# BU 285 H8 GJJR 549.25

# Pride / Ferrell Fifth Edition

# William M. Pride

Texas A & M University

O. C. Ferrell

Texas A & M University

Houghton Mifflin Company

Boston

Cover Photography: Martin Paul Illustrations: Boston Graphics, Inc.

Credits for Company Logos: p. 105, Kinder-Care Learning Centers Inc.; p. 157, Jacuzzi is a registered trademark of Jacuzzi Inc.; p. 260, Saab-Scania of America; p. 311, registered trademark of Ralston Purina Company; p. 369, the service mark 'Federal Express' is used pursuant to a license agreement with Federal Express Corporation, the owner of the service mark; p. 398, 'Coca-Cola,' 'Coke,' and the Dynamic Ribbon are registered trademarks of the Coca-Cola Company and are used with permission; p. 563, reprinted with permission of Campbell Soup Company; p. 566, Sigma Marketing Concepts, Jacksonville, Florida.

Copyright © 1987 by Houghton Mifflin Company. All rights reserved.

No part of this work may be reproduced or transmitted in any form or by any means, electronic or mechanical, including photocopying and recording, or by any information storage or retrieval system, except as may be expressly permitted by the 1976 Copyright Act or in writing by the Publisher. Requests for permission should be addressed to Permissions, Houghton Mifflin Company, One Beacon Street, Boston, Massachusetts 02108.

Printed in the U.S.A.

Library of Congress Catalog Card Number: 86-81102

ISBN: 0-395-35710-1

BCDEFGHIJ-VH-8987

### **Preface**

Marketing is a relevant, challenging, and exciting field to study. Our economy, our lifestyles, and our physical well-being are directly or indirectly influenced by marketing activities. We believe that *Marketing: Basic Concepts and Decisions* is widely used because it provides comprehensive coverage and effectively stimulates student interest with its readable style and extensive use of interesting, real-life examples. The depth of coverage in this text provides students with a full understanding of the marketing discipline.

To provide insight to the practice of marketing in a changing environment, this book presents a comprehensive framework that integrates traditional concepts with the realities of today. *Marketing: Basic Concepts and Decisions* presents the concepts and applications that are most relevant to the marketing decision maker. While our view is broad enough to encompass marketing in both business and nonbusiness situations, our focus is on the universal concerns of managers who are responsible for marketing decisions.

The study of the dynamic world of marketing requires continuous review, revision, and updating. After careful consideration of suggestions from reviewers and adopters, we have made a number of content changes in this edition that will provide students with a greater depth of knowledge of the marketing field. We have included two new chapters: one on organizational buying behavior and the second on the marketing of services. We have condensed two environmental chapters into one chapter and we have positioned it in the front of the text. It is now Chapter 2. In Chapter 1, we have revised our definition of marketing and we have included discussions of a number of key topics in the area of strategic marketing management.

The marketing research chapter in this edition includes more thorough coverage of shopping mall intercept studies, telephone interviewing, and the changing nature of personal interviewing. The first pricing chapter has been totally revised and updated. Some of the topics covered include non-price competition and a discussion of numerous factors that have an impact on marketers' pricing decisions. In the international marketing chapter, new sections on global marketing strategies and on trading companies have been added.

As in earlier editions, the Fifth Edition contains numerous real-world examples, illustrations, cases, and applications. In this edition a vast majority of the longer

applications that are set off in the main portion of the chapter are new. These new applications illustrate or extend the discussions of topics presented in the chapter. Half of the end-of-chapter cases are new; many of the others have been revised. Most of them focus on real, recognizable products and organizations.

In making improvements to this new edition, we have not lost sight of our original primary objective—to provide an introductory marketing textbook that is comprehensive, readable, teachable, full of real-world examples and illustrations, and interesting to students. Our book provides numerous features to facilitate student learning.

