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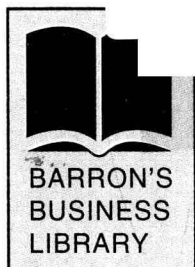
Second Edition

Robert D. Hisrich, Ph.D.

Knowing your market, then learning to command it

- market research • packaging • pricing
- advertising • distribution • much more

BARRON'S



# Marketing

Second Edition

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## Preface

The importance of marketing in successfully starting and operating a business cannot be overstated. Statistics indicating the high failure rate of newly created ventures and newly introduced products focus on the importance of marketing for success in both areas. Even though marketing affects every aspect of our lives, it is one of the most difficult concepts to understand fully and even more difficult to apply successfully in a business situation.

This book provides an in-depth, understandable, and practical explanation of marketing and marketing management for today's businesspeople. Each of 19 chapters presents a picture of one aspect of marketing as a dynamic, creative activity that impacts business success on a regular basis. The theoretical concepts are presented and illustrated to indicate their practical value in properly managing the marketing function. To make the book as meaningful as possible, each chapter begins with an introduction and the main points, contains numerous examples throughout, and concludes with a chapter perspective—a summary of the key concepts covered.

Many individuals—students, marketing executives, professors, and publishing staff—have made this book possible. Particular thanks goes to Teresa Kabat, without whom the manuscript would not have been typed in a clear, timely manner, and to Branko Bucar, Bostjan Antoncic, and Jennifer Baker for providing research material and editorial assistance. Finally, special thanks goes to Wendy Sleppin, project editor, and Sara Black, copy editor.

I am deeply indebted to my spouse, Tina, and my daughters, Kelly, Kary, and Katy, whose patience, support, and understanding helped bring this effort to fruition. It is to Kelly, Kary, and Katy and to the generation they represent that this book is particularly dedicated.

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# The Role of Marketing and Marketing Management

CHAPTER

1

## INTRODUCTION AND MAIN POINTS

Marketing is a central aspect of every society, and to some extent affects the lives of everyone. This makes its analysis and understanding an important venture for all. In this chapter we will make sure you understand that marketing is not an isolated function within a firm, but rather begins and ends in the changing external hypercompetitive environment, starting with the idea for a product or service and finishing only when the consumer has had sufficient time for evaluation and hopefully purchase. We will focus on the fact that marketing is a process by which decisions are made in a totally interrelated business environment on all the activities that facilitate exchange so that targeted groups of customers are satisfied and the objectives of the organization are accomplished.

Establishing *objectives* is a critical first step and needs to be accomplished in light of the going-concern concept—most firms intend to do business with the same or similar customers over a period of time. All strategic decisions on marketing activities should be based on the needs and desires of the targeted group of customers. The activities facilitating exchange are the controllable marketing elements of the marketing mix—the product, price, distribution and promotion.

After studying the material in this chapter:

- You will know the definition and nature of marketing as a process.
- You will be able to explain the controllable marketing elements.
- You will understand the evolution of marketing and society.

## MARKETING AND THE MARKETING PROCESS

Marketing is a central part of every society, influencing everyone in the society to some extent. Marketing has an increasing impact on the decisions being made not only by buyers and sellers but

also by a diverse group including physicians, lawyers, politicians, and even the clergy. For example, a state politician may be trying to decide how he should allocate his promotional budget during the last two weeks of an election campaign. Should an expensive television advertisement be used? Should there be more radio spots? Or would additional advertisements in various newspapers across the state be a better use of the available money? Other decisions need to be made on where he should spend his time. Should precincts that are borderline be visited, or should emphasis be placed in those that are somewhat more favorable? These and many more basic marketing decisions are made throughout any local, state, or national political campaign.

Buyers of industrial goods are confronted with related yet different aspects of marketing. Should sources of supply be switched because of the superior quality and lower price of the new supplier? Will a new firm be consistently able to supply the quantity needed at this price? Will the new supplier deliver the product on time, in order to avoid any costly plant shutdowns that would result from an out-of-stock condition? An industrial buyer must carefully weigh many aspects of marketing in selecting the correct product and supplier.

Finally, consider the consumer—you and me—trying to decide on a hair stylist. Should the aspects of the number of awards, services offered, or number of employees be considered? Or, should the locational convenience of alternative hair stylists take priority? What about switching hair stylists: what are the factors in developing stylist loyalty?

