

10th Edition

Essentials of Marketing

A GLOBAL-MANAGERIAL APPROACH



William D. Perreault, Jr.

E. Jerome McCarthy

TENTH EDITION

ESSENTIALS OF MARKETING

A GLOBAL-MANAGERIAL APPROACH

E. Jerome McCarthy, Ph.D.

MICHIGAN STATE UNIVERSITY



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ESSENTIALS OF MARKETING: A GLOBAL-MANAGERIAL APPROACH

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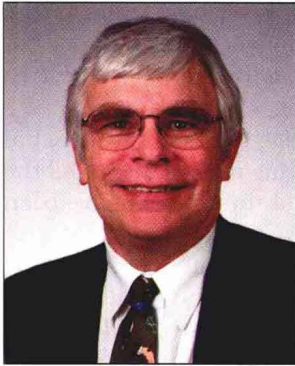
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About the Authors of *Essentials of Marketing, 10/e*



William D. Perreault, Jr.

is currently Kenan Professor at the University of North Carolina Kenan-Flagler Business School. He has also taught at Stanford University, the University of Georgia, and North Carolina State University and has been an invited speaker at over 80 universities. During 1997 he was the Arthur Andersen

Distinguished Visitor at Cambridge University.

Dr. Perreault is the recipient of the two most prestigious awards in his field: the American Marketing Association Distinguished Educator Award and the Academy of Marketing Science Outstanding Educator Award. He also was selected for the Churchill Award, which honors career impact on marketing research. He was editor of the *Journal of Marketing Research* and has been on the review board of the *Journal of Marketing* and other journals. His research has also been published in many journals, and one *Journal of Marketing* article was recently voted one of the most influential articles on sales and sales management of the twentieth century.

The Decision Sciences Institute has recognized Dr. Perreault for innovations in marketing education, and at UNC he has received several awards for teaching excellence. His books include two other widely used texts: *Basic Marketing* and *The Marketing Game!*

Dr. Perreault is a past president of the American Marketing Association Academic Council and twice served on the AMA board. He was chair of an advisory committee to the U.S. Bureau of the Census, a trustee of the Marketing Science Institute, and on the Council of the Decision Sciences Institute. He is a Fellow of the Society for Marketing Advances. He has also worked as a consultant to organizations that range from GE and IBM to the Federal Trade Commission and Venezuelan Ministry of Education. He is on the advisory board for Copernicus: The Marketing Investment Strategy Group.



E. Jerome McCarthy

received his Ph.D. from the University of Minnesota. He has taught at the Universities of Oregon, Notre Dame, and Michigan State. He was honored with the American Marketing Association's Trailblazer Award in 1987, and he was voted one of the "top five" leaders in Marketing Thought by marketing educators.

He has been deeply involved in teaching and developing new teaching materials. Besides writing various articles and monographs, he is the author of textbooks on data processing and social issues in marketing.

Dr. McCarthy is active in making presentations to business meetings and academic conferences. He has worked with groups of teachers throughout the country and has addressed international conferences in South America, Africa, and India.

He was also a Ford Foundation Fellow in 1963–64, studying the role of marketing in global economic development. In 1959–60 he was a Ford Foundation Fellow at the Harvard Business School working on mathematical methods in marketing.

Besides his academic interests, Dr. McCarthy has been involved in consulting for, and guiding the growth of, a number of businesses—both in the U.S. and overseas. He has worked with top managers from Steelcase, Dow Chemical, 3M, Bemis, Grupo Industrial Alfa, and many other companies. He has also been active in executive education and is a director of several organizations. However, throughout his career his primary interests have been in (1) "converting" students to marketing and effective marketing strategy planning and (2) preparing teaching materials to help others do the same. This is why he has spent a large part of his career developing, revising, and improving marketing texts to reflect the most current thinking in the field.

Preface

Essentials of Marketing Is Designed to Satisfy Your Needs

This book is about marketing and marketing strategy planning. And, at its essence, marketing strategy planning is about figuring out how to do a superior job of satisfying customers. We take that point of view seriously and believe in practicing what we preach. So you can trust that this new edition of *Essentials of Marketing*—and all of the other teaching and learning materials that accompany it—will satisfy *your* needs. We're excited about this 10th edition of *Essentials of Marketing*, and we hope that you will be as well.

In developing this edition we've made hundreds of big and small additions, changes, and improvements in the text and all of the supporting materials that accompany it. We'll highlight some of those changes in this preface, but first it's useful to put this newest edition in a longer-term perspective.

A Shorter Text—for Flexibility and a Crisp Pace

Essentials of Marketing is a shortened version of our *Basic Marketing*, the most widely used text in the field. Our basic objectives in preparing a shorter text have always been:

- To make it easy, interesting, and fast for students to grasp the essential concepts of marketing.
- To provide a flexible text and choices from comprehensive support materials so that instructors can accomplish their objectives for their students even though the time available for the course is limited.