- Learning objectives at the beginning of each chapter inform the student about what should be achieved by reading the chapter.
- An opening vignette for each chapter provides a marketing situation that relates to issues discussed in the chapter.
- Many real-world examples about familiar products and organizations aid in illustrating and explaining concepts and issues.
- Two longer applications in each chapter provide examples of concepts and decisions. These applications are current and focus on recognizable firms and products.
- Numerous figures, tables, and photographs are used to facilitate learning.
- A complete summary in each chapter covers the major topics discussed.
- A list of important terms alerts the student to the major concepts and issues discussed in the chapter. These terms are highlighted in the text.
- Discussion and review questions are provided not only for review but also for thoughtful exploration of the topics covered in each chapter.
- Two concise and provocative cases appear at the end of each chapter.
- A visual framework for organizing the text is repeated at the beginning of each part to tell students how information in that part is related to other material in the text.
- Full color design makes the book come alive and emphasizes the real-world practical theme. Full color provides better contrast between art and prose and facilitates the ease of learning.
- A glossary appears at the end of the text to provide students with convenient access to definitions of over 625 important marketing terms.
- The appendices on financial analysis in marketing and on marketing careers provide additional insights to two important areas.
- The name index and the subject index aid in quickly finding topics of interest.

In addition to numerous instructor support materials discussed in the front of the instructor's manual, the package for this text includes a number of components to aid in both teaching and learning. A study guide, *Understanding Marketing*, is available for use with the text. A casebook, entitled *Marketing Cases*, is also available. It contains 42 short-to-medium length cases designed to facilitate an understanding of how marketing decisions are made. *Marketer: A Simulation* provides student teams with experience in making marketing decisions and is designed for use with most popular microcomputers. MICRO-STUDY, a computerized, self-instructional program for use on microcomputers, aids students' mastery of key marketing concepts.

The seven parts of Marketing: Basic Concepts and Decisions are organized

around a managerial framework to give students both an understanding of marketing concepts and an understanding of how to apply them when making decisions and managing marketing activities. In Part I, we discuss general concepts and present an overview of marketing. We also consider the marketing environment, types of markets, target market analysis, buyer behavior, and marketing research. Part II presents product concepts and the development and management of products. In Part III, we examine marketing channels, institutions, and physical distribution. In Part IV, we analyze promotion decisions and methods, such as advertising, personal selling, sales promotion, and publicity. The chapters in Part V are devoted to pricing decisions. Part VI focuses on marketing management and includes discussions of strategic market planning and organization, implementation, and control. The chapters in Part VII explore strategic decisions in the areas of industrial, service, nonbusiness, and international marketing.

Over the years we have received a number of very helpful suggestions for improving the text from professors and students. We invite your comments, questions, or criticisms. We want to do our best to provide materials that enhance the teaching and learning of basic marketing concepts and decisions. Your suggestions will be sincerely appreciated.

William M. Pride

O. C. Ferrell

Preface XXV

## **Acknowledgments**

Like most textbooks, this one reflects the ideas of a multitude of academicians and practitioners who have contributed to the development of the marketing discipline. We appreciate the opportunity to present their ideas in this book.

A number of individuals have made many helpful comments and recommendations in their reviews of this or earlier editions. We appreciate the generous help of these reviewers.