Similar to what occurred in each of these examples, marketing impacts the lives of everyone in a society. This makes it important for everyone to understand the marketing process not only in order to have a better lifestyle but also to be able to work in an organization. Even managers not in direct marketing positions need to understand marketing principles, since marketing is the major force stimulating sales—which are, after all, the principal source of the firm's revenues.

## MARKETING: AN INTEGRATED DEFINITION

But what exactly is this activity that has such an impact on our lives? The answer to this question depends on the perspective of the individual. Law, finance, economics, operations, and consumers all view marketing from a different vantage point.

The American Marketing Association developed its definition of marketing: "Marketing is the process of planning and exe-

cuting the conception, pricing, promotion and distribution of ideas, goods, and services to create exchanges that satisfy individual and organizational goals.”<sup>1</sup> In this strict definition, marketing begins with the production of goods or services and ends when the goods or services reach the consumer or user. A broader definition is more accurate in today’s rapidly changing hypercompetitive environment. Marketing actually begins with an *idea* for a product or service and ends only after the consumer has had sufficient time to evaluate the product thoroughly, which might be months or years later.

In the changing hypercompetitive environment, the following definition of marketing is more applicable: *Marketing is the process by which decisions are made in a totally interrelated changing business environment on all the activities that facilitate exchange in order that the targeted group of customers is satisfied and the defined objectives accomplished.* This definition has four major aspects which need further amplification.

First, how does this decision-making process impact the accomplishment of defined objectives? While the specific objectives vary from firm to firm as well as from product to product within a single firm, it is impossible for good managerial decisions to be made without defined objectives. The basic objective of a profit organization is of course to make a profit. While this objective may not occur in the short run or for some of the firm’s products, overall each firm must make a profit in the long run in order to continue to exist. Obtaining this objective under the going-concern concept—the organization plans to do business year after year—means that any profits realized cannot be at the sacrifice of customers or the environment.

Similarly, this going-concern concept is important in establishing and obtaining the objectives of a nonprofit organization. Nonprofit organizations’ objectives do vary greatly: a church may have the objective to reach 1,000 people in the coming year with the biblical message; a doctor to establish a good practice by competently handling his patients’ well-being; a university to attract the best students possible from a wide geographic area. Once established, the objectives should guide the strategic decision making of the firm, which sometimes does not occur. For example, one nonprofit organization with the established objective of helping orphans and disadvantaged youth by providing the best possible facilities and programs did not succeed because there were no image-building and fund-raising programs implemented to raise the necessary funds.



## Satisfying Target Customers

The second part of the definition—the satisfaction of the target group of customers—requires that the customer be the orientation and focus of all the firm's activities. The customer's wants and needs must be constantly analyzed, enabling the firm's offering to be exactly what is desired—the essence of the *marketing concept*. Without this focus, a customer can just as easily choose an alternative offering from a competitive firm.

## Activities Facilitating Exchange

All the activities that facilitate exchange, the third part of the definition, include all the controllable marketing elements of the firm available for use in customer satisfaction. These controllable marketing elements, which comprise the firm's offering, can be classified in four areas—product, price, distribution, and promotion. As is indicated in Figure 1-1, each element has its own mix where strategic decisions are needed in order to achieve customer satisfaction.

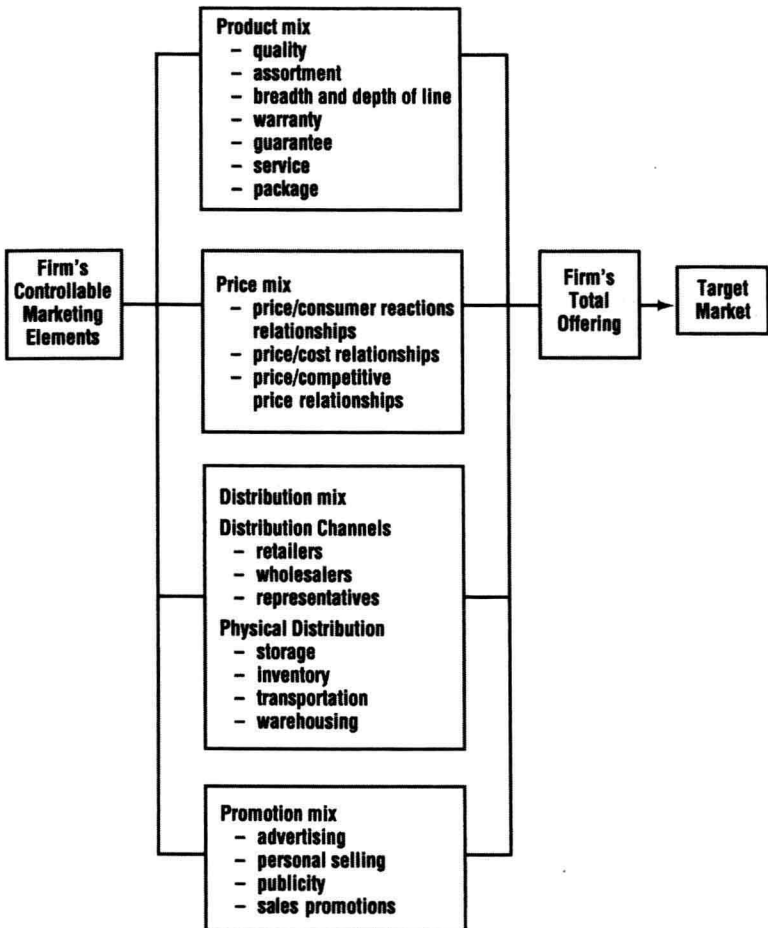
The product area includes all the aspects that make up the physical product or service being offered for sale. Decisions need to be made on quality, assortment, the breadth and depth of line, warranty, guarantee, service, and the package. All these aspects make the final product or service more (or less) appealing to the target market.

