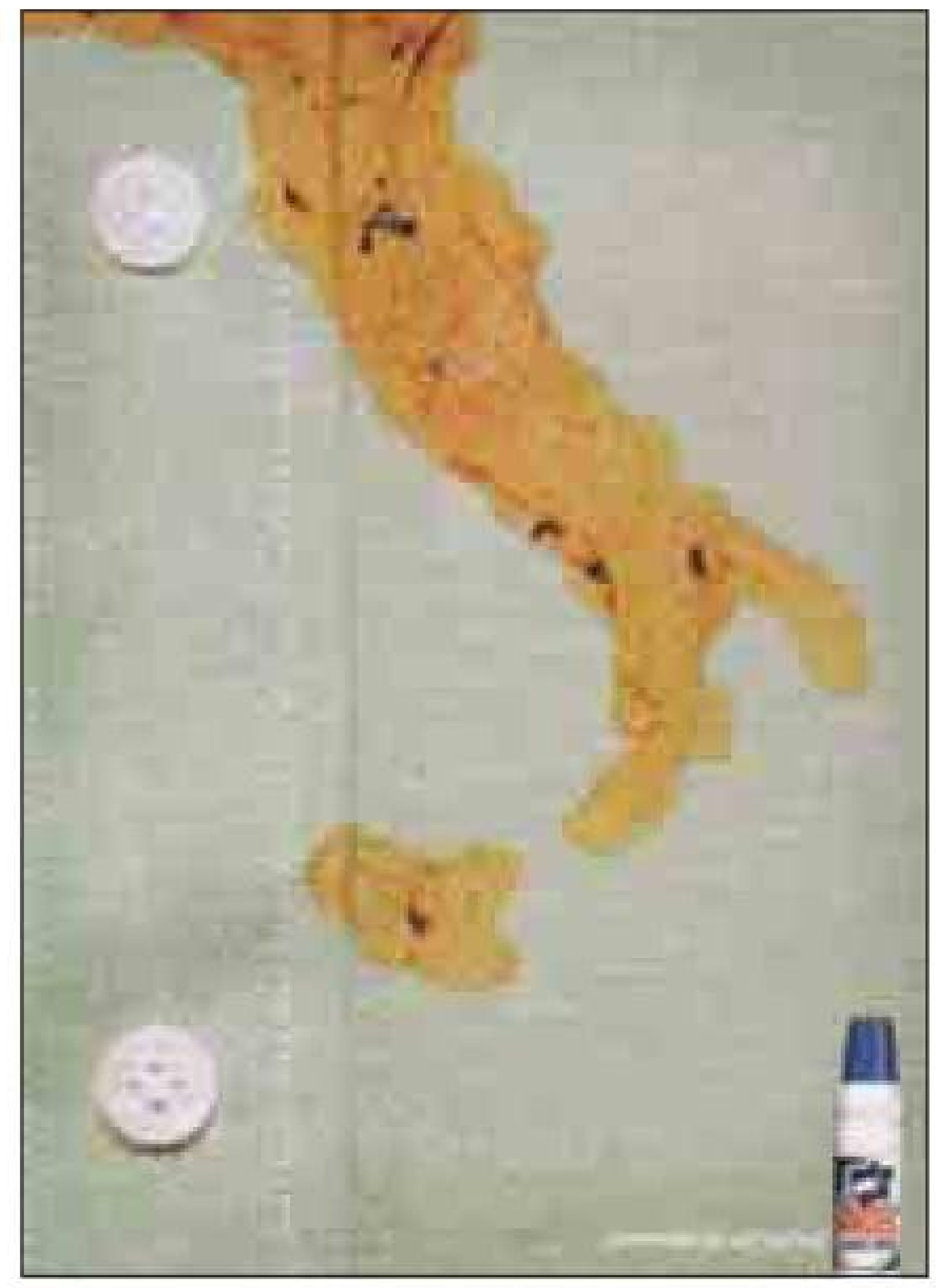
As suggested in Exhibit 21-1, developing an effective marketing strategy involves a process of narrowing down to a specific target market and marketing mix that represents a real opportunity. This narrowing-down process requires a thorough understanding of the market. That understanding is enhanced by careful analysis of customers' needs, current or prospective competitors, and the firm's own objectives and resources. Similarly, favorable or unfavorable factors and trends in the external market environment may make a potential opportunity more or less attractive.

There are usually more different strategy possibilities than a firm can pursue. Each possible strategy usually has a number of different potential advantages and disadvantages. This can make it difficult to zero in on the best target market and marketing mix. However, as we discussed in Chapter 4, developing a set of specific

Exhibit 21-1
Overview of Marketing Strategy Planning Process



Marketers for Ariel stain remover realized that people who travel have special needs, so they developed a travel-size package and advertising that clearly communicated their "wherever you get a stain" positioning.



qualitative and quantitative screening criteria—to define what business and markets the firm wants to compete in—can help eliminate potential strategies that are not well suited for the firm.

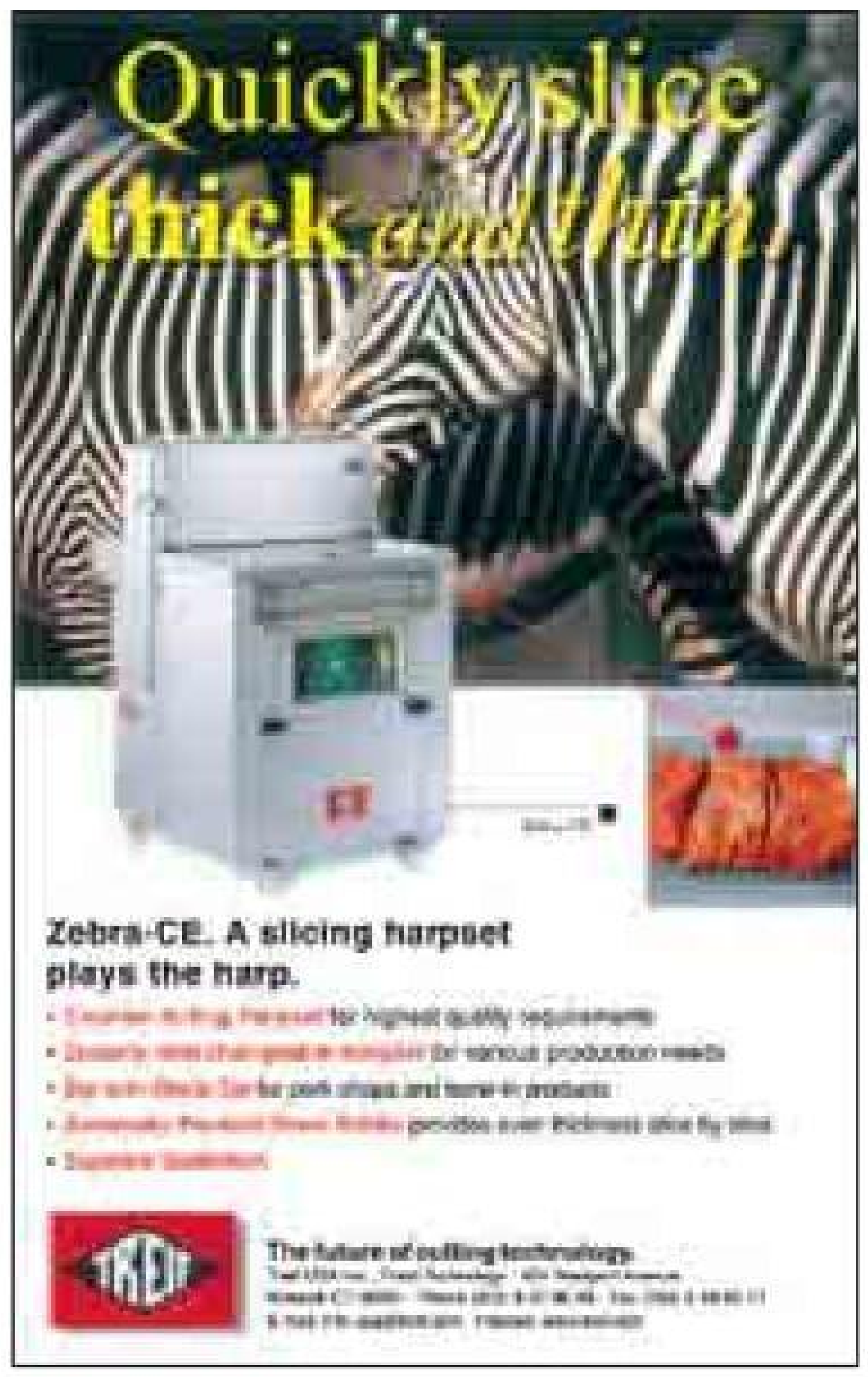
Another useful aid for zeroing in on a feasible strategy is **S.W.O.T. analysis**—which identifies and lists the firm's *s*trengths and *w*eaknesses and its *o*pportunities and *t*hreats. A good S.W.O.T. analysis helps the manager focus on a strategy that takes advantage of the firm's opportunities and strengths while avoiding its weaknesses and threats to its success. These can be compared with the pros and cons of strategies that are considered. For example, if a firm is considering a strategy that focuses on a target market that is already being served by several strong competitors, success will usually hinge on some sort of competitive advantage. Such a competitive advantage might be based on a better marketing mix—perhaps an innovative new product, improved distribution, more effective promotion, or a better price. Just offering a marketing mix that is like what is available from competitors usually doesn't provide superior value—or any real basis for the firm to position or differentiate its marketing mix as better for customers.

Marketing mix flows from target market dimensions

Ideally, the ingredients of a good marketing mix flow logically from all the relevant dimensions of a target market. The market definition and segmenting approaches we discussed in Chapter 3 help the marketing manager identify which dimensions are qualifying and which are determining in customers' choices.

Product benefits must match needs. If and how customers search for information helps to define the promotion blend. Demographic dimensions reveal where customers are located and if they have the income to buy. Where customers shop for or buy products helps define channel alternatives. The value of the whole marketing mix and the urgency of customer needs, combined with an understanding of what customers see as substitute ways of meeting needs, help companies estimate price sensitivity.

It would seem that if we fully understand the needs and attitudes of a target market, then combining the four Ps should be easy. Yet there are three important gaps in this line of reasoning. (1) We don't always know as much as we would like to about the needs and attitudes of our target markets. (2) Competitors are also trying to satisfy these or similar needs—and their efforts may force a firm to shift its



Treif's marketing mix, targeted at firms that process meat, includes this ad for its high-quality slicing equipment, which uses the brand name Zebra-CE. The brand name and the picture of zebras with thick and thin stripes are intended to highlight the thick and thin cutting technology of the equipment but a potential customer might miss the point and instead be distracted with thoughts of sliced zebra meat.

marketing mix. (3) The other dimensions of the marketing environment may be changing—which may require more changes in marketing mixes. These points warrant further consideration.

Product classes suggest typical marketing mixes

Even if you don't or can't know all you would like to about a potential target market, you usually know enough to decide whether the product is a consumer product or a business product and which product class is most relevant (Exhibit 9-3 summarizes the consumer product classes, and Exhibit 9-4 summarizes the business product classes).

Identifying the proper product class helps because it suggests how a typical product should be distributed and promoted. So if you don't know as much as you'd like about potential customers' needs and attitudes, at least knowing how *they* would view the company's product can give you a head start on developing a marketing mix. A convenience product, for example, usually needs more intensive distribution, and the producer usually takes on more responsibility for promotion. A specialty product needs a clear brand identity—which may require a more extensive positioning effort. A new unsought product, like Maytag's front-load Neptune washing machine, will need a mix that leads customers through the adoption process.

It's reassuring to see that product classes do summarize some of what you would like to know about target markets and what marketing mixes are relevant. After all, knowing what others have done in similar situations can serve as a guide to get started. From that base you may see a better way to meet needs that is *not* typical and that provides a competitive advantage.

Typical is not necessarily right

The typical marketing mix for a given product class is not necessarily right for all situations. To the contrary, some marketing mixes are profitable because they depart from the typical—to satisfy some target markets better.

A marketing manager may have to develop a mix that is *not* typical because of various market realities—including special characteristics of the product or target market, the competitive environment, and each firm's capabilities and limitations. In fact, it is often through differentiation of the firm's product and/or other elements of the marketing mix that the marketing manager can offer target customers unique value.

Local Drugstore Delivers a Lifeline to Remote Customers

Stadtlanders Pharmacy was founded in 1930. Until the early 1990s, it was a typical old-fashioned drugstore with a soda fountain. But competition got tough. The growth of giant retail drug chains, like Walgreens and CVS, was eating into profits. Adding nondrug products didn't help much because of competition from mass-merchandisers like Wal-Mart and Kmart. So Stadtlanders developed a new strategy. By focusing on the needs of a specific target market and doing what was *not* typical for a drugstore, Stadtlanders became a huge success. Within a decade it became a $400 million mail-order drug company distributing 4,000 different drugs. By the time the big drug chains realized what it had done, it was tough for them to compete. In fact, the top management at CVS recently decided it would be cheaper to buy Stadtlanders and turn it into a division of CVS rather than to try to do the same thing from scratch.

Stadtlanders started down the path to a new strategy in a not-so-unusual way—providing a little extra customer service. A kidney-transplant patient needed some hard-to-get medicine used to prevent organ rejection. Stadtlanders found a source of the expensive new drug and then extended credit to the customer while she waited for her insurance company to pay. As word spread, other customers and insurers contacted the firm for help. Seeing the opportunity, Stadtlanders created a new strategy to serve this target market. Many of its patients suffer from long-term problems, including AIDS and diabetes, that are extremely expensive to treat.

Stadtlanders was one of the early firms to use mail-order to reach a larger market and squeeze costs out of the traditional health care channels. It added conveniences like toll-free lines with pharmacists available 24/7 to answer questions, and its computerized medication profiles on each home-delivery customer helped in providing guidance. It also added special services, like consulting on complicated insurance reimbursements. By the time Stadtlanders was purchased by CVS, it was shipping medicine and nutrition information to more than 70,000 patients a year and filling more than a million prescriptions.[2]

www.mhhe.com/fourps

Superior mixes may be breakthrough opportunities

When marketing managers fully understand their target markets, they may be able to develop marketing mixes that are superior to competitors' mixes. Such understanding may provide breakthrough opportunities. Taking advantage of these opportunities can lead to large sales and profitable growth. This is why we stress the importance of looking for breakthrough opportunities rather than just trying to imitate competitors' offerings.

Loctite Corporation, a producer of industrial supplies, used careful strategy planning to launch Quick Metal—a puttylike adhesive for repairing worn machine parts. Loctite chemists had developed similar products in the past. But managers paid little attention to developing a *complete marketing strategy*—and sales had been poor.

Before creating Quick Metal, Loctite identified some attractive target customers. Research showed that production people were eager to try any product that helped get broken machines back into production. Quick Metal was developed to meet the needs of this target market. Ads appealed to such needs with copy promising that Quick Metal "keeps machinery running until the new parts arrive." Channel members also received attention. During the introduction stage, sales reps made frequent phone calls and sales visits to the nearly 700 wholesalers who handle Loctite products. Loctite awarded cash prizes to those selling the most Quick Metal.

A tube of Quick Metal was priced at $17.75—about twice the price (and profit margin) of competing products. But Loctite's customers weren't concerned about price. They responded to a quality product that could keep their production lines operating.

Based on past experience, some industry experts estimated that a typical product for this market might reach sales of $300,000 a year. But Loctite didn't rely on a typical strategy. Instead the company offered a carefully targeted marketing mix to meet the needs of a *specific* target market. It sold 100,000 tubes the first week—and within seven months sales exceeded $2.2 million. Loctite's careful planning paid off in an immediate market success and high profits.[3]

Exhibit 21-2
Strategy Decision Areas Organized by the Four Ps

Product	Place	Promotion	Price
Physical good Service Features Benefits Quality level Accessories Installation Instructions Warranty Product lines Packaging Branding	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	Objectives Promotion blend Salespeople Kind Number Selection Training Motivation Advertising Targets Kinds of ads Media type Copy thrust Prepared by whom Sales promotion Publicity	Objectives Flexibility Level over product life cycle Geographic terms Discounts Allowances

Inferior mixes are easy to reject

Just as some mixes are superior, some mixes are clearly inferior—or unsuitable. For example, a national TV advertising campaign might make sense for a large company like Maytag—but it could quickly be screened out by a small firm that only has the resources to put a web page on the Internet and perhaps get some help from manufacturers' agents.

Marketing manager must blend the four Ps

Exhibit 21-2 reviews the major marketing strategy decision areas organized by the four Ps. Each of these requires careful decision making. Yet marketing planning involves much more than just independent decisions and assembling the parts into a marketing mix. The four Ps must be creatively *blended*—so the firm develops the best mix for its target market. In other words, each decision must work well with all of the others to make a logical whole.

Throughout the text, we've given the job of integrating the four Ps strategy decisions to the marketing manager. The title of that person might vary, but now you should see the need for this integrating role. It is easy for specialists to focus on their own areas and expect the rest of the company to work for or around them.

Bounty can probably get a reasonably good forecast of sales for its improved paper towels based on experience with similar products that it already sells. By contrast, satellite navigation is a newer concept and it will probably be more difficult for Garmin to accurately forecast how quickly sales for its new eTrex product will grow.

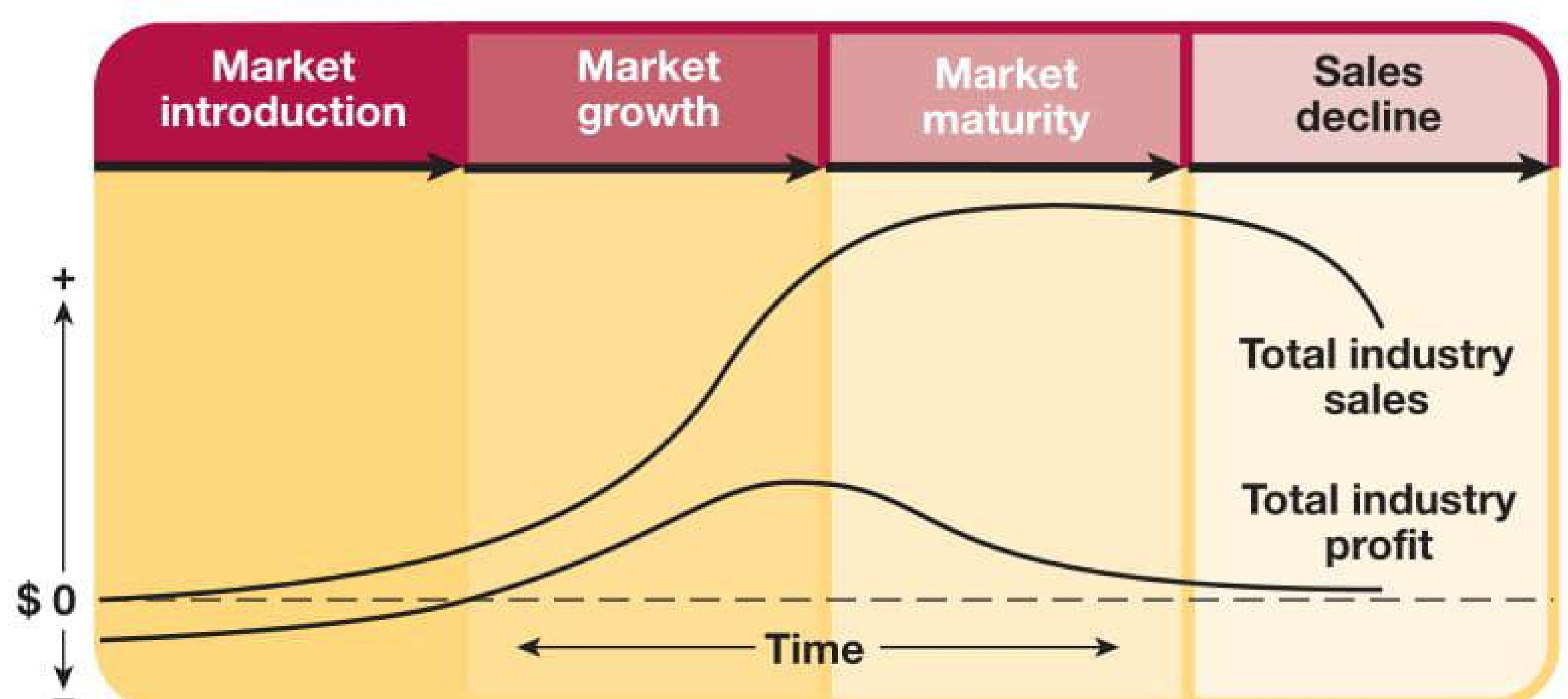
This is especially true in larger firms like Maytag—where specialists are needed—just because the size of the whole marketing job is too big for one person. Yet the ideas of the product manager, the advertising manager, the sales manager, the logistics manager, and whoever makes pricing decisions may have to be adjusted to improve the whole mix. It's critical that each marketing mix decision work well with all of the others. A breakdown in any one decision area may doom the whole strategy to failure.