Timothy Hartman

Obio University

Sheldon Somerstein

City University of New York

Linda K. Anglin

Mankato State University

Winston Ring

University of Wisconsin-

Milwaukee

William Lundstrom

Old Dominion University

Shanna Greenwalt

Southern Illinois University

Philip Kemp

**DePaul University** 

Ernest F. Cooke

Memphis State University

Paul N. Bloom

University of North Carolina

George C. Hozier

University of New Mexico

Jay D. Lindquist

Western Michigan University

Robert F. Dwyer

University of Cincinnati

David R. Rink

Northern Illinois University

John Buckley

**Orange County Community** 

College

Thomas Ponzurick

West Virginia University

Barbara Unger

Western Washington

University

Harrison L. Grathwol

**University of Washington** 

Robert D. Hisrich

**Boston College** 

Charles L. Hilton

Eastern Kentucky University

Roy Klages

State University of New York at

Albany

William G. Browne

Oregon State University

Poondi Varadarajan

Texas A & M University

Lee R. Duffus

University of Tennessee

Glen Riecken

East Tennessee State University

W. R. Berdine

California State Polytechnic

Institute

Charles L. Lapp

University of Dallas

Thomas V. Greer

University of Maryland

Patricia Laidler

Massasoit Community College

Stan Madden **Baylor University** 

Elizabeth C. Hirschman

New York University

Peter Bloch

Louisiana State University

Linda Calderone

State University of New York Agricultural and Technical College at Farmingdale

Barbara Coe

North Texas State University

Alan R. Wiman *Rider College* 

Donald L. James

Fort Lewis College

Terrence V. O'Brien

Clarkson College

Joseph Guiltinan

University of Kentucky

Kent B. Monroe

Virginia Polytechnic Institute

William Staples

University of Houston—Clear

Lake

Richard J. Semenik *University of Utab* 

Pat J. Calabro

University of Texas at Arlington

James F. Wenthe

University of Georgia

Richard C. Becherer

Wayne State University

Thomas E. Barry

Southern Methodist University

Mark I. Alpert

University of Texas at Austin

Richard A. Lancioni

Temple University

Steven Shipley

Governor's State University

Paul I. Solomon

University of South Florida

Michael Peters

Boston College

Terence A. Shimp

University of South Carolina

Kenneth L. Rowe

Arizona State University

Allan Palmer

University of North Carolina at

Charlotte

Stewart W. Bither

Pennsylvania State University

John R. Brooks, Jr.

West Texas State University

Carlos W. Moore

**Baylor University** 

Charles Gross

Illinois Institute of Technology

Hugh E. Law

East Tennessee University

Dillard Tinslev

Stephen F. Austin State University

John R. Huser

Illinois Central College

David J. Fritzsche

University of Portland

David M. Landrum

Central State University

Robert Copley

University of Louisville

Robert A. Robicheaux

University of Alabama

Sue Ellen Neelev

University of Houston—Clear

Lake

Otto W. Taylor

State University of New York Agricultural and Technical College at Farmingdale Michael L. Rothschild

University of Wisconsin-Madison

Thomas Falcone

Indiana University of

Pennsylvania

William L. Cron

Southern Methodist University

Sumner M. White

Massachusetts Bay Community

College

Del I. Hawkins

**University of Oregon** 

Ralph DiPietro

Montclair State College

Norman E. Daniel

Arizona State University

Bruce Stern

Portland State University

Beheruz N. Sethna

Clarkson College

Stephen J. Miller

Oklaboma State University

Dale Varble

Indiana State University

William M. Kincaid, Ir.