Closely related to the product and its mix is the price. While probably the least understood of the elements, the price of the product greatly influences the image of the product as well as whether or not it will be purchased. The price established needs to take into consideration the three Cs—cost, competition, and the consumer.

The third basic element of the marketing mix—distribution—covers two different areas. The first area—channels of distribution—deals with the institutions such as wholesalers and retailers that handle the product between the firm and the consumer. Physical distribution, the second area, deals with the aspects of physically moving the product from the firm to the consumer. This includes such things as warehousing, inventory, and transportation.

The final element—promotion—involves policies and procedures related to four areas:

1. *Personal Selling*. Emphasis on personal selling and the methods to be employed in the manufacturer's organization and in the trade.

FIG. 1-1. *Marketing activities.*

2. *Advertising*. Policies and procedures relating to budget, message, and media.
3. *Sales Promotions*. Policies and procedures relating to budget and types of consumer and trade promotions and displays.
4. *Publicity*. Policies and procedures relating to a comprehensive program for good media coverage and a strong company image.

The final part of the definition indicates that marketing exists in a totally interrelated and changing external and internal environment. Decisions in the other functional areas of the firm as well as those made in competitive firms affect the rate of this change, as do the other variables in the external environment.

Two types of decisions are being made by marketing managers in this changing environment: strategic decisions and tactical decisions. *Strategic decisions* are broad-range decisions of a year or longer that establish an overall framework for the firm's marketing actions. For example, a strategic decision for many automobile manufacturers has been to increase their warranty from one year—12,000 miles to six years—60,000 miles.

*Tactical decisions*, on the other hand, are short-run, more frequently made decisions by which marketing activities are implemented and managed on a daily basis. In the case of the automakers' increase in the warranty time period, a tactical decision was the preparation and distribution of the new warranty cards to the respective dealers. One of the tactical decisions in the launching of Coast soap by Procter and Gamble was the distribution of free samples of the product in selected areas in New England.

## THE MARKETING CONCEPT

More than any other functional business area, marketing helps develop the goals and direction of the organization. Overall, the basic philosophy operant within the firm's management should focus on the satisfaction of the target customer—the heart of the *marketing concept*. Under the marketing concept, the consumer becomes the dominant focal point of the firm, with all the resources and activities in the firm directed at generating customer satisfaction.

The adoption of a marketing concept by many firms in the United States as well as the rest of the world was precipitated by several factors. First, there has been an increase in the intensity of competition (hypercompetition) in both national and international

markets, forcing organizations to place greater emphasis on consumers and their satisfaction. A second factor that has caused the adoption of the marketing concept is the high level of consumer knowledge and sophistication. Consumers are more aware of product alternatives and price than ever before. Just count the number of shoppers carrying calculators and coupons in your local supermarket.

As consumers become increasingly aware of the various options available, only those products and services that are recognized as “need satisfying” will be purchased.

A high level of consumer awareness has evolved in the United States and other developed countries due, in part, to the good communication systems. The communication system has informed consumers of faulty products (such as General Motors recalling specific models of cars and trucks), price increases (such as U.S. Steel announcing a forthcoming price increase on rolled steel), and fraudulent advertising (such as the Federal Trade Commission investigating the claims of American Express). The resulting increased awareness has enabled consumers to be much more discriminating in their purchase decisions.