Product life cycle guides planning

Careful consideration of where a firm's offering fits in the product life cycle can also be a big help in evaluating the best marketing mix. We introduced Exhibit 21-3 in Chapter 10 to summarize how marketing mix variables typically change over the product life cycle. Now you can see that this exhibit is a good review of many topics we've discussed throughout the text. Certainly, the pioneering effort required for a really new product concept is different from the job of taking market share away from an established competitor late in the market growth stage.

Further, when you're thinking about the product life cycle don't forget that markets change continually. This means you must plan strategies that can adjust to changing conditions. The original marketing plan for a new marketing strategy

Exhibit 21-3
Typical Changes in Marketing Variables over the Product Life Cycle



	Market introduction	Market growth	Market maturity	Sales decline
Competitive situation	Monopoly or monopolistic competition	Monopolistic competition or oligopoly	Monopolistic competition or oligopoly heading toward pure competition →	→
Product	One or few	Variety—try to find best product Build brand familiarity	All "same" Battle of brands	Some drop out
Place	Build channels Maybe selective distribution →	→ Move toward more intensive distribution →		
Promotion	Build primary demand Pioneering-informing	Build selective demand → Informing/Persuading → Persuading/Reminding (frantically competitive)		
Price	Skimming or penetration	Meet competition (especially in oligopoly) → or Price dealing and price cutting →		

may even include details about what adjustments in the marketing mix or target market will be required as the nature of competition and the adoption process evolve.[4]

Forecasting Target Market Potential and Sales

Effective strategy planning and developing a marketing plan require estimates of future sales, costs, and profits. Without such information, it's hard to know if a strategy is potentially profitable.

The marketing manager's estimates of sales, costs, and profits are usually based on a forecast (estimate) of target **market potential**—what a whole market segment might buy—and a **sales forecast**—an estimate of how much an industry or firm hopes to sell to a market segment. Usually we must first try to judge market potential before we can estimate what share a particular firm may be able to win with its particular marketing mix.

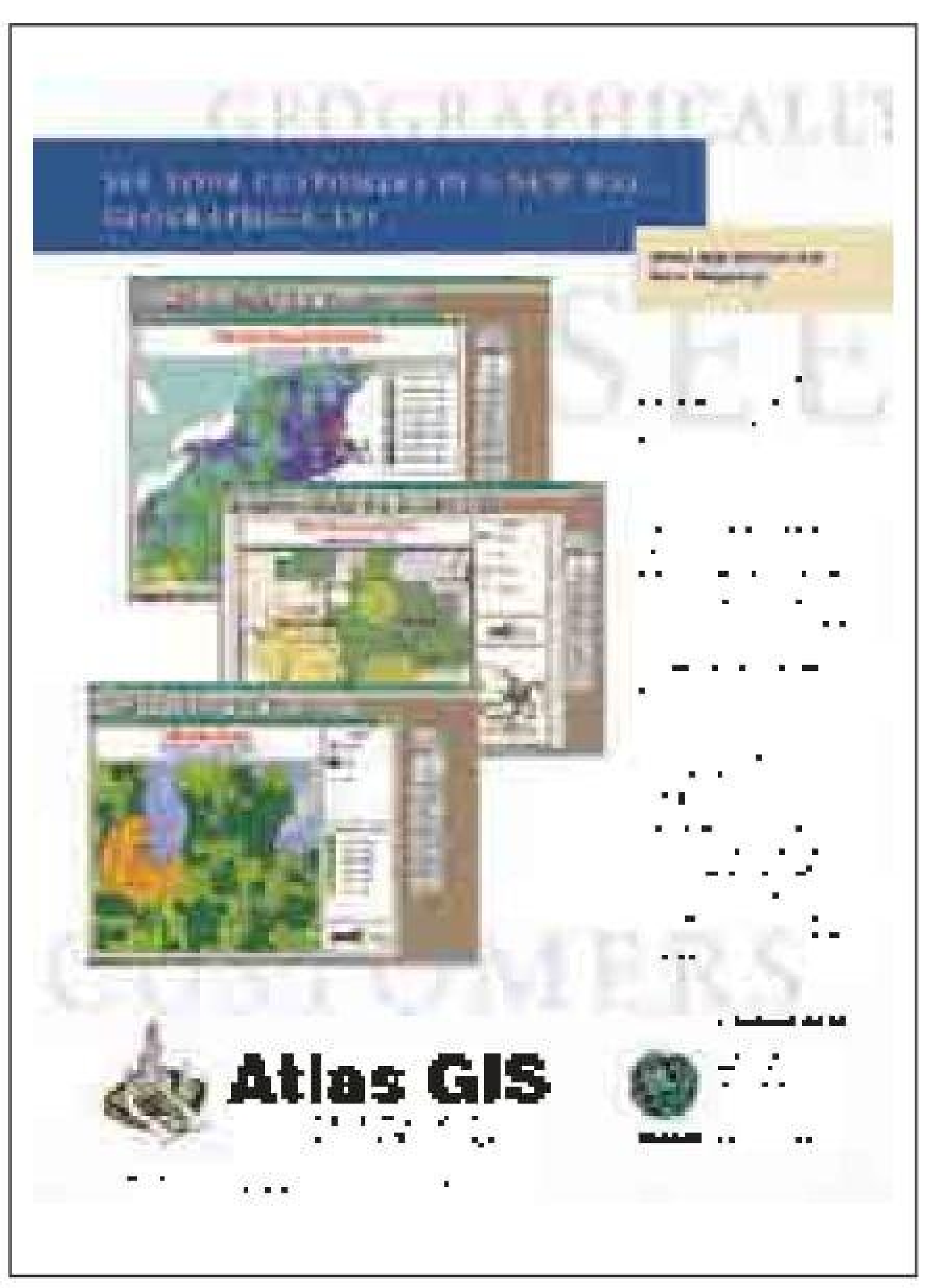
Three levels of forecasts are useful

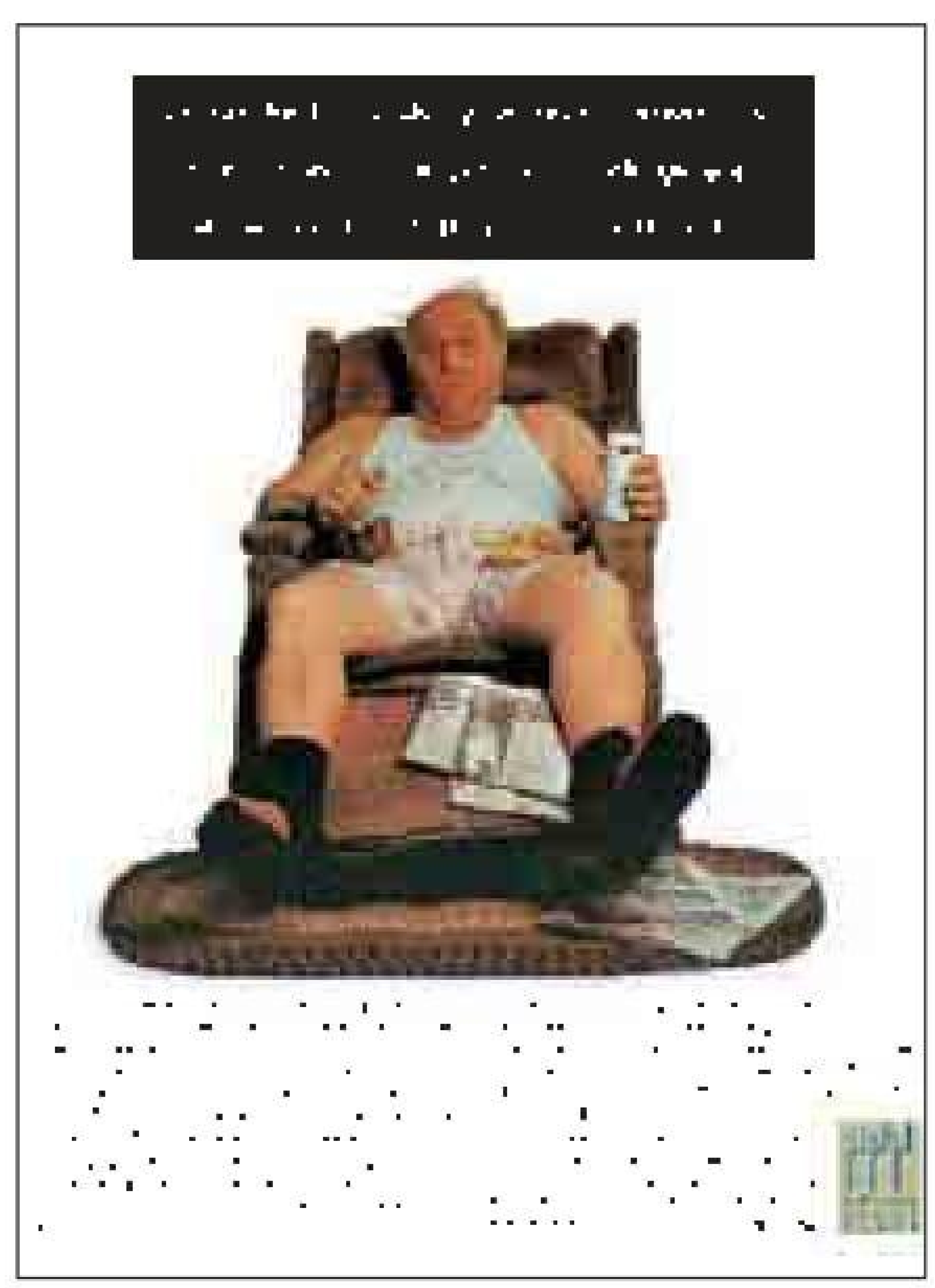
We're interested in forecasting the potential in specific market segments. To do this, it helps to make three levels of forecasts.

Some economic conditions affect the entire global economy. Others may influence only one country or a particular industry. And some may affect only one company or one product's sales potential. For this reason, a common top-down approach to forecasting is to

1. Develop a *national income forecast* (for each country in which the firm operates) and use this to
2. Develop an *industry sales forecast*, which then is used to
3. Develop forecasts for a *specific company*, its *specific products*, and the *segments* it targets.

A number of firms—including ESRI and Third Wave Research Group—now offer marketers software or databases to help them more accurately forecast sales for specific market areas, products, or segments.





Generally, a marketing manager doesn't have to make forecasts for a national economy or the broad industry. This kind of forecasting—basically trend projecting—is a specialty in itself. Such forecasts are available in business and government publications, and large companies often have their own technical specialists. Managers can use just one source's forecast or combine several. Unfortunately, however, the more targeted the marketing manager's earlier segmenting efforts have been, the less likely that industry forecasts will match the firm's product-markets. So managers have to move directly to estimating potential for their own companies and for their specific products.

Two approaches to forecasting

Many methods are used to forecast market potential and sales, but they can all be grouped into two basic approaches: (1) extending past behavior and (2) predicting future behavior. The large number of methods may seem confusing at first, but this variety has an advantage. Forecasts are so important that managers often develop forecasts in two or three different ways and then compare the differences before preparing a final forecast.

Extending past behavior can miss important turning points

When we forecast for existing products, we usually have some past data to go on. The basic approach—called **trend extension**—extends past experience into the future. With existing products, for example, the past trend of actual sales may be extended into the future. See Exhibit 21-4.

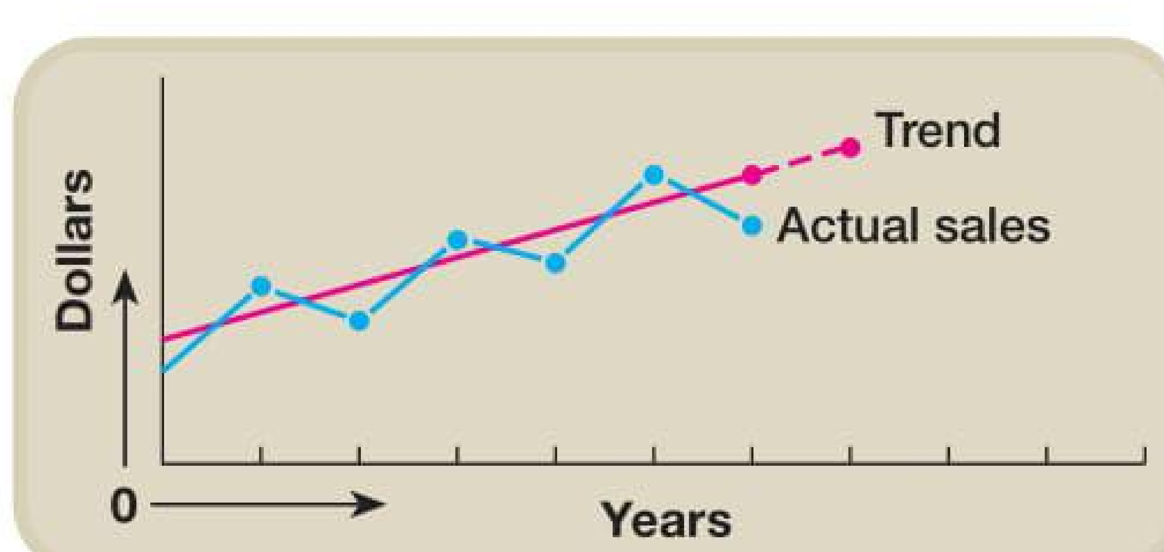
Ideally, when extending past sales behavior, we should decide why sales vary. This is the difficult and time-consuming part of sales forecasting. Usually we can gather a lot of data about the product or market or about changes in the marketing environment. But unless we know the *reason* for past sales variations, it's hard to predict in what direction, and by how much, sales will move. Graphing the data and statistical techniques—including correlation and regression analysis—can be useful here. (These techniques, which are beyond our scope, are discussed in beginning statistics courses.)

Once we know why sales vary, we can usually develop a specific forecast. Sales may be moving directly up as population grows in a specific market segment, for example. So we can just estimate how population is expected to grow and project the impact on sales.

The weakness of the trend extension method is that it assumes past conditions will continue unchanged into the future. In fact, the future isn't always like the past. An agent wholesaler's business may have been on a steady path, but the development of the Internet adds a totally new factor. The past trend for the agent's sales changed because the agent could quickly reach a broader market.

As another example, for years the trend in sales of disposable diapers moved closely with the number of new births. However, as the number of women in the workforce increased and as more women returned to jobs after babies were born, use of disposable diapers increased, and the trend changed. As in these examples, trend

Exhibit 21-4
Straight-Line Trend Projection—Extends Past Sales into the Future



extension estimates will be wrong whenever big changes occur. For this reason—although they may extend past behavior for one estimate—most managers look for another way to help them forecast sharp market changes.

Predicting future behavior takes judgment

When we try to predict what will happen in the future, instead of just extending the past, we have to use other methods and add more judgment. Some of these methods (to be discussed later) include juries of executive opinion, salespeople's estimates, surveys, panels, and market tests.

Forecasting Company and Product Sales by Extending Past Behavior

Past sales can be extended

At the very least, a marketing manager ought to know what the firm's present markets look like and what it has sold to them in the past. A detailed sales analysis for products and geographic areas helps to project future results.

Just extending past sales into the future may not seem like much of a forecasting method. But it's better than just assuming that next year's total sales will be the same as this year's.

Factor method includes more than time

A simple extension of past sales gives one forecast. But it's usually desirable to tie future sales to something more than the passage of time.

The factor method tries to do this. The **factor method** tries to forecast sales by finding a relation between the company's sales and some other factor (or factors). The basic formula is: something (past sales, industry sales, etc.) *times* some factor *equals* sales forecast. A **factor** is a variable that shows the relation of some other variable to the item being forecast. For instance, in our example above, both the birthrate and the number of working mothers are factors related to sales of disposable diapers.

A bread producer example

The following example—about a bread producer—shows how firms can make forecasts for many geographic market segments using the factor method and available data. This general approach can be useful for any firm—producer, wholesaler, or retailer.

Analysis of past sales relationships showed that the bread manufacturer regularly sold one-tenth of 1 percent (0.001) of the total retail food sales in its various target markets. This is a single factor. By using this single factor, a manager could estimate the producer's sales in a new market for the coming period by multiplying a forecast of expected retail food sales by 0.001.

Sales & Marketing Management magazine makes retail food sales estimates each year. Exhibit 21-5 shows the kind of geographically detailed data available.

Let's carry this bread example further—using the data in Exhibit 21-5 for the Denver, Colorado, metro area. Denver's food sales were $3,591,232,000 for the previous year. By simply accepting last year's food sales as an estimate of next year's sales and multiplying the food sales estimate for Denver by the 0.001 factor (the firm's usual share of food purchases in such markets), the manager would have an estimate of next year's bread sales in Denver. That is, last year's food sales estimate ($3,591,232,000) times 0.001 equals this year's bread sales estimate of $3,591,232.

Factor method can use several factors

The factor method is not limited to just one factor; several factors can be used together. For example, *Sales & Marketing Management* regularly gives a "buying power index" (BPI) as a measure of the potential in different geographic areas. See Exhibit 21-5. This index considers (1) the population in a market, (2) the retail sales in that market, and (3) income in that market. The BPI for the Denver,

Exhibit 21-5 Sample of Pages from *Sales & Marketing Management*'s Survey of Buying Power: Metro and County Totals

COLORADO CON'T	Population						Retail Sales by Store Group ($000)						Effective Buying Income					
METRO AREA		% of Population by Age Group													% of Hslds: by EBI Group			
County / City	Total Population (000s)	18–24	25–34	35–49	50 +	House-holds (000s)	Total Retail Sales	Food	Eating & Drinking Places	General Mdse.	Furniture/ Furnish. Appliance	Auto-motive	Total EBI ($000)	Median Hsld. EBI	A $20,000– $34.999	B $35,000– $49,999	C $50,000– & Over	Buying Power Index
COLORADO																		
BOULDER-LONGMONT	**260.2**	**12.2**	**17.3**	**27.9**	**19.2**	**103.6**	**2,999,501**	**525,192**	**432,303**	**304,860**	**182,133**	**660,874**	**5,024,497**	**39,919**	**21.3**	**18.0**	**38.1**	**.1163**
BOULDER	260.2	12.2	17.3	27.9	19.2	103.6	2,999,501	525,192	432,303	304,860	182,133	660,874	5,024,497	39,919	21.3	18.0	38.1	.1163
• Boulder	84.2	23.7	18.4	24.6	17.8	35.5	1,602,708	268,101	246,771	142,011	129,516	304,425	1,618,013	33,409	21.8	14.7	33.3	.0452
• Longmont	57.4	7.6	16.4	25.4	22.4	22.2	771,282	132,991	85,375	61,538	31,383	227,700	916,833	36,965	24.5	21.0	31.9	.0247
COLORADO SPRINGS	**476.8**	**10.1**	**17.2**	**24.4**	**20.1**	**178.3**	**4,883,063**	**703,957**	**557,021**	**685,402**	**279,106**	**1,170,529**	**6,624,809**	**30,020**	**28.4**	**19.4**	**22.4**	**.1747**
EL PASO	476.8	10.1	17.2	24.4	20.1	178.3	4,883,063	703,957	557,021	685,402	279,106	1,170,529	6,624,809	30,020	28.4	19.4	22.4	.1747
• Colorado Springs	331.6	9.2	17.9	24.7	20.8	132.3	4,560,947	661,538	475,447	624,435	272,996	1,141,550	4,793,827	29,398	27.8	18.7	22.2	.1379
DENVER	**1,880.2**	**7.5**	**17.0**	**27.0**	**22.1**	**756.1**	**19,355,163**	**3,591,232**	**2,546,761**	**2,243,175**	**1,399,533**	**4,898,564**	**33,489,662**	**36,606**	**23.3**	**19.4**	**32.9**	**.7783**
ADAMS	313.6	8.4	17.3	24.0	20.8	114.3	2,518,700	574,523	252,072	357,779	155,806	609,381	4,180,008	32,518	27.3	22.3	23.4	.1042
Thornton	70.7	8.0	19.0	26.4	13.3	24.6	642,216	203,950	63,444	104,042	14,744	170,337	954,782	36,563	26.6	25.2	27.5	.0246
Westminster	97.2	8.4	20.1	27.5	14.1	36.3	842,545	144,824	80,403	233,108	81,905	143,178	1,563,416	39,286	24.6	24.1	33.4	.0363
ARAPAHOE	458.7	7.3	16.9	28.7	19.8	183.8	6,560,505	1,049,222	575,350	668,476	465,750	2,418,123	9,187,206	40,923	22.6	19.8	38.7	.2245
Aurora	255.8	8.2	19.3	27.4	17.0	104.5	2,959,057	613,693	308,304	373,495	264,448	769,394	4,284,060	36,665	25.9	22.3	30.4	.1066
DENVER	499.5	8.3	18.0	24.3	27.0	228.4	4,075,124	740,723	918,989	222,440	322,954	616,803	8,397,781	27,458	25.3	16.3	22.2	.1878
• Denver	499.5	8.3	18.0	24.4	26.9	228.4	4,075,124	740,723	918,989	222,440	322,954	616,803	8,397,781	27,458	25.3	16.3	22.2	.1878
DOUGLAS	112.3	4.7	17.2	32.3	14.9	39.3	752,159	163,177	93,281	140,967	63,492	83,206	2,447,689	54,826	14.3	19.3	57.6	.0469
JEFFERSON	496.1	7.1	16.0	28.8	21.6	190.3	5,448,675	1,063,587	707,069	853,513	391,531	1,171,051	9,276,978	43,093	21.1	21.3	40.5	.2149
Arvada	97.0	7.4	14.8	28.1	22.3	36.2	796,133	238,354	102,088	170,176	49,836	27,179	1,655,557	42,897	21.1	22.0	39.5	.0368
Lakewood	123.7	8.7	16.7	26.1	26.2	51.2	1,723,111	229,333	232,966	211,165	130,278	527,661	2,259,951	37,695	25.0	21.1	33.0	.0574
***DENVER-BOULDER-GREELEY* CONSOLIDATED AREA . .**	**2,292.9**	**8.3**	**17.0**	**26.8**	**21.8**	**914.6**	**23,486,046**	**4,301,572**	**3,097,926**	**2,738,836**	**1,638,229**	**5,864,367**	**40,369,337**	**36,332**	**23.3**	**19.2**	**32.7**	**.9421**

Colorado, metro area, for example, is 0.7783—that is, Denver accounts for 0.7783 percent of the total U.S. buying power. This means that consumers who live in Denver have higher than average buying power. We know this because Denver accounts for about 0.6681 percent of the U.S. population. We can calculate this figure by using Denver's total population of 1,880,200 (in Exhibit 21-5) and dividing it by the total population of the U.S.—281,422,000 (in Exhibit 5-2). So the people in Denver have buying power that is about 16 percent higher than average.