Oklaboma State University

John McFall

San Diego State University

James D. Reed

Louisiana State University—

Shreveport

Ken Jensen

**Bradley University** 

Arthur Prell

Lindenwood College

David H. Lindsay

University of Maryland

Claire Ferguson

Bentley College

Joseph Hair

Louisiana State University

Roger Blackwell

**Obio State University** 

James C. Carroll

University of Southwestern

Louisiana

Guy Banville

Creighton University

Jack M. Starling

North Texas State University

Lloyd M. DeBoer

George Mason University

Dean C. Siewers

Rochester Institute of Technology

Benjamin J. Cutler

Bronx Community College

Gerald L. Manning

Des Moines Area Community

College

Hale Tongren

George Mason University

Lee Meadow

University of Lowell

Ronald Schill

**Brigham Young University** 

Don Scotton

Cleveland State University

George Glisan

Illinois State University

Jim L. Grimm

Illinois State University

John I. Coppett

Iowa State University

Roy R. Grundy

College of DuPage

Steven J. Shaw

University of South Carolina

Melvin R. Crask

University of Georgia

J. Paul Peter

University of Wisconsin-Madison

Bert Rosenbloom

Drexel University

Terry M. Chambers

Appalachian State University

Rosann L. Spiro

Indiana University

Acknowledgments xxix

For contributing cases we are indebted to Scott Markham, University of Central Arkansas; David Loudon, C. W. McConkey, and Maynard M. Dolecheck, Northeast Louisiana University; James Kennedy, Navarro College: Donald Sapit, Sigma Marketing Concepts; and Terry Trudeau, Howard University. We especially thank Jim L. Grimm for drafting the appendix on financial analysis in marketing.

We wish to express a great deal of appreciation to Donna Legg, American Airlines, and Valarie A. Zeithaml, Duke University, for playing a major role in developing the services and nonbusiness marketing chapter. Our special thanks go to Charles W. Lamb, Texas Christian University, for developing the casebook, *Marketing Cases*. For creating *Marketer: A Simulation*, we wish to thank Jerald R. Smith, University of Louisville. We would also like to thank Steven Skinner, University of Kentucky, for creating the original CARE (Computer-Assisted Review and Evaluation) program. A great deal of thanks also go to Edwin C. Hackleman for preparing MARKETS and for creating the current version of MICROSTUDY for personal computers. For many types of technical assistance we thank Gary Bryant, John Ermer, Jean Kin, and Steve Lacy.

### **Contents**

Preface xxiii

### Part I An Analysis of Marketing Opportunities 2

### An Overview of Strategic Marketing 4

Objectives 4

Marketing Defined 6

Marketing Consists of Activities 7

Marketing Is Performed by Individuals and Organizations 8

Marketing Facilitates Satisfying Exchange Relationships 9

#### Application: The Army's Recruiting Campaign 11

Marketing Occurs in a Dynamic Environment 11

Marketing Involves Product Development, Distribution, Promotion, and Pricing 12

Marketing Focuses on Goods, Services, and Ideas 12

#### Why Study Marketing? 12

Marketing Activities Are Used in Many Organizations 12

Marketing Activities Are Important to Businesses and the Economy 12

Marketing Knowledge Enhances Consumer Awareness 13

Marketing Costs Consume a Sizable Part of Buyers' Dollars 14

#### The Marketing Concept 14

Basic Elements of the Marketing Concept 15

Evolution of the Marketing Concept 16

Implementing the Marketing Concept 17

#### Strategic Marketing Management 18

Market Opportunity Analysis 19

Market Strategy: Target Market Selection 23

Market Strategy: Marketing Mix Development 24

#### Application: Stouffer's Family Casseroles and Lean Cuisine 26

Management of Marketing Activities 28

vii

The Organization of This Book 28

Summary 29

Important Terms 30

Discussion and Review Questions 31

CASE 1.1 Levi Strauss & Co. Introduces Women's 501® Jeans 31

CASE 1.2 Pillsbury Restaurants 32

### **2** The Marketing Environment 34

Objectives 34
Examining and Dealing with the Marketing Environment 36
Environmental Scanning and Analysis 37
Responding to Environmental Forces 37

Politics and the Marketing Environment 38 Laws and Their Interpretation 39

Procompetitive Legislation 39 Consumer Protection Legislation 42 Interpreting Laws 42

Regulatory Forces 43

Federal Regulatory Agencies 43 State and Local Regulatory Agencies 44 Nongovernmental Regulatory Forces 45

Societal Forces 46

Living Standards and Quality of Life 47 Consumer Movement Forces 47 Ethical Issues and Social Responsibility 48

Economic and Competitive Forces 50

Assessment of Competitive Forces 50 Consumer Demand and Spending Behavior 53

Application: Consumer Use of Credit 56

General Economic Conditions 59
Technological Forces 60

Technology Defined 61
The Impact of Technology 62

Application: High-Tech Tykes 64

Adoption and Use of Technology 65

Summary 66
Important Terms 67
Discussion and Review Questions 68
CASE 2.1 Eli Lilly's Oraflex 69
CASE 2.2 Xerox Corporation Adjusts to a Changing Environment 70