An increase in production capabilities in conjunction with the development of worldwide markets has also led to the adoption of the marketing concept. Increased production capacity has led to economies in the scale of production—a decrease in per-unit production cost as the total number of units is increased. The increased units produced can only be sold through successfully selling to mass markets by focusing on customer satisfaction. This is the marketing concept.

Finally, the need for innovative products for survival has forced firms to place the customer first. Just a simple count of the number of times you have seen and heard the phrase “new and improved” indicates the size of the consumer appetite for new and supposedly better products. Yet, in spite of this hunger, somewhere between 80% and 90% of all new products introduced on the market fail. A key ingredient to successful new product introduction is knowing the needs and buying habits of the target group of consumers.

## **THE EVOLUTION OF MARKETING AND SOCIETY**

Marketing has evolved historically through numerous stages. There are four distinct stages that occur during the development of an economy, beginning with the start of “exchange” between two parties. The four stages each have three specific areas: the level of industrialization; the values and attitudes of management

toward marketing; and the degree of marketing knowledge. These three areas and their specific definition in each of the four stages are listed in Table 1-1.

**Table 1-1**  
*Principles Illustrated for a Primitive Society*

<i>Principle</i>	<i>Stage of Societal Development</i>	<i>Stage of Specialization of Labor or Resources Developed</i>	<i>Marketing Decision Needed</i>
1. Product Planning	Tribe now using spears, arrows, and knives all made from stone. Demand for such known only in this tribe.	Gilligan had the best method of producing stone instruments demanding sharp edges.	Whether to make spears, tomahawks, arrows, or knives—or perhaps a line of all these instruments.
2. Pricing	Game per capita was getting less plentiful and demand for better hunting instruments was increasing	Gilligan wanted to devote more time to stone instruments and less to hunting game for food.	How many or what part of an edible animal carcass should he demand for one instrument?
3. Branding Policies	Tribe now conscious that certain sharpened stone instruments were much better than others, but all qualities in the sharpened stone were not easily recognizable on sight. Furthermore, there was now just beginning to be communication between tribes and a realization that this problem existed in other	Gilligan had now brought his entire family into the production process, further breaking down the job so that each member of his family was a specialist, such as: (1) the oldest child would search, find, and bring back the raw materials or the kind of stone needed; (2) one would shape a rough prototype	Gilligan realized the need for putting his family insignia in some form on his superior product so tribesmen could quickly recognize this. This was particularly needed for far-off tribes with whom he had no personal contact.

Table 1-1 (continued)

<i>Principle</i>	<i>Stage of Societal Development</i>	<i>Stage of Specialization of Labor or Resources Developed</i>	<i>Marketing Decision Needed</i>
	tribes. Tribes were also recognizing other forms of specialization useful to the group. For instance, some tribe members lacked the courage and stamina to stay days on the hunt, yet were found to be good at tanning and curing hides.	of the instrument needed; (3) one would finish-form the instrument; and (4) one would put sharp edges on the finished form.	
4. Fact Finding and Analysis	Tribes were now using more specialized sharp stone instruments for slicing meats, cutting wood, etc. Some difficulties had been experienced with some of Gilligan's stone instruments. In an effort to make these sharper he had started to use a harder but more brittle stone. Some of these instruments were breaking after 1-6 months of use.	Gilligan had found better stone for holding a sharper edge for all of his instruments. Gilligan was now sending one of his children out to visit each tribe to determine new needs and problems being encountered.	Whether to continue with present stone and find method of treating with heat and tempering to avoid brittleness or go to different stone. The new instrument to be made to satisfy user needs.

## Stage 1

In the preindustrial (tribal, herdsman, or agrarian) stage, few if any individuals had accumulated capital, and life was devoted to meeting the basic needs of food, clothing, and shelter. This stage, usually reached within the family or tribal unit, has little specialization of labor or resources. In the marketing area all emphasis is on the production of useful, basic items. Most products are custom-made, fashioned by hand, and little attention is paid to anything like a "marketing mix." This is a state of unconscious ignorance. People "do not know that they do not know" that there are actually marketing principles and techniques in operation. Even though these techniques, values, and attitudes actually exist, there is no awareness of this.