Using several factors rather than only one uses more information. And in the case of the BPI, it gives a single measure of a market's potential. Rather than falling back on using population only, or income only, or trying to develop a special index, the BPI can be used in the same way that we used the 0.001 factor in the bread example.

Internet

Internet Exercise The Survey of Buying Power has an online site that is available on a pay-for-use basis. However, a sample section is available without charge. Go to the website (www.mysbp.com) and select *Reports and Maps,* and then select *Samples*. Look at the *Income Trend Report* (and others if you wish). How would this information be helpful to a retail chain that is considering a new facility for this sample market?

Producers of business products can use several factors too

Exhibit 21-6 shows how a marketing manager for a firm that makes corrugated fiber boxes used several factors to estimate the sales potential in a particular geographic area. The manager started with trade association data on the value of shipments (sales) by all fiber box suppliers to firms in particular industries (column 1). The trade association estimates were for the *national* market. Note, however, that they were grouped by North American Industry Classification System (NAICS) industry groups. As we discussed in Chapter 7, data on business markets is often organized by NAICS codes. That makes it possible to combine different types of data, which is what the manager did here.

Exhibit 21-6 Estimated Market for Corrugated and Solid Fiber Boxes for Industry Groups, Phoenix, Arizona, Metropolitan Statistical Area

		National Data			Maricopa County	
NAICS Code	Major Industry Group	(1) Value of Box Shipments by End Use ($000)*	(2) Employment by Industry Group	(3) Value of Shipments per Employee by Industry Group (1 ÷ 2) ($)	(4) Employment by Industry Group	(5) Estimated Sales in This Market (3 × 4) ($000)
311	Food and kindred products	$586,164	1,578,305	$371	4,973	$1,845
337	Furniture and fixtures	89,341	364,166	245	616	151
327	Stone, clay, and glass products	226,621	548,058	413	1,612	666
331	Primary metal industries	19,611	1,168,110	16	2,889	46
332	Fabricated metal products	130,743	1,062,096	123	2,422	298
333	Machinery (except electrical)	58,834	1,445,558	40	5,568	228
335	Electrical machinery equipment, and supplies	119,848	1,405,382	85	6,502	553
					Total	$3,787

*Based on data reported in *Fiber Box Industry Statistics,* Fiber Box Association.

Specifically, the manager divided the trade association estimates by government data on the number of people employed in each industry NAICS group (column 2). The result, shown in column 3, is simply an estimate of the value of boxes used per employee in each industry group. For example, furniture and fixture manufacturers buy an average of $245 worth of boxes per employee.

Then the manager multiplied the value per employee number by the number of people employed in each industry group in the target county (column 4). This results in an estimate of the market potential for each industry group (column 5) in that county. For example, since there are 616 people in this county who work in furniture and fixture companies, the sales potential in that industry is only about $151,000 (616 employees × $245 per employee). The sum of the estimates for specific industries is the total market potential in that county.

A firm thinking of going into that market would have to estimate the share it could get with its own marketing mix in order to determine its sales forecast. This approach could be used county by county to estimate the potential in many geographic target markets. It could also aid management's control job. If the firm is already in this industry, it can compare its actual sales (by NAICS code) with the potential to see how it's doing. If its typical market share is 10 percent of the market —and it has only 2 to 5 percent of the market in various NAICS submarkets— then it may need to change its marketing mix to get better penetration.

Times series and leading series may help estimate a fluctuating future

Not all past economic or sales behavior can be neatly extended with a straight line or some manipulation. Economic activity has ups and downs, and other uncontrollable factors change. To cope with such variation, statisticians have developed time series analysis techniques. **Time series** are historical records of the fluctuations in economic variables. We can't give a detailed discussion of these techniques here, but note that there *are* techniques to handle daily, weekly, monthly, seasonal, and annual variations.[5]

All forecasters dream of finding an accurate **leading series**—a time series that changes in the same direction *but ahead of* the series to be forecast. For example, car producers watch trends in the Index of Consumer Sentiment, which is based on regular surveys of consumers' attitudes about their likely future financial security. People are less likely to buy a car or other big-ticket item if they are worried about their future income. As this suggests, a drop in the index usually "leads" a drop in car sales. It is important that there be some logical relation between the leading series and what is being forecast.

No single series has yet been found that leads GNP or other national figures. Lacking such a series, forecasters develop **indices**—statistical combinations of several time series—in an effort to find some time series that will lead the series they're trying to forecast. Government agencies publish some indices of this type. And business publications, like *Business Week* and *The London Financial Times*, publish their own indices.

Predicting Future Behavior Calls for More Judgment and Some Opinions

These past-extending methods use quantitative data—projecting past experience into the future and assuming that the future will be like the past. But this is risky in competitive markets. Usually, it's desirable to add some judgment to other forecasts before making the final forecast yourself.

Jury of executive opinion adds judgment

One of the oldest and simplest methods of forecasting—the **jury of executive opinion**—combines the opinions of experienced executives, perhaps from marketing, production, finance, purchasing, and top management. Each executive estimates market potential and sales for the *coming years*. Then they try to work out a consensus.

The main advantage of the jury approach is that it can be done quickly and easily. On the other hand, the results may not be very good. There may be too much extending of the past. Some of the executives may have little contact with outside market influences. But their estimates could point to major shifts in customer demand or competition.

Estimates from salespeople can help too

Using salespeople's estimates to forecast is like the jury approach. But salespeople are more likely than home office managers to be familiar with customer reactions and what competitors are doing. Their estimates are especially useful in some business markets where the few customers may be well known to the salespeople. But this approach may be useful in any type of market.

However, managers who use estimates from salespeople should be aware of the limitations. For example, new salespeople may not know much about their markets. Even experienced salespeople may not be aware of possible changes in the economic climate or the firm's other environments. And if salespeople think the manager is going to use the estimates to set sales quotas, the estimates may be low!

Surveys, panels, and market tests

Special surveys of final buyers, retailers, and/or wholesalers can show what's happening in different market segments. Some firms use panels of stores—or final consumers—to keep track of buying behavior and to decide when just extending past behavior isn't enough.

Surveys are sometimes combined with market tests when the company wants to estimate customers' reactions to possible changes in its marketing mix. A market test might show that a product increased its share of the market by 10 percent when its price was dropped 1 cent below competition. But this extra business might be quickly lost if the price were increased 1 cent above competition. Such market experiments help the marketing manager make good estimates of future sales when one or more of the four Ps is changed.

Accuracy depends on the marketing mix

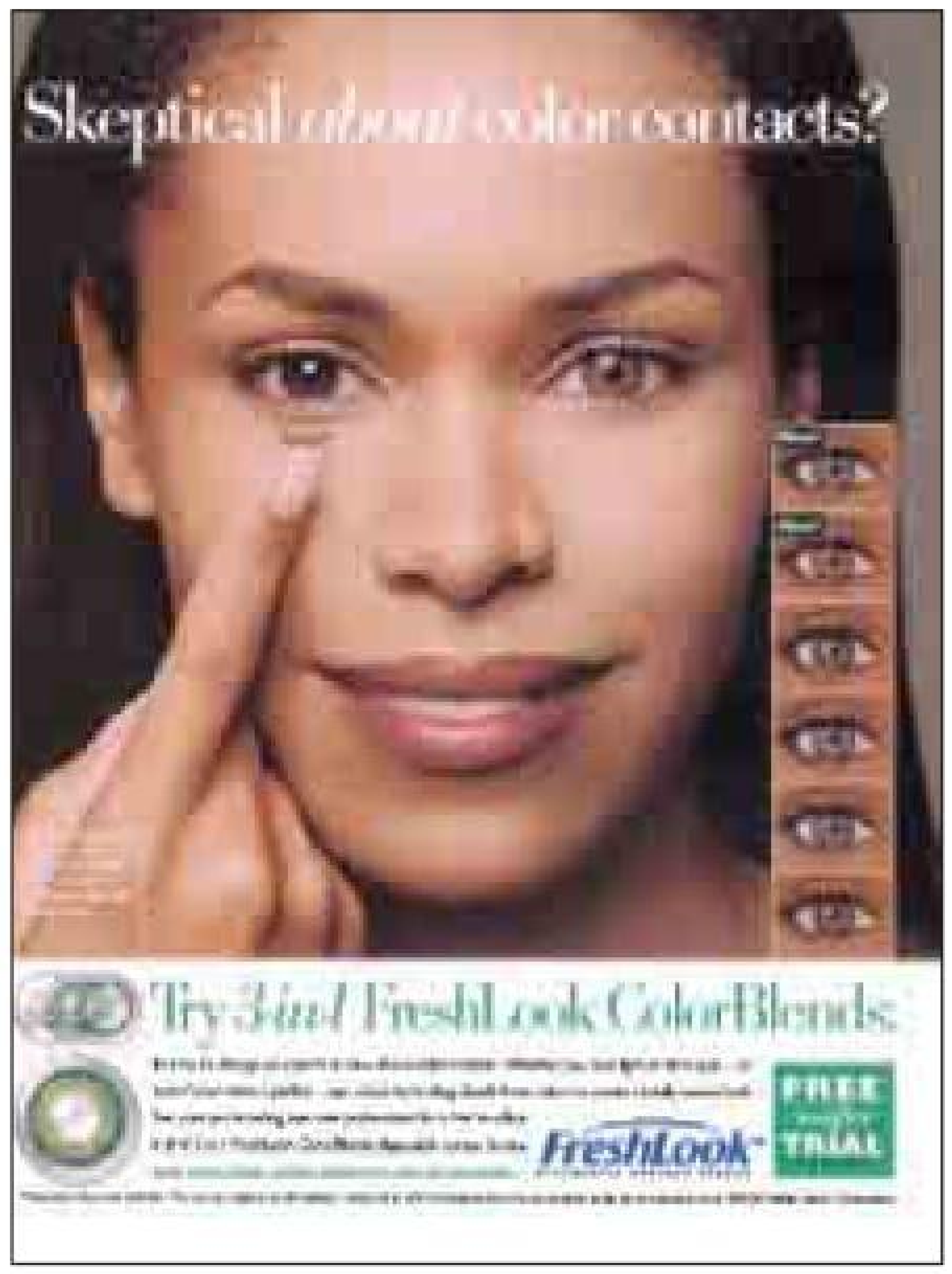
Forecasting can help a marketing manager estimate the size of possible market opportunities. But the accuracy of any sales forecast depends on whether the firm selects and implements a marketing mix that turns these opportunities into sales and profits.[6]

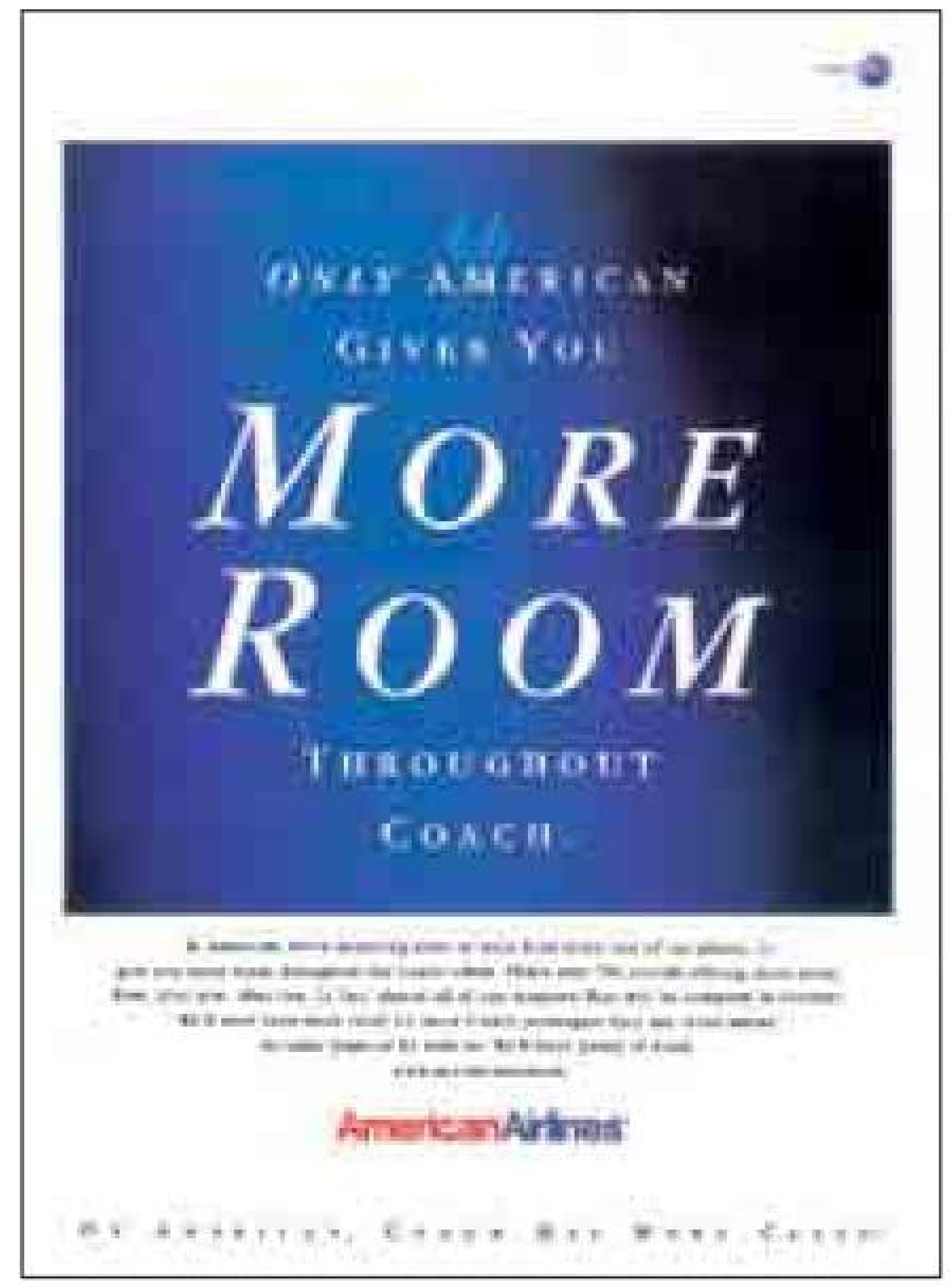
Analysis of Costs and Sales Can Guide Planning

Once a manager has narrowed down to a few reasonable marketing mixes and the relevant forecasts, comparing the sales, costs, and profitability of the different alternatives helps in selecting the marketing mix the firm will implement.

Estimate the cost of each activity

Estimating the costs of the marketing activities for a strategy may be easy or hard depending on the situation. Sometimes the accounting department can help with information about what average costs for similar activities have been in the past. Or sometimes estimates of competitors' costs—perhaps pulled out of annual reports or investor information posted on the Internet—can provide some guidance. However, in general the best approach for estimating costs is to use the task method. We recommended this approach in Chapter 14 when we focused on promotion costs and budgets. However, the same ideas apply to any area of marketing activity. The estimated cost and budget for each activity is based on the job to be done—perhaps





A marketing plan spells out the detailed costs of different marketing activities in the strategy. For example, FreshLook's plan for its new color contact lenses might include estimates of the cost of each ad as well as the cost of the whole promotion blend. The marketing plan for American's roomier service might include estimates of revenue based on the combined effect of the reduced number of seats and higher demand for American flights.

the number of salespeople needed to call on new customers or the amount of inventory required to provide some distribution customer service level. The costs of these individual tasks are then totaled—to determine how much should be budgeted for the overall plan. With this detailed approach, the firm can subsequently assemble its overall marketing budget directly from individual plans rather than just relying on historical patterns or ratios.

Compare the profitability of alternative strategies

Once costs and revenue for possible strategies are estimated, it makes sense to compare them with respect to overall profitability. Exhibit 21-7 shows such a comparison for a small appliance currently selling for $15—Mix A in the example. Here the marketing manager simply estimates the costs and likely results of four reasonable alternatives. And assuming profit is the objective *and* there are adequate resources to consider each of the alternatives, Marketing Mix C is obviously the best alternative.

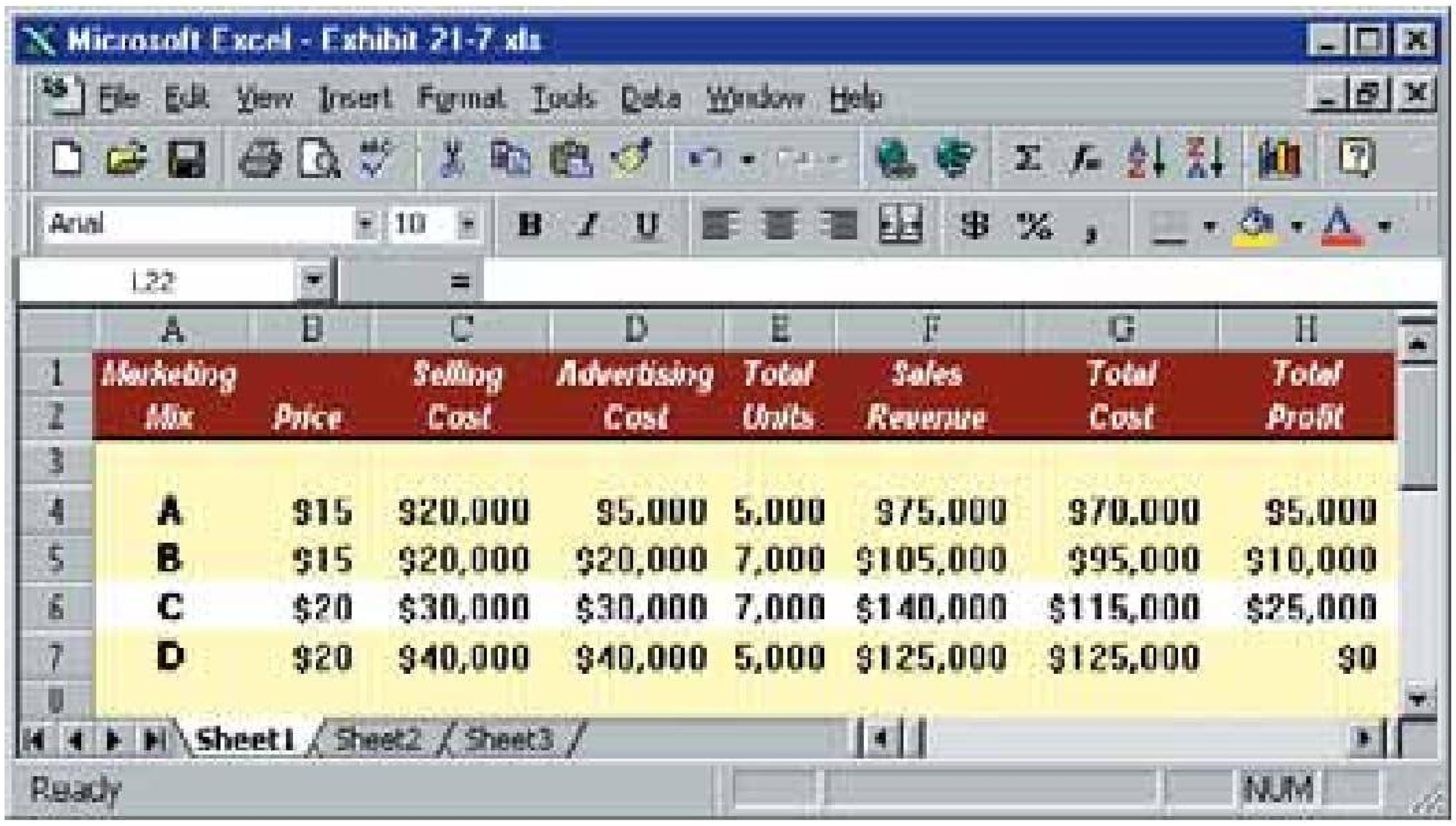
Spreadsheet analysis speeds through calculations

Comparing the alternatives in Exhibit 21-7 is quite simple. But sometimes marketing managers need much more detail to evaluate a plan. Hundreds of calculations may be required to see how specific marketing resources relate to expected outcomes—like total costs, expected sales, and profit. To make that part of the planning job simpler and faster, marketing managers often use spreadsheet analysis. With **spreadsheet analysis,** costs, sales, and other information related to a problem are organized into a data table—a spreadsheet—to show how changing the value of one or more of the numbers affects the other numbers. This is possible because the relationships among the variables are programmed in the computer software. The table in Exhibit 21-7 was prepared using Excel, Microsoft's widely used spreadsheet program. If you've used Excel or Lotus 1-2-3, or the computer-aided problems in this book, you're already familiar with spreadsheet analysis. Even if you haven't, the basic idea is simple.