### **3** Target Markets: Segmentation and Evaluation 72

Objectives 72
What Are Markets? 74
Requirements of a Market 74

Types of Markets 75 Selecting Target Markets 75 Total or Undifferentiated Market Approach 75 Market Segmentation Approach 77 Market Segmentation Strategies 78 Conditions for Effective Segmentation 80 Choosing Segmentation Variables 81 Variables for Segmenting Consumer Markets 81 Application: Age and Sports Participation 86 Variables for Segmenting Organizational Markets 92 Single-variable or Multivariable Segmentation 94 Evaluating Markets and Forecasting Sales 95 Market and Company Sales Potentials 96 Developing Company Sales Forecasts 97 Application: Importance of Accurate Sales Forecasts 98 Summary 102 Important Terms 103 Discussion and Review Questions 103 CASE 3.1 Kinder-Care Segments Child-care Market 105 CASE 3.2 Sales Forecasting at Bay State Machine Company 106 Consumer Buying Behavior 108 Objectives 108 Types of Consumer Decision Behavior 111 The Consumer Buying Decision Process 111 Problem Recognition 112 Information Search 113 Evaluation of Alternatives 113 Purchase 113 Postpurchase Evaluation 114 Influences on the Consumer Buying Decision Process 114 Person-specific Influences 114 Application: Baby-Boomer Demographics 116 Psychological Influences 116 Application: Changing Store Perceptions 120 Social Influences 124 Understanding Consumer Behavior 131 Summary 132 Important Terms 133 Discussion and Review Questions CASE 4.1 First Bank & Trust 133 CASE 4.2 Crown Clothing and Accessories 134

### **5** Organizational Markets and Buying Behavior 136

Objectives 136
Types of Organizational Buyers 138

Contents

Producer Markets 138
Reseller Markets 139
Government Markets 140
Institutional Markets 142

Dimensions of Organizational Buying 142

Characteristics of Organizational or Industrial Transactions 142 Attributes of Organizational Buyers 143 Primary Concerns of Organizational Buyers 143

#### Application: Quality Awareness at AT&T 146

Methods of Organizational Buying 148
Types of Organizational Purchases 148
Demand for Industrial Products 149

Organizational Buying Decisions 150

The Buying Center 151
Stages of the Organizational Buying Decision Process 152

#### Application: Cogenic Energy Systems Markets through Savings 154

Influences on Organizational Buying 155

Summary 155
Important Terms 156
Discussion and Review Questions 157
CASE 5.1 Jacuzzi Incorporated 157
CASE 5.2 IBM Serves Organizational Customers 159

### **6** Marketing Research and Information Systems 160

Objectives 160
Defining Marketing Research and Marketing Information Systems 163
Information Needs and Decision Making 167

#### Application: Research Gives Meat Industry a Leaner Image 169

The Marketing Research Process 172

Defining and Locating Problems 172
Developing Hypotheses 173
Collecting Data 173
Interpreting Research Findings 174
Reporting Research Findings 175

Designing the Research 176

Sampling 176
Random Sampling 176
Experimentation 178

Gathering Research Data 180

Survey Methods 180

#### Application: Survey Car License Plates to Define Retail Trade Area 182

Observation Methods 187 Secondary Data Collection 188 Marketing Research Ethics 190 Summary 191 Important Terms 192

### Part II Product Decisions 198

### **7** Product Concepts 200

Objectives 200 What Is a Product? 202 Classifying Products 203

> Classification of Consumer Products 203 Industrial Products 206

Product Mix and Product Line 208

The Product Mix 208
The Product Line 209

Product Life Cycles 210

Introduction 210 Growth 212 Maturity 212 Decline 213

Branding 214

Benefits of Branding 215 Types of Brands 216

Application: Brands with Staying Power 217

Selecting and Protecting a Brand 218 Branding Policies 219

Application: Coca-Cola Turns to Brand Extension to Meet the Pepsi Challenge 221

Packaging 222

Packaging Functions 222
Major Packaging Considerations 222
Packaging and Marketing Strategy 224