## Stage 2

In the beginning of industrialization, specialization of labor has become so developed that assembly-line production is occurring for standardized products. This is the selling concept stage, with production people feeling: "We make it. It's the sales department's job to sell it." Little emphasis is given to determining whether the product being made is the best one to satisfy the customers' needs. Emphasis is on selling the output of production. This stage is exemplified by Henry Ford's comment about the Model T at the time assembly-line production was just beginning in the United States: "You can have any color you want as long as it is black." The marketing people during this stage are aware of the existence of underlying principles and concepts. While the existence of such principles is acknowledged, they are not yet defined or clearly understood.

## Stage 3

In stage 3, the society has evolved to an industrial base with the following characteristics. First, specialization of labor has become fully developed. Second, capital has been accumulated to permit large production units. Third, there is the capacity to over-produce. Management, at this point, has adopted the marketing concept, with emphasis on the customer. Consumers' needs are researched, and methods of informing them about products satisfying these needs are becoming increasingly more elaborate. The products are also readily and conveniently available. There is greater emphasis on marketing principles with the companies carrying out these marketing principles having greater success.

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At this point, marketing people have developed conscious knowledge. Marketing concepts have been analyzed and defined, stages of development recognized, and theory and practice refined. There is also a conscious effort to understand and apply this knowledge.

### Stage 4

The last developmental stage is the *postindustrialization* or *visionary stage*. Technology has solved most production inefficiencies, making the capacity to produce unlimited. Only shortages of raw materials and demand limit the actual production. Management has adopted more of a societal concept of marketing, with emphasis on the following: (1) how to dispose of the wastes from products without negatively affecting human health or lifestyles; (2) how to administer society to take into account any resulting shortages of raw material; and (3) how to promote nonprofit institutions that exist for the betterment of society. Acquisitions of products have diminished in importance compared to the freedom and time to develop a nice lifestyle. Quality of life is given more attention than quantity accumulated. Emphasis in marketing is on social needs rather than the need for more or better products. Marketing people have evolved to the point of unconscious application—subconsciously carrying out the proper principles without actually referring to them.

Two things are important in understanding this four-stage evolution concept. First, all societies do not move concurrently through these stages. Today there are tribes in Africa and in Brazil that are still in the preindustrial stages. A great part of the civilized world is in the industrialization stage, and the United States, Japan, and Germany are in the postindustrial stage.

Second, all enterprises within a particular country are not in the same stage at a given time. In the United States, there are corporations that are still in the product stage of marketing, while still others are in the consumer stage and selling concept stage. Some are in the societal concept stage.

### SOCIETAL MARKETING CONCEPT

The significant growth in the influence and power of business and the simultaneous increase in environmental deterioration, world hunger and poverty, and knowledge and awareness of social issues by the populace that is occurring has brought about an increase in business scrutiny and a questioning of whether business is acting in the best long-run interests of consumers and



society. This questioning and the finiteness of resources and damageable environment has led to a new stage (the fifth stage) emerging—the societal marketing stage. *Societal marketing* is when an organization, namely a business, understands the consumer's wants and needs and delivers the desired satisfaction effectively and efficiently in a way that preserves both the consumers' and society's well-being. Societal marketing means that social and ethical considerations are one aspect of every marketing decision and practice. This requires that the firm balance long-run consumer welfare with its long-term goal of profitability and include social, ethical, and ecological considerations in its product and market planning. Two companies have been identified as embracing the societal marketing concept—Ben & Jerry's (a producer of super-premium ice cream since 1978) and The Body Shop (a manufacturer and retailer of natural ingredient-based cosmetics in recyclable packaging since 1976).

Two concepts have taken the forefront in societal marketing—social responsibility and business ethics. *Social responsibility* means that the firm needs to consider and be concerned about its impact on society, particularly in its marketing activities. This social responsibility needs to be in the economic, legal, ethical, and discretionary areas. A prime example of social responsibility is the quick response of Johnson and Johnson to the Tylenol tragedy in 1982 when seven Chicago people died from cyanide-laced Extra-Strength Tylenol capsules. The company immediately withdrew all Tylenol capsules from retail shelves all over the United States and the packaging was changed to include a sealed cardboard box, a sealed plastic bottle top, and an inner seal covering the bottle. The cost to Johnson and Johnson was: product recall and lost profits, \$50 million, and repackaging costs, \$100 million.

The other concept—*business ethics*—is doing good or the right thing in a given human situation. Business practices are evaluated in light of human value, and profits should be achieved along with some human good. Business ethics refers to the individual marketing managers, whereas social responsibility refers to the entire marketing area or business concern. Together business ethics and social responsibility form the main basis for societal marketing, which redefines the bounds within which the marketing manager must satisfy customer wants and needs profitably while accomplishing the objectives of the firm.