A spreadsheet helps answer what-if questions

Spreadsheet analysis allows the marketing manager to evaluate what-if type questions. For example, a marketing manager might be interested in the question "What if I charge a higher price and the number of units sold stays the same? What will

Exhibit 21-7 A Spreadsheet Comparing the Estimated Sales, Costs, and Profits of Four "Reasonable" Alternative Marketing Mixes



Marketing Mix	Price	Selling Cost	Advertising Cost	Total Units	Sales Revenue	Total Cost	Total Profit
A	$15	$20,000	$5,000	5,000	$75,000	$70,000	$5,000
B	$15	$20,000	$20,000	7,000	$105,000	$95,000	$10,000
C	$20	$30,000	$30,000	7,000	$140,000	$115,000	$25,000
D	$20	$40,000	$40,000	5,000	$125,000	$125,000	$0

happen to profit?" To look at how a spreadsheet program might be used to help answer this what-if question, let's take a closer look at Mix C in Exhibit 21-7.

The table involves a number of relationships. For example, price times total units equals sales revenue; and total revenue minus total cost equals total profit. If these relationships are programmed in the spreadsheet, a marketing manager can ask questions like: "What if I raise the price to $20.20 and still sell 7,000 units? What will happen to profit?" To get the answer, all the manager needs to do is type the new price in the spreadsheet and the program computes the new profit—$26,400.

In addition, the manager may also want to do many what-if analyses—for example, to see how sales and profit change over a range of prices. Computerized spreadsheet analysis does this quickly and easily. If the manager wants to see what happens to total revenue as the price varies between some minimum (say, $19.80) and a maximum (say, $20.20), the program can show the total revenue and profit for a number of price levels in the range from $19.80 to $20.20. The results are shown in the Excel spreadsheet table in Exhibit 21-8.

In a problem like this, the marketing manager might be able to do the same calculations quickly by hand. But with more complicated problems the spreadsheet program can be a big help—making it very convenient to more carefully analyze different alternatives.

The Marketing Plan Brings All the Details Together

Marketing plan provides a blueprint for implementation

Once the manager has selected the target market, decided on the (integrated) marketing mix to meet that target market's needs, and developed estimates of the costs and revenue for that strategy, it's time to put it all together in the marketing plan. The plan basically serves as a blueprint for what the firm will do.

Exhibit 21-8 A Spreadsheet Analysis Showing How a Change in Price Affects Sales Revenue and Profit (based on Marketing Mix C from Exhibit 21-7)

Marketing Mix	Price	Selling Cost	Advertising Cost	Total Units	Sales Revenue	Total Cost	Total Profit
C	$19.80	$30,000	$30,000	7,000	$138,600	$115,000	$23,600
	$19.90	$30,000	$30,000	7,000	$139,300	$115,000	$24,300
	$20.00	$30,000	$30,000	7,000	$140,000	$115,000	$25,300
	$20.10	$30,000	$30,000	7,000	$140,700	$115,000	$25,700
	$20.20	$30,000	$30,000	7,000	$141,400	$115,000	$26,400

Exhibit 21-9 provides a summary outline of the different sections of a complete marketing plan. You can see that this outline is basically an abridged overview of the topics we've covered throughout the text and highlighted in this chapter. Thus, you can flesh out your thinking for any portion of a marketing plan by reviewing the section of the book where that topic is discussed in more detail. Further, the Maytag case at the beginning of this chapter also gives you a real example of the types of thinking and detail that are included.

Marketing plan spells out the timing of the strategy

Some time schedule is implicit in any strategy. A marketing plan simply spells out this time period and the time-related details. Usually, we think in terms of some reasonable length of time—such as six months, a year, or a few years. But it might be only a month or two in some cases—especially when rapid changes in fashion or technology are important. Or a strategy might be implemented over several years—perhaps the length of a product life cycle or at least the early stages of the product's life.

Although the outline in Exhibit 21-9 does not explicitly show a place for the time frame for the plan or the specific costs for each decision area, these should be included in the plan—along with expected estimates of sales and profit—so that the plan can be compared with *actual performance* in the future. In other words, the plan not only makes it clear to everyone what is to be accomplished and how—but it also provides a basis for the control process after the plan is implemented.

Tools help set time-related details for the plan

Figuring out and planning the time-related details and schedules for all of the activities in the marketing plan can be a challenge—especially if the plan involves a big start-from-scratch effort. To do a better job in this area, many managers have turned to flowcharting techniques such as CPM (critical path method) or PERT (program evaluation and review technique). These methods were originally developed as part of the U.S. space program (NASA) to ensure that the various contractors and subcontractors stayed on schedule and reached their goals as

Exhibit 21-9 Summary Outline of Different Sections of Marketing Plan

Name of Product-Market

Major screening criteria relevant to product-market opportunity selected
  Quantitative (ROI, profitability, risk level, etc.)
  Qualitative (nature of business preferred, social responsibility, etc.)
  Major constraints

Analysis of Other Aspects of External Market Environment (favorable and unfavorable factors and trends)

Economic environment
Technological environment
Political and legal environment
Cultural and social environment

Customer Analysis (organizational and/or final consumer)

Possible segmenting dimensions (customer needs, other characteristics)
  Identification of qualifying dimensions and determining dimensions
Identification of target market(s) (one or more specific segments)
  Operational characteristics (demographics, geographic locations, etc.)
  Potential size (number of people, dollar purchase potential, etc.) and likely growth
Key psychological and social influences on buying
Type of buying situation
Nature of relationship with customers

Competitor Analysis

Nature of current/likely competition
Current and prospective competitors (and/or rivals)
  Current strategies and likely responses to plan
Competitive barriers to overcome and sources of potential competitive advantage

Company Analysis

Company objectives and overall marketing objectives
Company resources
S.W.O.T.: Identification of major *s*trengths, *w*eaknesses, *o*pportunities, and *t*hreats (based on above analyses of company resources, customers, competitors, and other aspects of external market environment)

Marketing Information Requirements

Marketing research needs (with respect to customers, marketing mix effectiveness, external environment, etc.)
Secondary data and primary data needs
Marketing information system needs, models to be used, etc.

Product

Product class (type of consumer or business product)
Current product life cycle stage
New-product development requirements (people, dollars, time, etc.)
  Product liability, safety and social responsibility considerations
Specification of core physical good and/or service
  Features, quality, etc.
Supporting customer service(s) needed
Warranty (what is covered, timing, who will support, etc.)
Branding (manufacturer versus dealer, family brand versus individual brand, etc.)
Packaging
  Promotion and labeling needs
  Protection needs
Cultural sensitivity of product
Fit with product line

Place

Objectives
- Degree of market exposure required
- Distribution customer service level required

Type of channel (direct, indirect)
- Other channel members and/or facilitators required
  - Type/number of wholesalers (agent, merchant, etc.)
  - Type/number of retailers
- How discrepancies and separations will be handled
- How marketing functions will be shared

Coordination needed in company, channel, and supply chain
- Information requirements (EDI, the Internet, e-mail, etc.)

Transportation requirements
Inventory product-handling requirements
Facilities required (warehousing, distribution centers, etc.)
Reverse channels (for returns, recalls, etc.)

Promotion

Objectives
Major message theme(s) for integrated marketing communications (desired "positioning")
Promotion blend
- Advertising (type, media, copy thrust, etc.)
- Personal selling (type and number of salespeople, how compensated, how effort will be allocated, etc.)
- Sales promotion (for channel members, customers, employees)
- Publicity
- Interactive media

Mix of push and pull required
Who will do the work

Price

Nature of demand (price sensitivity, price of substitutes)
Demand and cost analyses (marginal analysis)
Markup chain in channel
Price flexibility
Price level(s) (under what conditions) and impact on customer value
Adjustments to list price (geographic terms, discounts, allowances, etc.)

Special Implementation Problems to Be Overcome

People required
Manufacturing, financial, and other resources needed

Control

Marketing information system needs
Criterion measures comparison with objectives (customer satisfaction, sales, cost, performance analysis, etc.)

Forecasts and Estimates

Costs (all elements in plan, over time)
Sales (by market, over time, etc.)
Estimated operating statement *(pro forma)*

Timing

Specific sequence of activities and events, etc.
Likely changes over the product life cycle

planned. PERT, CPM, and other similar project management approaches are even more popular now since inexpensive programs for personal computers make them easier and faster to use. Updating is easier too.

The computer programs develop detailed flowcharts to show which marketing activities must be done in sequence and which can be done concurrently. These charts also show the time needed for various activities. Totaling the time allotments along the various chart paths shows the most critical (the longest) path—as well as the best starting and ending dates for the various activities.

Flowcharting is not complicated. Basically, it requires that all the activities—which have to be performed anyway—be identified ahead of time and their probable duration and sequence shown on one diagram. (It uses nothing more than addition and subtraction.) Working with such information should be part of the planning function anyway. Then the chart can be used later to guide implementation and control.[7]

A complete plan spells out the reasons for decisions

The plan outline shown in Exhibit 21-9 is quite complete. It doesn't just provide information about marketing mix decisions—it also includes information about customers (including segmenting dimensions), competitors' strategies, other aspects of the marketing environment, and the company's objectives and resources. This material provides important background relevant to the "why" of the marketing mix and target market decisions.

Too often, managers do not include this information; their plans just lay out the details of the target market and the marketing mix strategy decisions. This shortcut approach is more common when the plan is really just an update of a strategy that has been in place for some time. However, that approach can be risky.

Managers too often make the mistake of casually updating plans in minor ways—perhaps just changing some costs or sales forecasts—but otherwise sticking with what was done in the past. A big problem with this approach is that it's easy to lose sight of why those strategy decisions were made in the first place. When the market situation changes, the original reasons may no longer apply. Yet if the logic for those strategy decisions is not retained, it's easy to miss changes taking place that should result in a plan being reconsidered. For example, a plan that was established in the growth stage of the product life cycle may have been very successful for a number of years. But a marketing manager can't be complacent and assume that success will continue forever. When market maturity hits, the firm may be in for big trouble—unless the basic strategy and plan are modified. If a plan spells out the details of the market analysis and logic for the marketing mix and target market selected, then it is a simple matter to routinely check and update it. Remember: The idea is for all of the analysis and strategy decisions to fit together as an integrated whole. Thus, as some of the elements of the plan or marketing environment change, the whole plan may need a fresh approach.

Internet

Internet Exercise Go to the Maytag website (www.maytag.com) and review the information about the Neptune line. Do you see any indication that the strategy for Neptune is changing from what is described in the case that introduces this chapter? Explain your point of view.

Pepsi's billboard is only one element of a comprehensive market plan, but it cleverly reinforces Pepsi's "The Joy of Cola" positioning.

Companies Plan and Implement Whole Marketing Programs

Several plans make a program

Most companies implement more than one marketing plan at the same time. A *marketing program* blends all a firm's marketing plans into one big plan.

When the various plans in the company's program are different, managers may be less concerned with how well the plans fit together—except as they compete for the firm's usually limited financial resources.

When the plans are more similar, however, the same sales force may be expected to carry out several plans. Or the firm's advertising department may develop the publicity and advertising for several plans. In these cases, product managers try to get enough of the common resources, say, salespeople's time, for their own plans.

Since a company's resources are usually limited, the marketing manager must make hard choices. You can't launch plans to pursue every promising opportunity. Instead, limited resources force you to choose among alternative plans—while you develop the program.

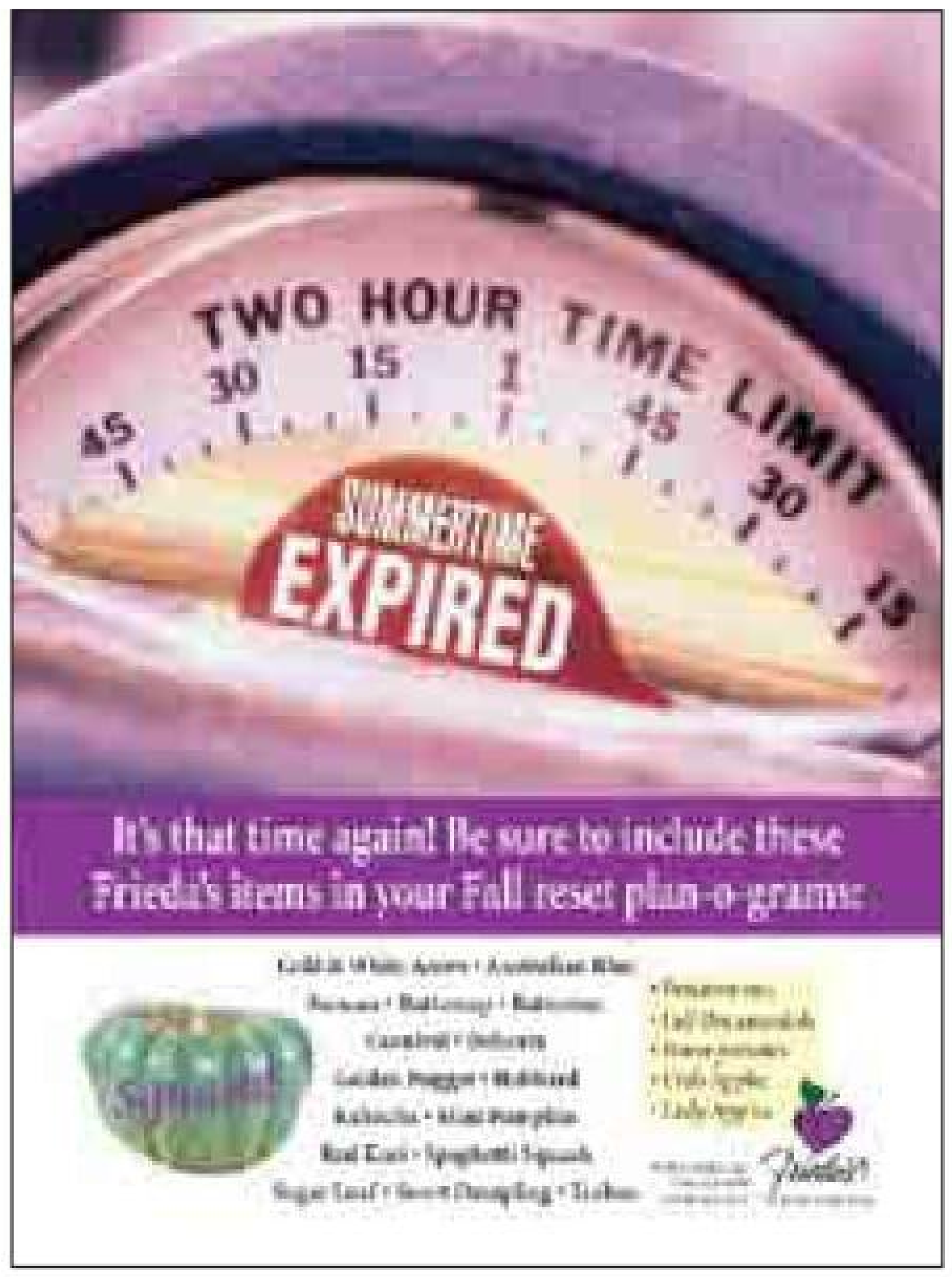
Finding the best program requires judgment

How do you find the best program? There is no one best way to compare various plans. Managers usually rely on evaluation tools like those discussed in Chapter 4. Even so, much management judgment is usually required. Some calculations are helpful too. If a five-year planning horizon seems realistic for the firm's markets, managers can compare expected profits over the five-year period for each plan.

Assuming the company has a profit-oriented objective, managers can evaluate the more profitable plans first—in terms of both potential profit and resources required. They also need to evaluate a plan's impact on the entire program. One profitable-looking alternative might be a poor first choice if it eats up all the company's resources and sidetracks several plans that together would be more profitable and spread the risks.

Some juggling among the various plans—comparing profitability versus resources needed and available—moves the company toward the most profitable program. This is another area where spreadsheet analysis can help the manager evaluate a large number of alternatives.[8]

Marketers need to develop detailed marketing plans for each strategy, but most firms have multiple products and strategies that need to work together as part of an overall marketing program.



Planning for Involvement in International Marketing

When developing a plan for international markets, marketing managers must decide how involved the firm will be. We will discuss six basic kinds of involvement: exporting, licensing, contract manufacturing, management contracting, joint venturing, and wholly owned subsidiaries.

Exporting often comes first

Some companies get into international marketing just by **exporting**—selling some of what the firm produces to foreign markets. Some firms start exporting just to get rid of surplus output. For others, exporting comes from a real effort to look for new opportunities.

Some firms try exporting without doing much planning. They don't change the product or even the service or instruction manuals! As a result, some early efforts are not very satisfying—to buyers or sellers.[9]

Specialists can help develop the plan

Exporting does require knowledge about the foreign market. But managers who don't have enough knowledge to plan the details of a program can often get expert help from middlemen specialists. As we discussed in Chapter 13, export agents can handle the arrangements as products are shipped outside the country. Then agents or merchant wholesalers can handle the importing details. Even large producers with many foreign operations turn to international middlemen for some products or markets. Such middlemen know how to handle the sometimes confusing formalities and specialized functions. A manager trying to develop a plan alone can make a small mistake that ties products up at national borders for days or months.[10]

Exporting doesn't have to involve permanent relationships. Of course, channel relationships take time to build and shouldn't be treated lightly—sales reps' contacts in foreign countries are investments. But it's relatively easy to cut back on these relationships, or even drop them, if the plan doesn't work.

Some firms, on the other hand, plan more formal and permanent relationships with nationals in foreign countries. The relationships might involve licensing, contract manufacturing, management contracting, and joint venturing.

Licensing is an easy way

Licensing is a relatively easy way to enter foreign markets. **Licensing** means selling the right to use some process, trademark, patent, or other right for a fee or royalty. The licensee takes most of the risk because it must invest some capital to use the right. Further, the licensee usually does most of the planning for the markets it is licensed to serve. If good partners are available, this can be an effective way to enter a market. Gerber entered the Japanese baby food market this way but exports to other countries.[11]

Contract manufacturing takes care of the production problems

Contract manufacturing means turning over production to others while retaining the marketing process. Sears used this approach when it opened stores in Latin America and Spain. This approach doesn't make it any easier to plan the marketing program, but it may make it a lot easier to implement.