Labeling 225

Other Product-related Characteristics 226

Physical Characteristics of the Product 226 Supportive Product-related Services 226

Summary 227
Important Terms 228
Discussion and Review Questions 228
CASE 7.1 Nike's Product Line Development 229
CASE 7.2 Recovering from Tylenol's Product Tampering Problems 231

### **8** Developing and Managing Products 234

Objectives 234
Organizing to Manage Products 236
Managing the Product Mix 237

#### Application: Product Innovation Time at Chesebrough-Ponds 238

Modifying Existing Products 238
Deleting Products 240
Developing New Products 242

Product Positioning 251

Managing Products After Commercialization 252

Marketing Strategy in the Growth Stage 252

Product 252

Marketing Strategy for Mature Products 253
Marketing Strategy for Declining Products 255

#### Application: Marketing a Declining Product: Beta VCRs 256

Summary 256
Important Terms 257
Discussion and Review Questions 257
CASE 8.1 Eastman Kodak's Product Diversification Strategies 258
CASE 8.2 Saab's Product Positioning 260

#### Part III Distribution Decisions 262

### **9** Marketing Channels 264

Objectives 264

The Nature of Marketing Channels 266

#### Application: California Cooler Uses Pre-established Marketing Channel 267

Types of Channels 268
Multiple Marketing Channels 270

Justifications for Intermediaries 271 Functions of Intermediaries 273

Sorting Out 274 Accumulation 274 Allocation 274 Assorting 275

Functions of Facilitating Agencies 275

Channel Integration 277

Vertical Channel Integration 278
Horizontal Channel Integration 280

Intensity of Market Coverage 280

Intensive Distribution 281
Selective Distribution 281
Exclusive Distribution 282

Behavior of Channel Members 282

Channel Cooperation 283 Channel Conflict 283 Channel Leadership 284

### Application: Procter & Gamble's Changing Channel Leadership Role 286

Summary 286 Important Terms 287 Discussion and Review Questions 287

CASE 9.1 Developing Marketing Channels for AMF Voit Flying Discs 288

CASE 9.2 Importance of Distribution for Lowenbrau, Heineken, and Other Imports 289

### **10** Wholesaling 292

Objectives 292
The Nature and Importance of Wholesaling 294
The Activities of Wholesalers 295

Services for Producers 295 Services for Retailers 296

Classifying Wholesalers 296

Merchant Wholesalers 297
Types of Full-service Merchant Wholesalers 297
Types of Limited-service Merchant Wholesalers 299

### Application: A Limited-line Wholesaler Gains an Edge in the Computer Disk Market 300

Brokers and Agents 301

Manufacturers' Sales Branches and Offices 304

Organizations That Facilitate Wholesaling Functions 304

#### Application: Brokers Bring Buyers and Sellers Together 305

Changing Patterns in Wholesaling 307

Wholesalers Gain More Power 307 New Types of Wholesalers 308

Summary 308
Important Terms 309
Discussion and Review Questions 309
CASE 10.1 Textron Outdoor Products Group 310
CASE 10.2 Ralston Purina 311

### **11** Retailing 314

Objectives 314

The Nature of Retailing 316

Developing Patril Steep Leading

Developing Retail Store Image and Atmosphere 318

The Store's Image 319
The Store's Atmosphere 322

Major Types of Retail Stores 324

Department Stores 324 Mass Merchandisers 324

Application: Miracle on 47th Street 327

Specialty Retailers 328

Nonstore Retailing 329

Personal Sales 329 Nonpersonal Sales 330

Franchising 332

Planned Shopping Centers 334

Contents