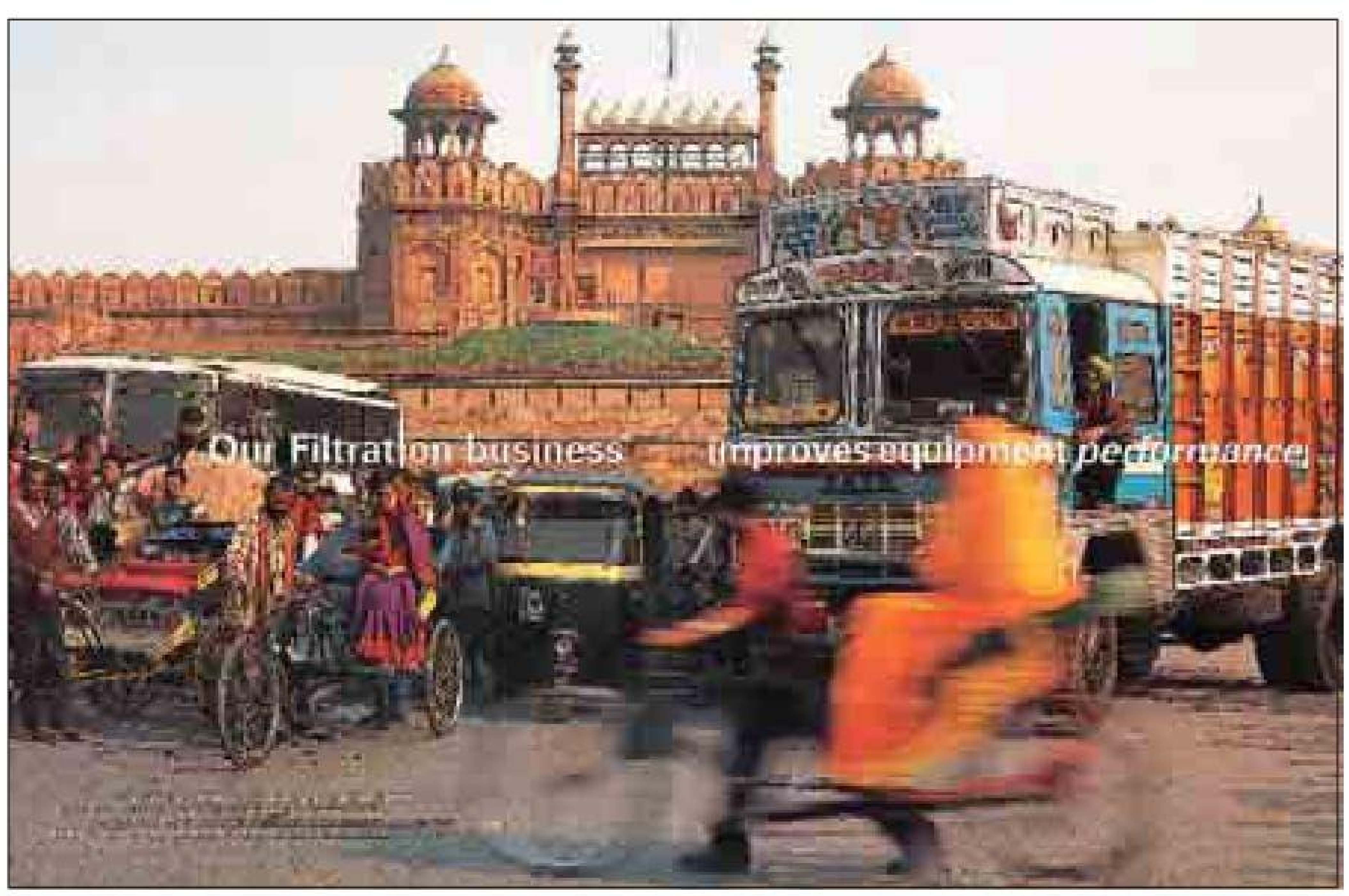
For example, this approach can be especially desirable where labor relations are difficult or where there are problems obtaining supplies or government cooperation. Growing nationalistic feelings may make this approach more attractive in the future.

Management contracting sells know-how

Management contracting means the seller provides only management skills—others own the production and distribution facilities. Some mines and oil refineries are operated this way—and Hilton operates hotels all over the world for local owners. This is a relatively low-risk approach to international marketing. The company makes no commitment to fixed facilities—which can be taken over or damaged in riots or wars. If conditions get too bad, key management people can fly off on the next plane and leave the nationals to manage the operation.

Joint venturing is more involved

Joint venturing means a domestic firm entering into a partnership with a foreign firm. As with any partnership, there can be honest disagreements over objectives—for example, how much profit is desired and how fast it should be paid out—as well



To establish a presence more quickly in India's developing market, Cummins entered a joint venture to produce engines with an Indian firm. That relationship has been a springboard to other joint ventures for Cummins' filtration and exhaust products.

as operating policies. Where a close working relationship can be developed—perhaps based on one firm's technical and marketing know-how and the foreign partner's knowledge of the market and political connections—this approach can be very attractive to both parties.

In some situations, a joint venture is the only type of involvement possible. For example, IBM wanted to increase its 2 percent share of what business customers in Brazil spent on data processing services. But a Brazilian law severely limited expansion by foreign computer companies. To grow, IBM had to develop a joint venture with a Brazilian firm. Because of Brazilian laws, IBM could own only a 30 percent interest in the joint venture. But IBM decided it was better to have a 30 percent share of a business—and be able to pursue new market opportunities—than to stand by and watch competitors take the market.[12]

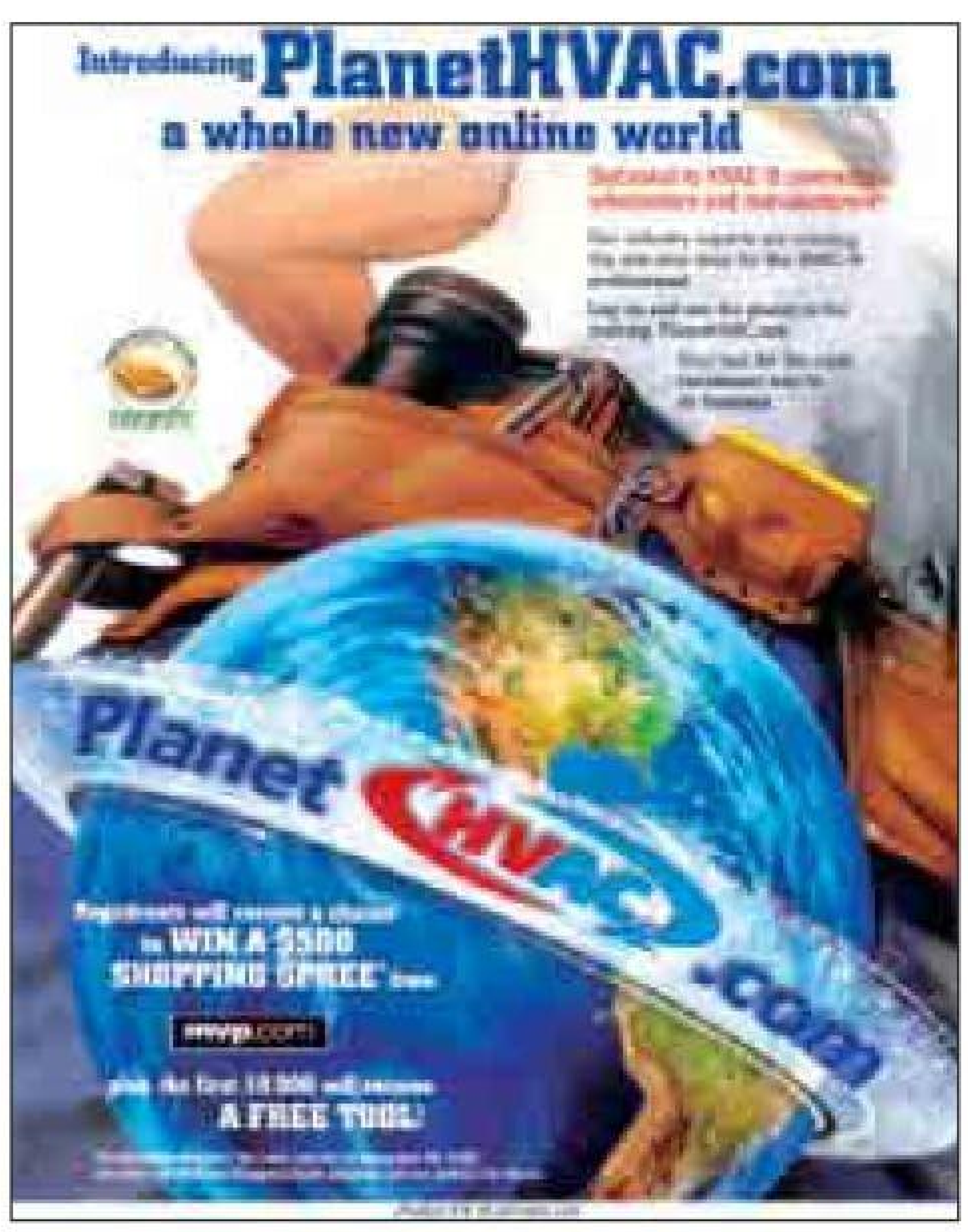
A joint venture usually requires a big commitment from both parties—and they both must agree on a joint plan. When the relationship doesn't work out well, the ensuing nightmare can make the manager wish that the venture had been planned as a wholly owned operation. But the terms of the joint venture may block this for years.[13]

Wholly owned subsidiaries give more control

When a firm thinks a foreign market looks really promising, it may want to take the final step. A **wholly owned subsidiary** is a separate firm—owned by a parent company. This gives the firm complete control of the marketing plan and operations, and also helps a foreign branch work more easily with the rest of the company. If a firm has too much capacity in a country with low production costs, for example, it can move some production there from other plants and then export to countries with higher production costs.

Multinational corporations evolve to meet the challenge

As firms become more involved in international marketing, some begin to see themselves as worldwide businesses that transcend national boundaries. These **multinational corporations** have a direct investment in several countries and run their businesses depending on the choices available anywhere in the world.



Internet websites that specialize by product-market and that bring together producers, intermediaries, and customers are quickly creating new types of international relationships and opportunities.

Well-known U.S.-based multinational firms include Coca-Cola, Eastman Kodak, Goodyear, Ford, and IBM. They regularly earn over a third of their total sales or profits abroad. And well-known foreign-based multinationals—such as Nestlé, Shell (Royal Dutch Shell), Unilever, Sony, and Honda—have well-accepted brands all around the world.

These multinational operations no longer just export or import. They hire local workers and build local plants. They have relationships with local businesses and politicians. These powerful organizations learn to plan marketing strategies that deal with nationalistic feelings and typical border barriers—treating them simply as part of the marketing environment. We don't yet have one world politically—but business is moving in that direction. We may have to develop new kinds of corporations and laws to govern multinational operations. In the future, it will make less and less sense for business and politics to be limited by national boundaries.

Planning for international markets

Usually marketing managers must plan the firm's overall marketing program so it's flexible enough to be adapted for differences in various countries. When the differences are significant, top management should delegate a great deal of responsibility for strategy planning to local managers (or even middlemen). In many cases, it's not possible to develop a detailed plan without a local feel. In extreme cases, local managers may not even be able to fully explain some parts of their plans because they're based on subtle cultural differences. Then plans must be judged only by their results. The organizational setup should give these managers a great deal of freedom in their planning but ensure tight control against the plans they develop. Top management can simply insist that managers stick to their budgets and meet the plans that they themselves create. When a firm reaches this stage, it is being managed like a well-organized domestic corporation—which insists that its managers (of divisions and territories) meet their own plans so that the whole company's program works as intended.[14]

Conclusion

In this chapter, we stressed the importance of developing whole marketing mixes—not just developing policies for the individual four Ps and hoping they will fit together into some logical whole. The marketing manager is responsible for developing a workable blend—integrating all of a firm's efforts into a coordinated whole that makes effective use of the firm's resources and guides it toward its objectives.

As a starting place for developing new marketing mixes, a marketing manager can use the product classes that have served as a thread through this text. Even if the manager can't fully describe the needs and attitudes of target markets, it is usually possible to select the appropriate product class for a particular product. This, in turn, will help set Place and Promotion policies. It may also clarify what type of marketing mix is typical for the product. However, just doing what is typical may not give a firm any competitive advantage. Creative strategies are often the ones that identify new and better ways of uniquely giving target customers what they want or need. Similarly, seeing where a firm's offering fits in the product life cycle helps to clarify how current marketing mixes are likely to change in the future.

Developing and evaluating marketing strategies and plans usually requires that the manager use some approach to forecasting. We talked about two basic approaches to forecasting market potential and sales: (1) extending past behavior and (2) predicting future behavior. The most common approach is to extend past behavior into the future. This gives reasonably good results if market conditions are fairly stable. Methods here include extension of past sales data and the factor method. We saw that projecting the past into the future is risky when big market changes are likely. To make up for this possible weakness, marketers predict future behavior using their own experience and judgment. They also bring in the judgment of others—using the jury of executive opinion method and salespeople's estimates. And they may use surveys, panels, and market tests. Of course, any sales forecast depends on the marketing mix the firm actually selects.

Once forecasts of the expected sales and estimates of the associated costs for possible strategies are available, alternatives can be compared on potential profitability. Spreadsheet analysis software is an important tool for such comparisons. In the same vein, project planning approaches, such as CPM and PERT, can help the marketing manager do a better job in planning the time-related details for the strategy that is selected.

Throughout the text, we've emphasized the importance of marketing strategy planning. In this chapter, we went on to show that the marketing manager must develop a marketing plan for carrying out each strategy and then merge a set of plans into a marketing program.

Finally, we discussed different approaches that are helpful in planning strategies to enter international markets. The different approaches have different strengths and weaknesses.

Questions and Problems

1. Distinguish clearly between a marketing strategy, a marketing plan, and a marketing program.
2. Discuss how a marketing manager could go about choosing among several possible marketing plans, given that choices must be made because of limited resources. Would the job be easier in the consumer product or in the business product area? Why?
3. Explain how understanding the product classes can help a marketing manager develop a marketing strategy for a really new product that is unlike anything currently available.
4. Distinguish between competitive marketing mixes and superior mixes that lead to breakthrough opportunities.
5. Explain the difference between a forecast of market potential and a sales forecast.
6. Suggest a plausible explanation for sales fluctuations for *(a)* computers, *(b)* ice cream, *(c)* washing machines, *(d)* tennis rackets, *(e)* oats, *(f)* disposable diapers, and *(g)* latex for rubber-based paint.
7. Explain the factor method of forecasting. Illustrate your answer.
8. Based on data in Exhibit 21-5, discuss the relative market potential of the city of Boulder, Colorado, and the city of Lakewood, Colorado, for *(a)* prepared cereals, *(b)* automobiles, and *(c)* furniture.
9. Why is spreadsheet analysis a popular tool for marketing strategy planning?
10. In your own words, explain how a project management technique such as PERT or CPM can help a marketing manager develop a better marketing plan.
11. Why should a complete marketing plan include details concerning the reasons for the marketing strategy decisions and not just the marketing activities central to the four Ps?
12. Consider how the marketing manager's job becomes more complex when it's necessary to develop and plan *several* strategies as part of a marketing program. Be sure to discuss how the manager might have to handle different strategies at different stages in the product life cycle. To make your discussion more concrete, consider the job of a marketing manager for a sporting product manufacturer.
13. How would marketing planning be different for a firm that has entered foreign marketing with a joint venture and a firm that has set up a wholly owned subsidiary?
14. How can a firm set the details of its marketing plan when it has little information about a foreign market it wants to enter?
15. Review the Maytag case at the beginning of this chapter and the outline of a marketing plan in Exhibit 21-9. Indicate which sections of the plan would probably require the most change as the competition among high-efficiency front-load washing machines significantly increases. Briefly explain your thinking.

Suggested Cases

17. Enviro Pure Water, Inc.
27. Plastic Master, Inc.
31. Expert Nursing Services, Inc.
32. Lever, Ltd.
34. Aluminum Basics Co.

When You Finish This Chapter, You Should

1. Understand why marketing must be evaluated differently at the micro and macro levels.

2. Understand why the text argues that micro-marketing costs too much.

3. Understand why the text argues that macro-marketing does not cost too much.

4. Know some of the challenges marketers face as they work to develop ethical marketing strategies that serve consumers' needs.

Chapter Twenty-Two

Ethical Marketing in a Consumer-Oriented World: Appraisal and Challenges

More than ever, the macro-marketing systems of the world are interconnected. The worldwide drive toward market-directed economies is dramatic evidence that consumer-citizens want freedom and choices—not only in politics but in markets. Centrally planned economies simply weren't able to meet needs. Even in China, government officials seem to be gradually softening their hard line on central planning and allowing Western firms to sell products that will improve the life of Chinese consumers.

Although there's much talk about the world as a global village, we're not there yet.

place price promotion produc

Someone in a *real* village on the plains of Kenya may be able to try a cellular phone or watch a TV and get a glimpse of the quality of life that consumers in the advanced Western economies enjoy, but for that person it doesn't seem real. What is real is the struggle to meet the basic physical needs of life—to survive starvation, malnutrition, and epidemic-carrying water. The plight of consumers doesn't seem quite as severe in the fragile and emerging democracies, like those in Eastern Europe. But the vast majority of citizen-consumers in those societies can still only wonder if they'll ever have choices among a wide variety of goods and services—and the income to buy them—that most consumers take for granted in the United States, Canada, England, most countries in Western Europe, Australia, and a few other advanced economies.[1]

The challenges faced by consumers, and marketing managers, in the advanced economies seem minor by contrast. In England, for example, some consumers who live in villages that are off the beaten path may need to worry that they are not included in the 90 percent of the British population served by Tesco delivery vans. Tesco, the largest supermarket chain in England, created its online shopping service for groceries (and hundreds of other products) just a few years ago, but over 500,000 Brits have registered to use the site.[2]

Online shopping for groceries has not proved as popular in the U.S. Webvan and several online-grocery competitors found that out the hard way and went out of business after spending heavily. On the other hand, Web-based retailers like

Amazon.com are making it easy and economical for U.S. customers to find and buy thousands of other products online. And if Americans are less interested in shopping for groceries online it may just be because they're thinking about instant gratification. We expect the corner convenience store to have a nice selection of frozen gourmet dinners that we can prepare in minutes in a microwave oven. Or perhaps that's too much hassle. After all, Domino's will deliver a hot pizza in less than 30 minutes. And McDonald's has our Egg McMuffins ready when we pull up at the drive-thru at 7 in the morning. We expect everything from fresh tropical fruits to camera batteries to brand-name fashions to be available when and where we want them. In a relative sense, few of the world's consumers can expect so much—and get so much of what they expect. All of this has a price, of course—and we, as consumers, pay the bill.[3]

When you think about these contrasts, it's not hard to decide which consumers are better off. But are we making a straw man comparison? Is the first situation one extreme, with the system in England, the United States, and similar societies just as extreme—only in a different way? Would we be better off if we didn't put quite so much emphasis on marketing? Do we need so many brands of products? Does all the money spent on advertising really help consumers? Should we expect to be able to order groceries over the Internet and have a van deliver them to the front door? Or, conversely, do all of those retail stores in shopping malls just add to the price consumers pay? More generally, does marketing serve society well? In other words, does marketing cost too much? This is a fundamental question. Some people feel strongly that marketing *does* cost too much—that it's a waste of resources we could better use elsewhere.

Now that you have a better understanding of what marketing is all about—and how the marketing manager contributes to the *macro*-marketing process—you should be able to decide whether marketing costs too much. That's what this chapter is about.

Your answer is very important. It will affect your own business career and the economy in which you live.

Do car producers, for example, produce lower-quality cars than they could? Do producers of food and drug products spend too much money advertising trivial differences between their brands? Should they stop trying to brand their products at all and instead sell generics at lower prices? Does marketing encourage us to want too much of the wrong products? Are there too many retailers and wholesalers, all taking "too big" markups? Some critics of marketing would answer Yes! to *all* these important questions. Such critics believe we should change our political and legal environments and the world in which you live and work. Do you agree? Or are you fairly satisfied with the way our system works? How will you vote on your consumer ballot?

How Should Marketing Be Evaluated?

We must evaluate at two levels

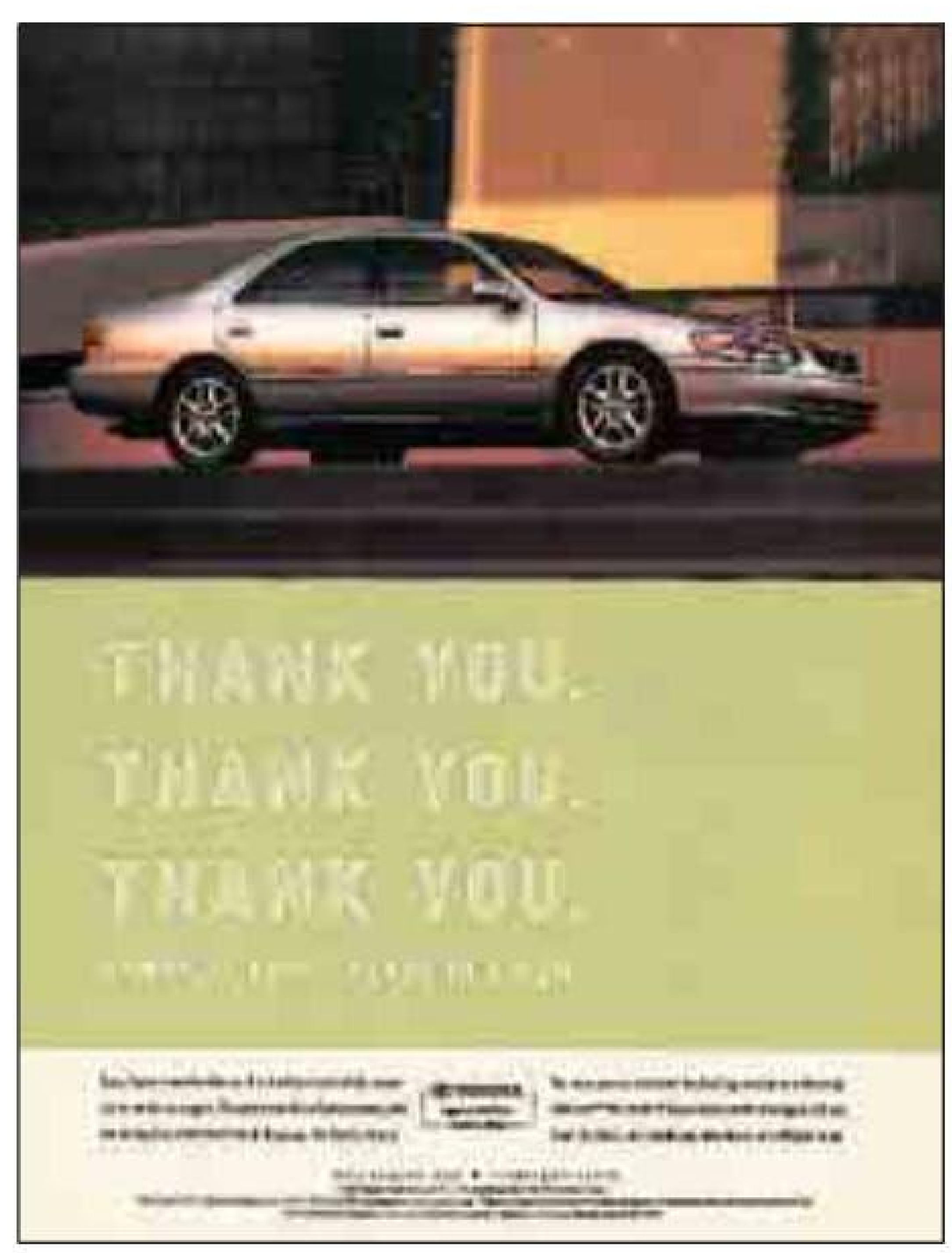
As we saw in Chapter 1, it's useful to distinguish between two levels of marketing: the *micro* level (how individual firms run) and the *macro* level (how the whole system works). Some complaints against marketing are aimed at only one of these levels at a time. In other cases, the criticism *seems* to be directed to one level but actually is aimed at the other. Some critics of specific ads, for example, probably wouldn't be satisfied with *any* advertising. When evaluating marketing, we must treat each of these levels separately.

Nation's objectives affect evaluation

Different nations have different social and economic objectives. Dictatorships, for example, may be mainly concerned with satisfying the needs of society as seen by the political elite. In a socialist state, the objective might be to satisfy society's needs as defined by government planners. In a society that has recently broken the chains of communism, the objective may be to make the transition to a market-directed economy as quickly as possible—before there are more revolts.

Consumer satisfaction is the objective in the United States

In the United States, *the basic objective of our market-directed economic system has been to satisfy consumer needs as they, the consumers, see them.* This objective implies that political freedom and economic freedom go hand in hand and that citizens in a free society have the right to live as they choose. The majority of American consumers would be unwilling to give up the freedom of choice they now enjoy. The same can



Planetfeedback.com is a website that makes it easy for consumers to give feedback to companies. Of course, some feedback is clear from customers' choices in the marketplace. For example, Camry marketing managers gain very positive feedback from the fact that Camry is the number one selling car and that it has more repeat buyers than any other car.

In the U.S., banks provide all kinds of special services to meet customer expectations. In Russia, consumer expectations about banks are different, so Rikk uses TV ads to emphasize that it's not going to do anything unusual, it's just going to be a solid bank.

be said for Canada, Great Britain, and most other countries in the European Union. However, for focus we will concentrate on marketing as it exists in American society.

Therefore, let's try to evaluate the operation of marketing in the American economy—where the present objective is to satisfy consumer needs *as consumers see them*. This is the essence of our system. The business firm that ignores this fact is asking for trouble.

Can Consumer Satisfaction Be Measured?

Since consumer satisfaction is our objective, marketing's effectiveness must be measured by *how well* it satisfies consumers. There have been various efforts to measure overall consumer satisfaction not only in the United States but also in other countries. For example, a team of researchers at the University of Michigan has created the American Customer Satisfaction Index based on regular interviews with thousands of customers of about 200 companies and 34 industries. The 2001 index was lower than it was when the effort started seven years earlier. Similar studies are available for member countries of the European Union.

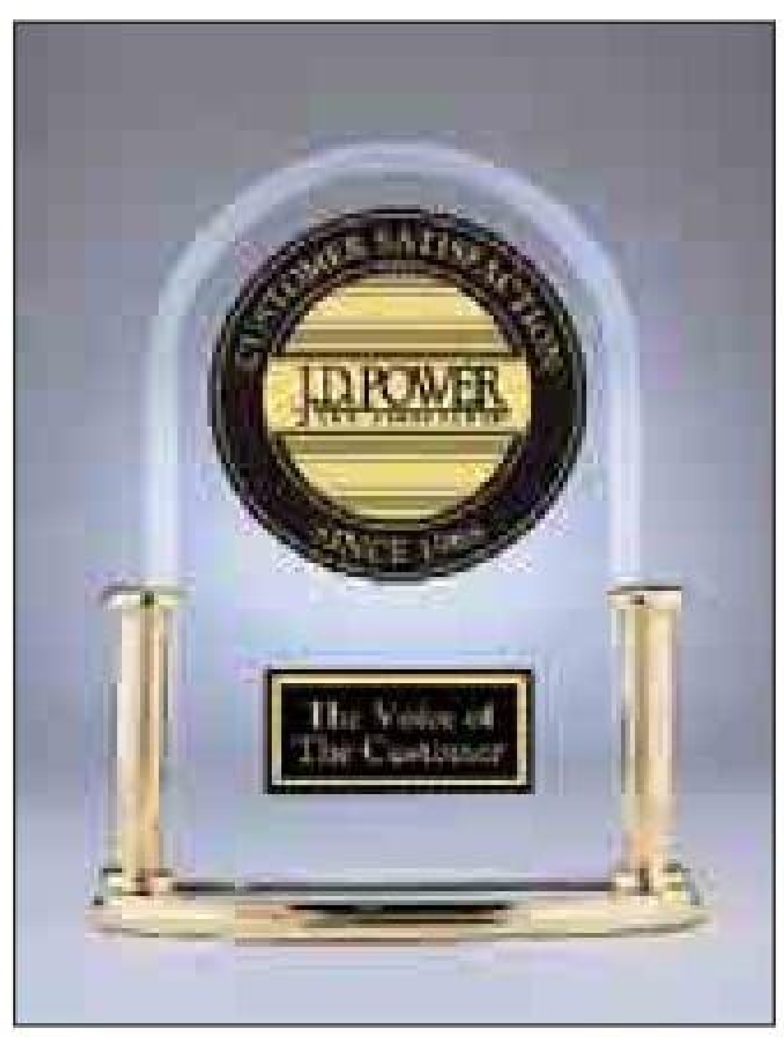
Satisfaction depends on individual aspirations

This sort of index makes it possible to track changes in consumer satisfaction measures over time and even allows comparison among countries. That's potentially useful. Yet there are limits to interpreting any measure of consumer satisfaction when we try to evaluate macro-marketing effectiveness in any absolute sense. One basic issue is that satisfaction depends on and is *relative to* your level of aspiration or expectation. Less prosperous consumers begin to expect more out of an economy as they see the higher living standards of others. Also, aspiration levels tend to rise with repeated successes and fall with failures. Products considered satisfactory one day may not be satisfactory the next day, or vice versa. A few years ago, most of us were more than satisfied with a 19-inch color TV that pulled in three or four channels. But once you've watched one of the newer large-screen models and enjoyed all the options possible with a digital satellite receiver or a DVD, that old TV is never the same again. And when high-definition digital TVs and interactive broadcast systems become more widespread, today's most satisfying units won't seem quite so acceptable.

In addition, consumer satisfaction is a highly personal concept—and looking at the "average" satisfaction of a whole society does not provide a complete picture for evaluating macro-marketing effectiveness. At a minimum, some consumers are more satisfied than others. So although efforts to measure satisfaction are useful, any evaluation of macro-marketing effectiveness has to be largely subjective.

Probably the supreme test is whether the macro-marketing system satisfies enough individual consumer-citizens so that they vote—at the ballot box—to keep it running. So far, we've done so in the United States.[4]

There are many measures of micro-marketing effectiveness



Measuring micro-marketing effectiveness is also difficult, but it can be done. Expectations may change just as other aspects of the market environment change—so firms have to do a good job of coping with the change. Individual business firms can and should try to measure how well their marketing mixes satisfy their customers (or why they fail). In fact, most large firms now have some type of ongoing effort to determine whether they're satisfying their target markets. For example, the J. D. Power marketing research firm is well known for its studies of consumer satisfaction with different makes of automobiles and computers. And the American Customer Satisfaction Index is also used to rate individual companies. For example, in the 2001 results, McDonald's ranked among the poorest performing retailers. While managers at McDonald's take issue with that result, the firm's own internal satisfaction studies say that on the average day 11 percent of McDonald's customers complain to the restaurant about some dissatisfaction (for example, because of slow service, wrong orders, dirty stores, or employees who have forgotten the company's "we love to see you smile" slogan). It's reported that 70 percent of those dissatisfied customers are further dissatisfied with the way McDonald's handled the complaint.[5]

Many large and small firms measure customer satisfaction with attitude research studies. Other widely used methods include comment cards, e-mail response features on websites, unsolicited consumer responses (usually complaints), opinions of middlemen and salespeople, market test results, and profits. Of course, customers may be very satisfied about some aspects of what a firm is doing but dissatisfied about other dimensions of performance.[6]

In our market-directed system, it's up to each customer to decide how effectively individual firms satisfy his or her needs. Usually, customers will buy more of the products that satisfy them—and they'll do it repeatedly. That's why firms that develop really satisfying marketing mixes are able to develop profitable long-term relationships with the customers that they serve. Because efficient marketing plans can increase profits, profits can be used as a rough measure of a firm's efficiency in satisfying customers. Nonprofit organizations have a different bottom line, but they too will fail if they don't satisfy supporters and get the resources they need to continue to operate.

Evaluating marketing effectiveness is difficult—but not impossible

It's easy to see why opinions differ concerning the effectiveness of micro- and macro-marketing. If the objective of the economy is clearly defined, however—and the argument is stripped of emotion—the big questions about marketing effectiveness probably *can* be answered.

In this chapter, we argue that micro-marketing (how individual firms and channels operate) frequently *does* cost too much but that macro-marketing (how the whole marketing system operates) *does not* cost too much, *given the present objective of the American economy—consumer satisfaction*. Don't accept this position as *the* answer but rather as a point of view. In the end, you'll have to make your own judgment.[7]

Micro-Marketing Often Does Cost Too Much

Throughout the text, we've explored what marketing managers could or should do to help their firms do a better job of satisfying customers—while achieving company objectives. Many firms implement highly successful marketing programs, but others are still too production-oriented and inefficient. For customers of these latter firms, micro-marketing often does cost too much.

Research shows that many consumers are not satisfied. But you know that already. All of us have had experiences when we weren't satisfied—when some firm didn't deliver on its promises. And the problem is much bigger than some marketers want to believe. Research suggests that the majority of consumer complaints are never reported. Worse, many complaints that are reported never get fully resolved.

The failure rate is high

Further evidence that too many firms are too production-oriented—and not nearly as efficient as they could be—is the fact that so many new products fail. New and old businesses—even ones that in the past were leaders in their markets—fail regularly too.

Generally speaking, marketing inefficiencies are due to one or more of three reasons:

1. Lack of interest in or understanding of the sometimes fickle customer.
2. Improper blending of the four Ps—caused in part by overemphasis on internal problems as contrasted with a customer orientation.
3. Lack of understanding of or adjustment to the marketing environment, especially what competitors do.

Any of these problems can easily be a fatal flaw—the sort of thing that leads to death-wish marketing and business failures. A firm can't create value if it doesn't have a clue what customers think or say. Even if a firm listens to the "voice of the customer," there's no incentive for the customer to buy if the benefits of the marketing mix don't exceed the costs. And if the firm succeeds in coming up with a marketing mix with benefits greater than costs, it still won't be a superior value unless it's better than what competitors offer.

The high cost of poor marketing mixes

Perhaps lack of concern for the customer is most noticeable in the ways the four Ps are sometimes combined—or forced—into a marketing mix. This happens in many ways. Too many firms develop a new product to satisfy some manager's pet idea, not to meet the needs of certain target customers. Or they see another company with a successful product and try to jump into the market with another me-too imitation—without even thinking about the competition they'll encounter. Often they don't worry about quality.

If a product is poorly designed, or if a firm uses inadequate channels or pricing that isn't competitive, it's easy to see why promotion may be costly. Aggressive spending on promotion doesn't make up for the other types of mistakes.

Maxwell House ready-to-drink coffee came in a package that looked like a milk carton, but it had an inner foil liner that caused problems when consumers heated the carton in a microwave. There was no mention on the package that it might make good iced coffee. Fixing these problems might not have made the product a success, but they certainly contributed to its failure.

Another sign of failure is the inability of firms to identify new target markets and new opportunities. A new marketing mix that isn't offered doesn't fail—but the lost opportunity can be significant for both a firm and society. Too many managers seize on whatever strategy seems easiest rather than seeking really new ways to satisfy customers. Too many companies stifle really innovative thinking. Layers of bureaucracy and a "that's not the way we do things" mentality just snuff it out.

On the other hand, not every new idea is a good idea for every company. For example, there is little doubt that e-commerce and online systems are having a dramatic effect in improving how many firms serve their customers. But in the last few years, hundreds of firms have lost millions of dollars with failed efforts to capitalize on the Internet or some "hot" website idea. Just jumping on the "what's new" bandwagon—without stopping to figure out how it is going to really satisfy the customer and result in profit for the firm—is as much a ticket for failure as being too slow or bureaucratic.

Micro-marketing does cost too much—but things are changing

For reasons like these, marketing does cost too much in many firms. Despite much publicity, the marketing concept is not really applied in many places.

But not all firms and marketers deserve criticism. More of them *are* becoming customer-oriented. And many are paying more attention to market-oriented planning to carry out the marketing concept more effectively. Throughout the text, we've highlighted firms and strategies that are making a difference. The successes of innovative firms—like Wal-Mart, 3M, ITW, Allegiance, AOL, Dell, Tesco, UPS, and Schwab—do not go unnoticed. Yes, they make some mistakes. That's human—and marketing is a human enterprise. But they have also showed the results that market-oriented strategy planning can produce.

Another encouraging sign is that more companies are recognizing that it often takes a diverse set of backgrounds and talents to meet the increasingly varied needs of its increasingly global customers. They're shedding "not-invented-here" biases and embracing technologies like the Internet and information systems, comparing what they do with the best practices of firms in totally different industries, and teaming up with outside specialists who can bring a fresh perspective.

Managers who adopt the marketing concept as a way of business life do a better job. They look for target market opportunities and carefully blend the elements of the marketing mix to meet their customers' needs. As more of these managers rise in business, we can look forward to much lower micro-marketing costs and strategies that do a better job of satisfying customer needs.

Internet

Internet Exercise Ikea is an innovative furniture company that is using its website to refine its strategy. It has always relied on information technology to keep costs low by tracking sales at individual stores and using the information to control inventory and reduce shipping costs between the factory, distribution centers, and its massive retail stores. Go to the Ikea website (www.ikea.com). What else does the website tell you about Ikea's strategy? Does the website help Ikea offer superior value? Explain your answer.

Macro-Marketing Does Not Cost Too Much

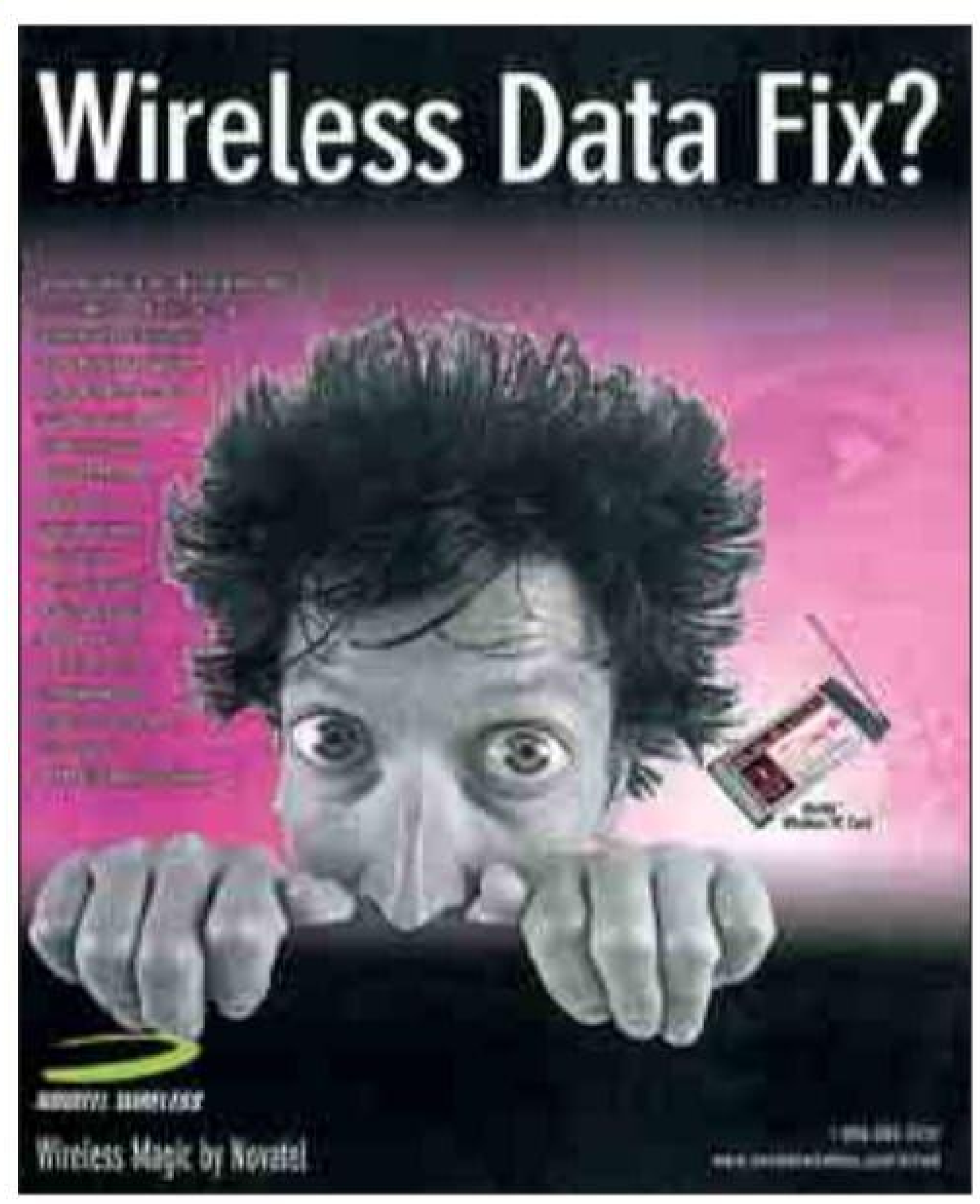
Many critics of marketing take aim at the macro-marketing system. They think (1) advertising, and promotion in general, are socially undesirable and (2) the macro-marketing system causes poor use of resources, limits income and employment, and leads to an unfair distribution of income. Most of these complaints imply that some micro-marketing activities should not be permitted—and because they are, our macro-marketing system does a poor job. Let's look at some of these positions to help you form your own opinion.

Micro-efforts help the economy grow

Some critics feel that marketing helps create a monopoly or at least monopolistic competition. Further, they think this leads to higher prices, restricted output, and reduction in national income and employment.

It's true that firms in a market-directed economy try to carve out separate monopolistic markets for themselves with new products. But consumers do have a choice. They don't *have* to buy the new product unless they think it's a better value. The old products are still available. In fact, to meet the new competition, prices of the old products usually drop. And that makes them even more available.

Marketing stimulates innovation and the development of new ways to meet customers' needs.



Over several years, the innovator's profits may rise—but rising profits also encourage further innovation by competitors. This leads to new investments—which contribute to economic growth and higher levels of national income and employment. Around the world, many countries failed to achieve their potential for economic growth under centrally planned systems because this type of profit incentive didn't exist. Even now, many of the regulations that are imposed by the developed countries are left over from old ways of thinking and get in the way of progress.

Increased profits also attract competition. Profits then begin to drop as new competitors enter the market and begin producing somewhat similar products. (Recall the rise and fall of industry profit during the product life cycle.)

Is advertising a waste of resources?

Advertising is the most criticized of all micro-marketing activities. Indeed, many ads *are* annoying, insulting, misleading, and downright ineffective. This is one reason why micro-marketing often does cost too much. However, advertising can also make both the micro- and macro-marketing processes work better.

Advertising is an economical way to inform large numbers of potential customers about a firm's products. Provided that a product satisfies customer needs, advertising can increase demand for the product—resulting in economies of scale in manufacturing, distribution, and sales. Because these economies may more than offset advertising costs, advertising can actually *lower* prices to the consumer.[8]

Does marketing make people buy things they don't need?

Some critics feel that advertising manipulates consumers into buying products that they don't need. This, of course, raises a question. How should a society determine which products are unnecesary and shouldn't be produced or sold? One critic suggested that Americans could and should do without such items as pets, newspaper comic strips, second family cars, motorcycles, snowmobiles, campers, recreational boats and planes, aerosol products, pop and beer cans, and hats.[9] You may agree with some of these. But who should determine minimum material requirements of life—individual consumers or critics?

Consumers are not puppets

The idea that firms can manipulate consumers to buy anything the company chooses to produce simply isn't true. A consumer who buys a soft drink that tastes terrible won't buy another can of that brand—regardless of how much it's advertised. In fact, many new products fail the test of the market. Not even large corporations are assured of success every time they launch a new product. Consider, for example, the dismal fate of Pets.com and eToys.com, Ford's Edsel, Sony's beta format VCRs, Xerox's personal computers, and half of the TV programs put on the air in recent years by CBS. And if powerful corporations know some way to get people to buy products against their will, would companies like Lucent, General Motors, and Eastern Airlines have ever gone through long periods losing hundreds of millions of dollars?

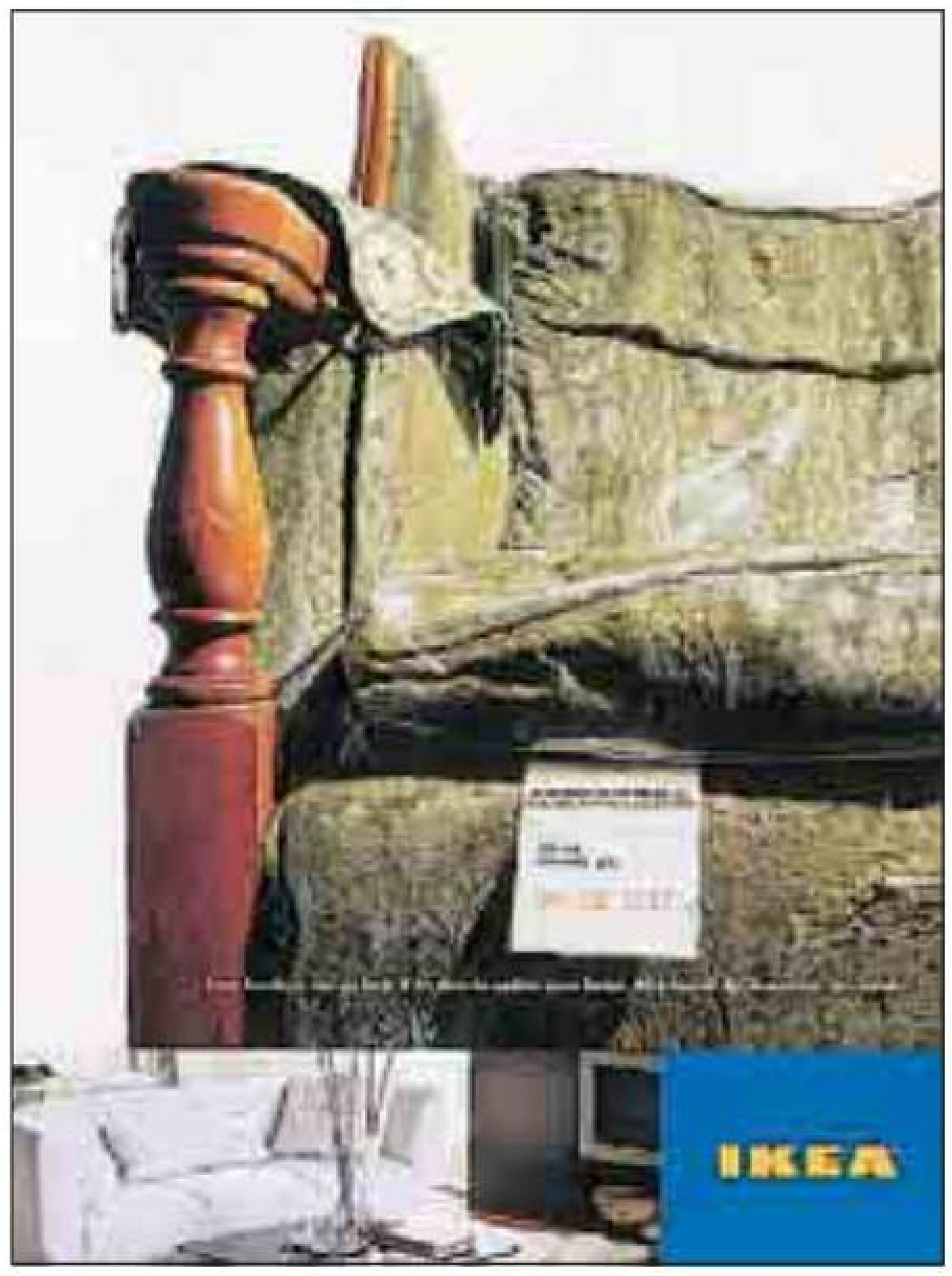
Needs and wants change

Consumer needs and wants change constantly. Few of us would care to live the way our grandparents lived when they were our age—let alone like the pioneers who traveled to unknown destinations in covered wagons. Marketing's job is not just to satisfy consumer wants as they exist at any particular point in time. Rather, marketing must keep looking for new and better ways to create value and serve consumers.[10]

Does marketing make people materialistic?

There is no doubt that marketing caters to materialistic values. However, people disagree as to whether marketing creates these values or simply appeals to values already there.

Even in the most primitive societies, people want to accumulate possessions. In fact, in some tribal villages, social status is measured by how many goats or sheep a person owns. Further, the tendency for ancient pharaohs and kings to surround themselves with wealth and treasures can hardly be attributed to the persuasive powers of advertising agencies!



Some critics argue that people are bombarded with too much advertising and that it tends to cater to materialistic values. However, in a free market consumers have choices, and so advertising tends to reflect society's values rather than create them.

The idea that marketers create and serve "false tastes"—as defined by individual critics—was answered by a well-known economist who said:

> The marketplace responds to the tastes of consumers with the goods and services that are salable, whether the tastes are elevated or depraved. It is unfair to criticize the marketplace for fulfilling these desires . . . it is like blaming waiters in restaurants for obesity.[11]

Marketing reflects our own values

Critics say that advertising elevates the wrong values—for example, by relying on sex appeal to get attention and generally sending the signal that what really matters most is self-gratification. Experts who study values seem to agree that, in the short run, marketing reflects social values, while in the long run it enhances and reinforces them. One expert pointed out that consumers vote for what they want in the marketplace and in the polling place. To say that what they choose is wrong, he said, is to criticize the basic idea of free choice and democracy.[12]

Further, many companies work hard to figure out their customers' beliefs and values. Then they refuse to use ads that would be offensive to their target customers.

Products do improve the quality of life

More is not always better. The quality of life can't be measured just in terms of quantities of material goods. But when we view products as the means to an end rather than the end itself, they *do* make it possible to satisfy higher-level needs. Microwave ovens, for example, greatly reduced the amount of time and effort people must spend preparing meals—leaving them free to pursue other interests. More dependable cars expanded people's geographic horizons—affecting where they can live and work and play. The Internet empowers people with information in ways that few could have even imagined a few years ago.

Not all needs are met

Some critics argue that our macro-marketing system is flawed because it does not provide solutions to important problems, such as questions about how to help the homeless, the uneducated, dependent children, minorities who have suffered discrimination, the elderly poor, and the sick. Many of these people do live in dire circumstances. But is that the result of a market-directed system?

There is no doubt that many firms focus their effort on people who can pay for what they have to offer. But as the forces of competition drive down prices, more people are able to afford more of what they need. And the matching of supply and demand stimulates economic growth, creates jobs, and spreads income among more people. In other words, a market-directed economy makes efficient use of resources. However, it can't guarantee that government aid programs are effective. It doesn't ensure that all voters and politicians agree on which problems should be solved first—or how taxes should be set and allocated. It can't eliminate the possibility of a child being ignored.

These are important societal issues. But they are not the result of a market-directed system. Citizen-consumers in a democratic society assign some responsibilities to business and some to government. Most people in business share the concern that government too often does not do an effective job in addressing these problems. Many firms are working to identify and contribute solutions. But ultimately consumer-citizens vote in the ballot box for how to deal with these concerns—just as they vote with their dollars for which firms to support. As more managers in the public sector understand and apply marketing concepts, we should be able to do a better job meeting the needs of all people.

Challenges Facing Marketers

We've said that our macro-marketing system does *not* cost too much—given the present objective of our economy. But we admit that the performance of many business firms leaves a lot to be desired. This presents a challenge to serious-minded students and marketers. What needs to be done—if anything?

We need better performance at the micro level

Some business executives seem to feel that they should be completely free in a market-directed economy. They don't understand that ours is a market-directed system and that they must provide value to consumer-citizens. Instead, they focus on their own internal problems and don't satisfy consumers very well.

Change is the only thing that's constant

Many firms are still production-oriented. Some hardly plan at all, and others simply extend one year's plans into the next. Progressive firms are beginning to realize that this doesn't work in our fast-changing markets. Market-oriented strategy planning is becoming more important in many companies. Firms are paying more attention to changes in the market—including trends in the marketing environment—and how marketing strategies need to be adapted to consider these changes. Exhibit 22-1 lists some of the important trends and changes we've discussed throughout this text.

Most of the changes and trends summarized in Exhibit 22-1 are having a positive effect on how marketers serve society. Whether it's because marketers are applying new technologies to solve old marketing problems or applying classic marketing concepts to new kinds of opportunities, consumers are better off. And this ongoing improvement is self-directing. As consumers shift their support to firms that do meet their needs, laggard businesses are forced to either improve or get out of the way.

But some basic frameworks are timeless

Good marketing strategy planning needs to focus on a specific target market and a marketing mix to meet its needs. Many of the frameworks and ideas about how to do that are so fundamental that they haven't changed as much as the long list in Exhibit 22-1 seems to suggest. At the same time, thinking about all these changes highlights the fact that marketing is dynamic. Marketing managers must constantly evaluate their strategies to be sure they're not being left in the dust by competitors who see new and better ways of doing things.

If it ain't broke, improve it

It's crazy for a marketing manager to constantly change a strategy that's working well. But too many managers fail to see or plan for needed changes. They're afraid to do anything different and adhere to the idea that "if it ain't broke, don't fix it."

Exhibit 22-1 Some Important Changes and Trends Affecting Marketing Strategy Planning

Communication Technologies
The Internet and intranets
Satellite communications
HTML e-mail and instant messaging
Videoconferencing and Internet telephone
Cellular telephones

Role of Computerization
E-commerce, websites
Computers and PDAs
Spreadsheet analysis
Wireless networks
Scanners and bar codes for tracking
Multimedia integration

Marketing Research
Search engines
Growth of marketing information systems
Decision support systems
XML data exchange
Single source data (and scanner panels)
Data warehouses and data mining
Multimedia data and questionnaires
Customer relationship management (CRM) systems

Demographic Patterns
"Wired" households
Explosion in teen and ethnic submarkets
Aging of the baby boomers
Population growth slowdown in U.S.
Geographic shifts in population
Slower real income growth in U.S.

Business and Organizational Customers
Closer relationships and single sourcing
Just-in-time inventory systems/EDI
Web portals and Internet sourcing
Interactive bidding and proposal requests
Shift to NAICS
ISO 9000
E-commerce and supply chain management

Product Area
More attention to "really new" products
Faster new-product development
Computer-aided design (CAD)
R&D teams with market-driven focus
More attention to quality
More attention to service technologies
More attention to design, including packages
Category management

Channels and Logistics
Internet selling (wholesale and retail)
More vertical marketing systems
Clicks and bricks
Larger, more powerful retail chains
More attention to distribution service
Real-time inventory replenishment
Rapid response, JIT, and ECR
Automated warehousing and handling
Cross-docking at distribution centers
Logistics outsourcing
Cross-channel logistics coordination
Growth of mass-merchandising

Sales Promotion
Database-directed promotion
Point-of-purchase promotion
Trade promotion becoming more sensible
Event sponsorships
Better support from agencies
Customer loyalty programs
Customer acquisition cost analysis

Personal Selling
Sales technology
Automated order-taking
Use of laptop computers
Major accounts specialization
More telemarketing and team selling
Use of e-mail, fax, and voice mail

Mass Selling
Interactive media (websites, etc.)
Integrated marketing communication
More targeted media
  Pointcasting
  Specialty publications
  Specialty radio and TV (cable, satellite)
  Point-of-purchase
Growth of interactive agencies
Consolidation of global agencies
Consolidation of media companies
Changing agency compensation
Direct-response advertising
Shrinking media budgets

Pricing
Electronic bid pricing and auctions
Value pricing
Overuse of sales and deals
Bigger differences in functional discounts
More attention to exchange rate effects
Lower markups on higher stockturn items
Spreadsheets for marginal analysis

International Marketing
Struggles of post-communist economies
More international market development
Global competitors—at home and abroad
Global communication over Internet
New trade rules (NAFTA, WTO, EU, etc.)
More attention to exporting by small firms
International expansion by retailers
Impact of "pop" culture on traditional cultures
Tensions between "have" and "have-not" cultures
Growing role of airfreight

General
Explicit mission statements
SWOT analysis
Collapse of many dot-com startups
Benchmarking and total quality management
More attention to positioning and differentiation
Less regulation of business
Increased use of alliances
Shift away from diversification
More attention to profitability, not just sales
Greater attention to superior value
Addressing environmental concerns

But a firm can't always wait until a problem becomes completely obvious to do something about it. When customers move on and profits disappear, it may be too late to fix the problem. Marketing managers who take the lead in finding innovative new markets and approaches get a competitive advantage.

We need to use technology wisely

We live in a time of dramatic new technologies. For example, in just a few short years information technology has opened the door to radical new approaches for e-commerce and opportunities such as those available via the Internet. Many marketers hate the idea that what they've learned from years of on-the-job experience may no longer apply when a new technology comes along. Or they feel that it's the job of the technical specialist to figure out how a new technology can help the firm serve its customers. But identifying and understanding new ways of satisfying customers and meeting their needs *is* a basic marketing responsibility. Marketers can't just pawn that responsibility off on "somebody else." If that means learning about new technologies, then that is just part of the marketing job. It's better for the marketer to have to struggle to understand the implications of a new technology than it is to just assume that the technology specialists will struggle to understand customers' needs. More often than not, that's a really bad assumption. And when no one is worrying about the customers' point of view, everybody suffers the consequences.

At a broader level, firms face the challenge of determining what technologies are acceptable and which are not. For example, gene research has opened the door to life-saving medicines, genetically altered crops that resist drought or disease, and even cloning of human beings. Yet in all of these arenas there is intense conflict among different groups about what is appropriate. The fact that science allows us to do something doesn't necessarily mean that it should be done. On the other hand, how should these decisions be made? There is no simple answer to this question, but it's clear that old production-oriented views are *not* the answer. Perhaps we will move toward developing answers if some of the marketing ideas that have been applied to understanding individual needs can be extended to better understand the needs of society as a whole.

We need to welcome international competition

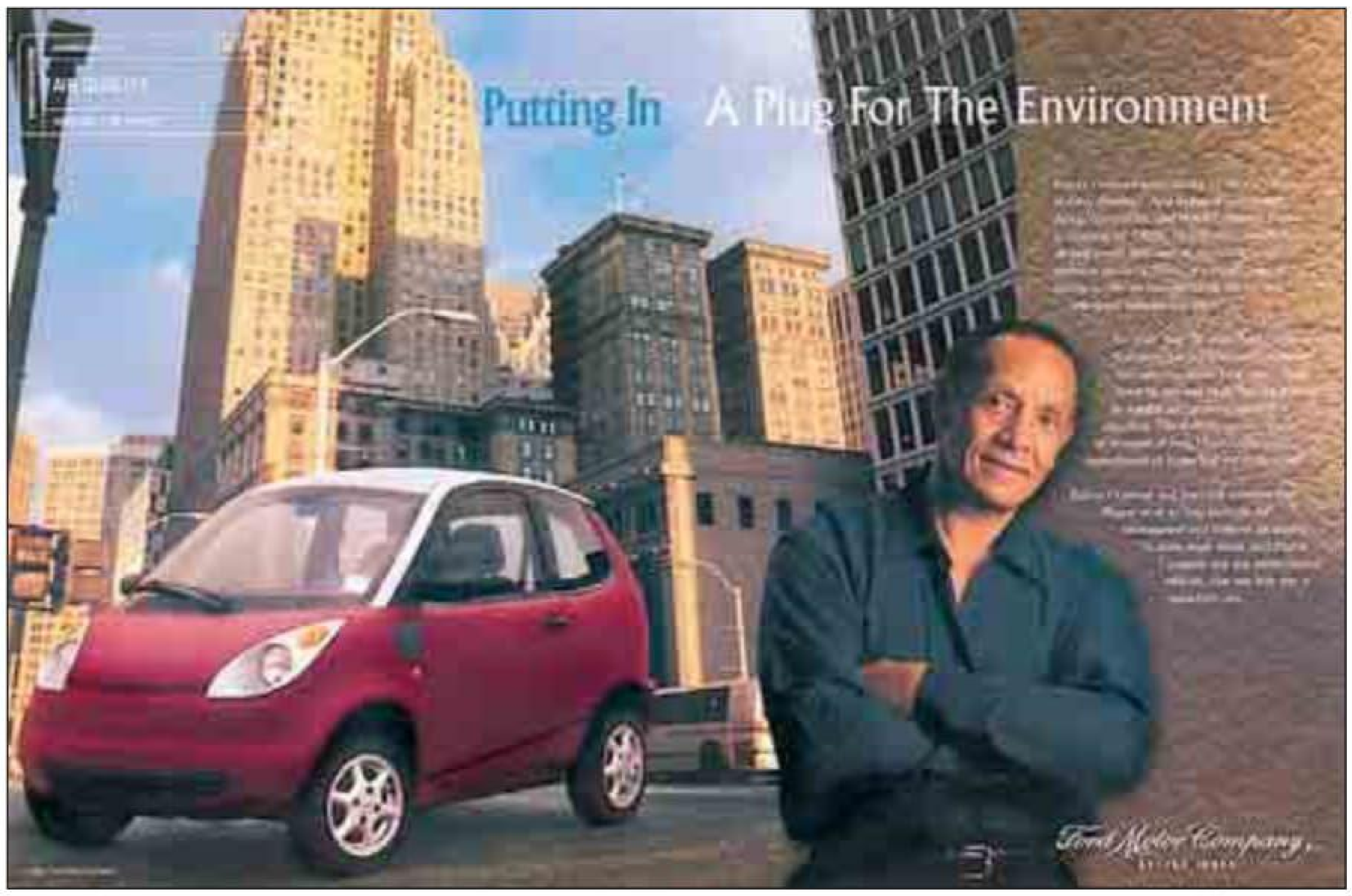
Increasingly, marketing managers face global competition. Some managers hate that thought. Worldwide competition creates even more pressure on marketing managers to figure out what it takes to gain a competitive advantage—both at home and in foreign markets. But with the challenge comes opportunities. The forces of competition in and among market-directed economies will help speed the diffusion of marketing advances to consumers everywhere. As macro-marketing systems improve worldwide, more consumers will have income to buy products—from wherever in the world those products come.

Marketers can't afford to bury their heads in the sand and hope that international competition will go away. Rather, they must realize that it is part of today's marketing environment—and they must do marketing strategy planning that rises to the challenges it poses.

May need more social responsibility

Good business managers put themselves in the consumer's position. A useful rule to follow might be: Do unto others as you would have others do unto you. In practice, this means developing satisfying marketing mixes for specific target markets. It may mean building in more quality or more safety. The consumer's long-run satisfaction should be considered too. How will the product hold up in use? What about service guarantees? While trying to serve the needs of some target market, does the marketing strategy disregard the rights and needs of other consumers or create problems that will be left for future generations?[13]

Short-sighted, production-oriented approaches undoubtedly won't work in the future. Tougher competition—from companies at home and abroad—may force old-style production-oriented business managers to change their thinking just to survive.



Marketers need to understand and be sensitive to consumer concerns. Issues like protecting the environment are important and firms that look for better ways to address this issue may find that they can do well by doing good.

The environment is everyone's need

Marketers need to work harder and smarter at finding ways to satisfy consumer needs without sacrificing the current or future environment. All consumers need the environment—whether they realize it yet or not. We are only beginning to understand the consequences of the environmental damage that's already been done. Acid rain, depletion of the ozone layer, global warming, and toxic waste in water supplies—to mention but a few current environmental problems—have catastrophic effects. Many top executives now say that preserving and protecting the environment will be one of the major challenges, if not *the* major challenge, of business firms in the new millennium.

In the past, most firms didn't pass the cost of environmental damage on to consumers in the prices that they paid. Pollution was a hidden and unmeasured cost for most companies. That is changing rapidly. Firms are already paying billions of dollars to correct problems—including problems created years ago. The government isn't accepting the excuse that "nobody knew it was a big problem." Consider yourself warned: Businesspeople who fail to anticipate the coming public backlash on this issue put their careers and businesses at risk!

Creative marketers should be able to figure out how to preserve the environment, meet customer needs, and make profits all at the same time. Aveda, a cosmetics company, uses seeds from a shrub in the Amazon rain forest for the reddish pigment in its lipstick. By giving natives of the Amazon a way to make a living without further clearing of the rain forest, Aveda is helping to preserve the forest and also meeting the needs of consumers who want to buy environmentally friendly products.[14]

May need attention to consumer privacy

While focusing on consumers' needs, marketers also must be sensitive to other consumer concerns. Today, sophisticated marketing research methods, the Internet, and other new technologies make it easier to abuse consumers' rights to privacy. For example, credit card records—which reveal much about consumers' purchases and private lives—are routinely computerized and sold to anybody who pays for the list.

Most consumers don't realize how much data about their personal lives—some of it incorrect but treated as fact—is collected and available. A simple computer billing error may land consumers on a computer bad-credit list—without their knowledge. Marketing managers should use technology responsibly to improve the quality of life, not disrupt it. If you don't think privacy is a serious matter, enter your social security number in an Internet search engine and see what pops up. You may be surprised.

Promotion Managers Go Back to School

Schools are a targeted place for youth-oriented marketers to promote their products to the U.S.'s 45 million elementary and secondary students. Coke and Pepsi are eager to contribute scoreboards (or is that billboards?) for high school sports fields. In school cafeterias, which serve 30 million meals a day, Kellogg's cereal and Dannon's yogurt sponsor programs to motivate learning (and increase consumption). A school district in Colorado got national attention for selling advertising space on the sides of its school buses. This is not a new idea. The National Dairy Council has promoted dairy products in the schools since 1915.

Even so, the launch of the Channel One television network with ads and programming for schools brought new attention to the issue. Many critics saw it as a crass attempt to exploit captive students. Some schools even hand out coupons tied in with the ads. Channel One notes that schools get benefits. Besides the excellent news programs, they get video equipment and chances to win support for Internet access. Even Internet access is a mixed blessing. It's a great research tool, but there are virtually no limits on Internet advertising banners or websites. A teacher who does an in-class search on an innocent topic like "Asian teens" may click on one of the websites listed and instantly face a screen full of explicit pictures from a Japanese website that sells porno videos. To prevent that sort of thing, many schools use a web-filtering program from N2H2, Inc. But critics are troubled that N2H2 sells information about student surfing habits collected by the program.

To find more targeted ways of reaching students, some consumer products firms turn to promotion specialists, like Sampling Corporation of America (SCA). About 70 percent of all schools participate in SCA programs. For example, every Halloween SCA provides schools with safety literature wrapped around product samples or coupons provided by sponsor companies. Other firms create teaching materials. Dole Foods' nutrition curriculum, for example, centers on a multimedia CD-ROM featuring 30 animated fruits and vegetables. Dole also urges supermarket produce managers to contact their local schools to arrange special tours. More than 750,000 elementary school students have taken in-store produce tours.

There is no question that in-school promotion efforts do provide budget-strapped educators with added resources, including useful teaching materials. Yet promotions targeted at students also raise sensitive issues of educational standards, ethics, and taste. Marketers who are not sensitive to these issues can provoke a hostile public backlash, including a host of new regulations.[15]

www.mhhe.com/fourps

May need to change laws and how they are enforced

One of the advantages of a market-directed economic system is that it operates automatically. But in our version of this system, consumer-citizens provide certain constraints (laws), which can be modified at any time. Managers who ignore consumer attitudes must realize that their actions may cause new restraints.

Before piling on too many new rules, however, we should review the ones we have. Some of them may need to be changed—and others may need to be enforced more carefully. Antitrust laws, for example, are often applied to protect competitors from each other—when they were really intended to encourage competition.

On the other hand, U.S. antitrust laws were originally developed with the idea that all firms competing in a market would be on a level playing field. That is no longer always true. For example, in many markets individual U.S. firms compete with foreign firms whose governments urge them to cooperate with each other. Such foreign firms don't see each other as competitors; rather they see U.S. firms, as a group, as the competitors.

Laws should affect top managers

Strict enforcement of present laws could have far-reaching results if more price fixers, fraudulent or deceptive advertisers, and others who violate existing laws—thus affecting the performance of the macro-marketing system—were sent to jail or given heavy fines. A quick change in attitudes might occur if unethical top managers—those who plan strategy—were prosecuted, instead of the salespeople or advertisers expected to deliver on weak or undifferentiated strategies.

Internet

Internet Exercise Obvious Implementations Corp. is a small consulting and manufacturing firm. Go to its website (www.obviously.com) and then select *How to stop junk mail, e-mail, and phone calls.* Read through the information and, if you wish, follow some of the links to other sites listed. Should it be easier to avoid mail, spam, and calls you don't want? Explain your thinking.

In other words, if the government made it clear that it was serious about improving the performance of our economic system, much could be achieved within the present system—*without* adding new constraints.

Laws merely define minimal ethical standards

As we discussed ethical issues in marketing throughout the text, we emphasized that a marketing manager doesn't face an ethical dilemma about complying with laws and regulations. Whether a marketer is operating in his or her own country or in a foreign nation, the legal environment sets the *minimal* standards of ethical behavior as defined by a society. In addition, the American Marketing Association's code of ethics (Exhibit 2-4) provides a checklist of basic guidelines that a marketing manager should observe. But marketing managers constantly face ethical issues where there are no clearly defined answers. Every marketing manager should be aware of this and make a personal commitment to carefully evaluate the ethical consequences of marketing strategy decisions.

On the other hand, our marketing system is designed to encourage firms to compete aggressively as long as they do it in a fair way. New and better ways of serving customers and society give a firm a competitive advantage—at least for some period of time. This is how we move forward as a society. Innovative new marketing strategies *do* sometimes cause problems for those who have a vested interest in the old ways. Some people try to portray anything that disrupts their own personal interest as unethical. But protecting the status quo is not by itself an appropriate ethical standard. To the contrary, our society's most basic ethical charge to marketers is to find new and better ways to serve society's needs.

Need socially responsible consumers

We've stressed that marketers should act responsibly—but consumers have responsibilities too. Some consumers abuse policies about returning goods, change price tags in self-service stores, and expect attractive surroundings and courteous, well-trained sales and service people—*and* want discount prices. Some are down right abusive to salespeople. Others think nothing of ripping off businesses because "they're rich." Shoplifting is a major problem for most traditional retailers—averaging almost 2 percent of sales nationally. In supermarkets, losses to shoplifters are on average greater than profits. Online retailers, in turn, must fight the use of stolen or fraudulent credit cards. Honest consumers pay for the cost of this theft in higher prices.[16]

Consumers have social responsibilities too. Sensormatic sells equipment that many retailers use to prevent shoplifting.

Americans tend to perform their dual role of consumer-citizens with a split personality. We often behave one way as consumers then take the opposite position at the ballot box. For example, we cover our beaches and parks with garbage and litter, while urging our legislators to take stiff action to curb pollution. We protest sex and violence in the media and then flock to see the latest R- or X-rated movies. Some of the most profitable websites on the Internet are purveyors of pornography. Parents complain about advertising aimed at children then use TV as a Saturday morning babysitter.

Unethical or illegal behavior is widespread. In a major survey of workers, managers, and executives from a wide range of industries, 48 percent admitted to taking unethical or illegal actions in the past year. Offenses included things like cheating on expense accounts, paying or accepting kickbacks, trading sex for sales, lying to customers, leaking company secrets, and looking the other way when environmental laws are violated. Think about it—we're talking about half of the workforce.[17]

As consumer-citizens, each of us shares the responsibility for preserving an effective macro-marketing system. And we should take this responsibility seriously. That even includes the responsibility to be smarter customers. Let's face it, a majority of consumers ignore most of the available information that could help them spend money (and guide the marketing process) more wisely. Consumerism has encouraged nutritional labeling, open dating, unit pricing, truth-in-lending, plain-language contracts and warranties, and so on. Government agencies publish many consumer buying guides on everything from tires to appliances, as do organizations such as Consumers Union. Most of this information is now available from home—over the Internet. It makes sense to use it.

How Far Should the Marketing Concept Go?

Should marketing managers limit consumers' freedom of choice?

Achieving a better macro-marketing system is certainly a desirable objective. But what part should a marketer play in deciding what products to offer?

This is extremely important, because some marketing managers, especially those in large corporations, can have an impact far larger than they do in their roles as consumer-citizens. For example, should they refuse to produce hazardous products, like skis or motorcycles, even though such products are in strong demand? Should they install safety devices that increase costs but that customers don't want?

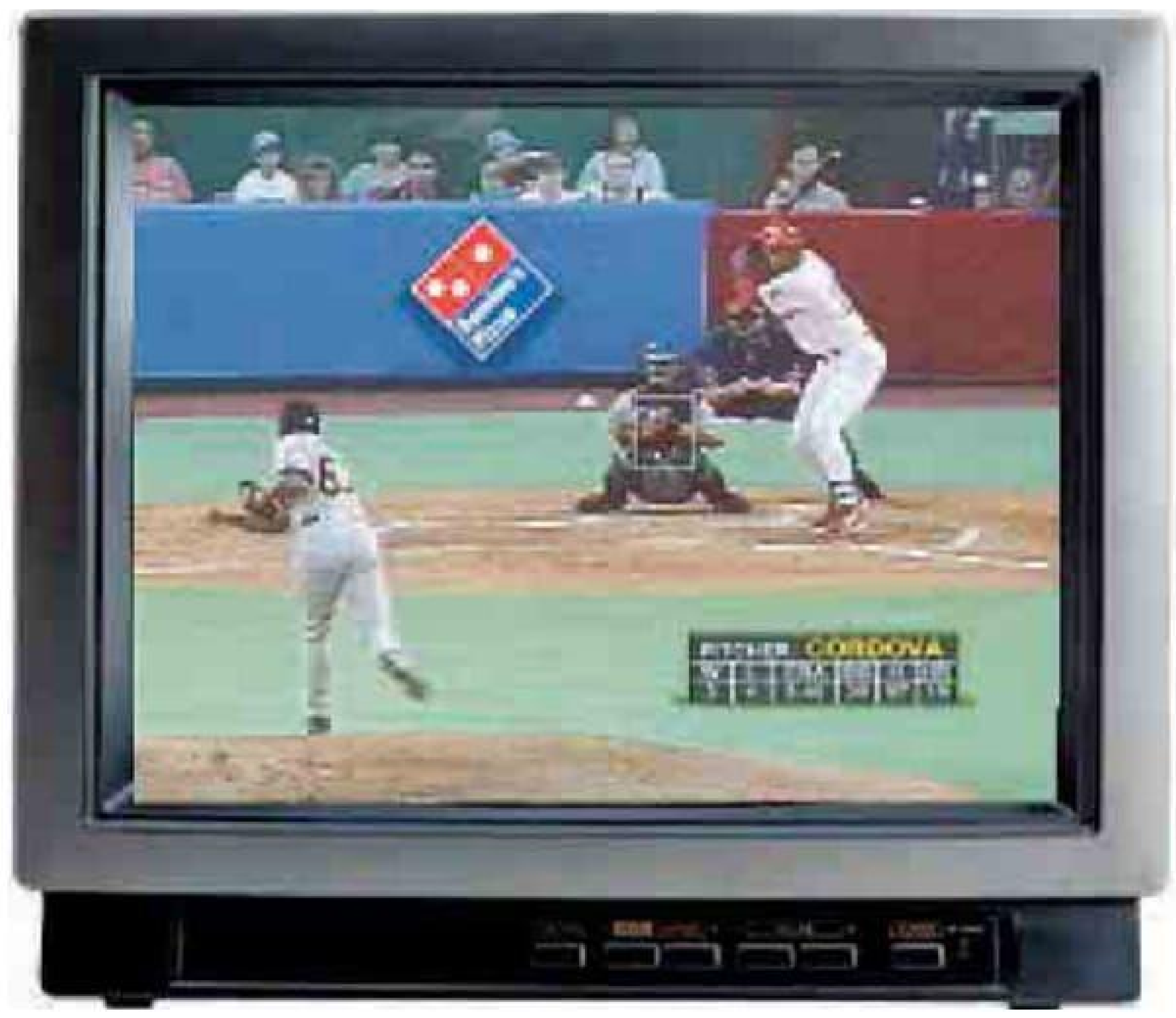
These are difficult questions to answer. Some things marketing managers do clearly benefit both the firm and consumers because they lower costs and/or improve consumers' options. But other choices may actually reduce consumer choice and conflict with a desire to improve the effectiveness of our macro-marketing system.

Consumer-citizens should vote on the changes

It seems fair to suggest, therefore, that marketing managers should be expected to improve and expand the range of goods and services they make available—always trying to add value and better satisfy consumers' needs and preferences. This is the job we've assigned to business.

If pursuing this objective makes excessive demands on scarce resources or has an unacceptable ecological effect, then consumer-citizens have the responsibility to vote for laws restricting individual firms that are trying to satisfy consumers' needs. This is the role that we, as consumers, have assigned to the government—to ensure that the macro-marketing system works effectively.

It is important to recognize that some *seemingly minor* modifications in our present system *might* result in very big, unintended problems. Allowing some government agency to prohibit the sale of products for seemingly good reasons could lead to major changes we never expected. (Bicycles, for example, are a very hazardous consumer product. Should they continue to be sold?) Clearly, such government actions could seriously reduce consumers' present rights to freedom of choice—including "bad" choices.



The Domino's logo shown here behind home plate does not actually exist on the playing field of this major league baseball game—but rather is created electronically. The advertiser pays the TV broadcaster to get the exposure. As new imaging technologies emerge, companies will have to decide what is fair and appropriate.

We, as consumer-citizens, should be careful to distinguish between proposed changes designed simply to modify our system and those designed to change it—perhaps drastically. In either case, we should have the opportunity to make the decision (through elected representatives). This decision should not be left in the hands of a few well-placed managers or government planners.

Marketing people may be even more necessary in the future

Regardless of the changes consumer-citizens may enact, we will need some kind of a marketing system in the future. Further, if satisfying more subtle needs—such as for the good life—becomes our objective, it could be even more important to have market-oriented firms. We may have to define not only an individual's needs but also society's needs—perhaps for a better neighborhood or more enriching social experiences, and so on. As we go beyond tangible physical goods into more sophisticated need-satisfying blends of goods and services, the trial-and-error approach of the typical production-oriented manager will become even less acceptable.[18]

Conclusion

Macro-marketing does *not* cost too much. Consumers have assigned business the role of satisfying their needs. Customers find it satisfactory and even desirable to permit businesses to cater to them and even to stimulate wants. As long as consumers are satisfied, macro-marketing will not cost too much—and business firms will be permitted to continue as profit-making entities.

But business exists at the consumer's discretion. It's mainly by satisfying the consumer that a particular firm—and *our* economic system—can justify its existence and hope to keep operating.

In carrying out this role—granted by consumers—business firms are not always as effective as they could be. Many business managers don't understand the marketing concept or the role that marketing plays in our way of life. They seem to feel that business has a God-given right to operate as it chooses. And they proceed in their typical production-oriented ways. Further, many managers have had little or no training in business management and are not as competent as they should be. Others fail to adjust to the changes taking place around them. And a few dishonest or unethical managers can do a great deal of damage before consumer-citizens take steps to stop them. As a result, micro-marketing often *does* cost too much. But the situation is improving. More business training is now available, and more competent people are being attracted to marketing and business generally. Clearly, *you* have a role to play in improving marketing activities in the future.

Marketing has new challenges to face in the future. *Our* consumers may have to settle for a lower standard of living. Resource shortages, slower population growth, and a larger number of elderly—with a smaller proportion of the population in the workforce—may all combine to reduce our income growth. This may force consumers to shift their consumption patterns and politicians to change some of the rules governing business. Even our present market-directed system may be threatened.

To keep our system working effectively, individual firms should implement the marketing concept in a more efficient, ethical, and socially responsible way. At the same time, we—as consumers—should consume goods and services in an intelligent and socially responsible way. Further, we have the responsibility to vote and ensure that we get the kind of macro-marketing system we want. What kind do you want? What should you do to ensure that fellow consumer-citizens will vote for your system? Is your system likely to satisfy you as well as another macro-marketing system? You don't have to answer these questions right now—but your answers will affect the future you'll live in and how satisfied you'll be.

Questions and Problems

1. Explain why marketing must be evaluated at two levels. What criteria should be used to evaluate each level of marketing? Defend your answer. Explain why your criteria are better than alternative criteria.
2. Discuss the merits of various economic system objectives. Is the objective of the American economic system sensible? Could it achieve more consumer satisfaction if sociologists or public officials determined how to satisfy the needs of lower-income or less-educated consumers? If so, what education or income level should be required before an individual is granted free choice?
3. Should the objective of our economy be maximum efficiency? If your answer is yes, efficiency in what? If not, what should the objective be?
4. Discuss the conflict of interests among production, finance, accounting, and marketing executives. How does this conflict affect the operation of an individual firm? The economic system? Why does this conflict exist?
5. Why does adoption of the marketing concept encourage a firm to operate more efficiently? Be specific about the impact of the marketing concept on the various departments of a firm.
6. In the short run, competition sometimes leads to inefficiency in the operation of our economic system. Many people argue for monopoly in order to eliminate this inefficiency. Discuss this solution.
7. How would officially granted monopolies affect the operation of our economic system? Consider the effect on allocation of resources, the level of income and employment, and the distribution of income. Is the effect any different if a firm obtains a monopoly by winning out in a competitive market?
8. Comment on the following statement: "Ultimately, the high cost of marketing is due only to consumers."
9. How far should the marketing concept go? How should we decide this issue?
10. Should marketing managers, or business managers in general, refrain from producing profitable products that some target customers want but that may not be in their long-run interest? Should firms be expected to produce "good" but less profitable products? What if such products break even? What if they are unprofitable but the company makes other profitable products—so on balance it still makes some profit? What criteria are you using for each of your answers?
11. Should a marketing manager or a business refuse to produce an "energy-gobbling" appliance that some consumers are demanding? Should a firm install an expensive safety device that will increase costs but that customers don't want? Are the same principles involved in both these questions? Explain.
12. Discuss how one or more of the trends or changes shown in Exhibit 22-1 is affecting marketing strategy planning for a specific firm that serves the market where you live.
13. Discuss how slower economic growth or no economic growth would affect your college community—in particular, its marketing institutions.

Suggested Cases

27. Plastic Master, Inc.
28. PCT, Inc.
29. Metal Works, Inc.
30. DeLuxe Foods, Ltd.
32. Lever, Ltd.