Accessibility is a key goal. In the whole text—and all of the supplements, ranging from the new multimedia PowerPoints to the new edition of the Learning Aid—we spent much time and effort carefully defining terms and finding the right words, illustrations, and examples to speed understanding and motivate learning.

Building on Pioneering Strengths

Essentials of Marketing and *Basic Marketing* pioneered an innovative structure—using the “four Ps” with a managerial approach—for the introductory marketing course. They quickly became two of the most widely

used business textbooks ever published because they organized the best ideas about marketing so that readers could both understand and apply them. The unifying focus of these ideas was on how to make the marketing decisions that a manager must make in deciding what customers to focus on and how best to meet their needs.

Over many editions of *Essentials of Marketing* there has been constant change in marketing management and the marketing environment. Some of the changes have been dramatic, and others have been subtle. As a result, we have made ongoing changes to the text to reflect marketing's best practices and ideas. Throughout all of these changes, *Essentials of Marketing* and *Basic Marketing* and the supporting materials that accompany them have been more widely used than any other teaching materials for introductory marketing. It is gratifying that the four Ps has proved to be an organizing structure that has worked well for millions of students and teachers.

Continuous Innovation and Improvement

The success of *Essentials of Marketing* is not the result of a single strength—or one long-lasting innovation. Rather, the text's four Ps framework, managerial orientation, and strategy planning focus have proved to be foundation pillars that are remarkably robust for supporting new developments in the field and innovations in the text and package. Thus, with each new edition of *Essentials of Marketing* we have continued to innovate to better meet the needs of students and faculty. In fact, we have made ongoing changes in how we develop the logic of the four Ps and the marketing strategy planning process. As always, though, our objective is to provide a flexible, high-quality text and choices from comprehensive and reliable support materials—so that instructors and students can accomplish their learning objectives. For example, included with the other innovations and improvements for this new edition are

- Extensive revisions to the first three chapters, to introduce marketing orientation and customer value earlier and to introduce the marketing strategy planning process in the context of an integrative model that sets the stage for the rest of the text.
- New integrated treatment of macro-marketing topics and social issues with relevant marketing management topics throughout the text.

- A complete revision of the *Student CD to Accompany Essentials of Marketing* that comes with the text, with a new interface that integrates the rich variety of multimedia learning resources it includes.
- An updated and expanded archive of PowerPoint electronic lecture-support slides, with links to full-motion videos, ads, and photos, to provide instructors with flexible support for lectures and presentations.
- The *Instructor CD to Accompany Essentials of Marketing* that offers all of the text's teaching support materials in easy-to-use and electronic form and that features a refined new user interface to make it even faster to access materials.
- A sharper focus, throughout the text, on how the strategy planning process should lead to decisions about a target market and marketing mix that represents the best opportunity and competitive advantage for the firm and superior value for consumers.
- Interesting new video cases and teaching videos focused on current marketing issues.
- High-involvement Internet exercises integrated throughout each chapter of the text.

We Believe in Continuous Quality Improvement

As authors, we're committed to ongoing improvements—and we're both proud that we were implementing continuous quality improvements in preparing *Essentials of Marketing* long before the idea became popular in the world of business. We work to be creative in our coverage and approaches—because creativity is at the heart of the marketing spirit. The most creative teaching innovations are ones that meet students' needs and instructors' objectives. That's also why our first priority has always been, and always will be, producing quality materials that really work well for students and teachers. Students take the first marketing course only once. It is an investment and opportunity from which there should be a solid return. So we take it as a serious personal responsibility to support that investment with materials that are interesting and motivating—and that really build the skills and ideas that students need in their lives and careers.

Our belief that attention to continuous quality improvement in every aspect of the text and support materials *does make a difference* is consistently reaffirmed by the enthusiastic response of students and teachers alike to each new edition.

Leading Technology Innovations for Teaching and Learning

We take seriously our opportunity and responsibility to lead the marketing discipline in developing new, breakthrough approaches for teaching and learning in the first marketing course. Our thrust over the past two decades has been to use technology to provide better and easier options for teaching and richer and more interesting approaches for learning. Along with other innovations, we were the first to develop and offer spreadsheet-based computer-aided problems, custom-produced videos, a computerized test bank, a PC-based marketing simulation, a hypertext reference, CD-based interactive versions of the text, PowerPoint presentation slides with linking by objectives, CD multimedia archives and presentation software for instructors, multimedia case support, and the multimedia CD for students. With this edition we continue these traditions of innovation with a redesigned *Student CD to Accompany Essentials of Marketing*, myPowerWeb online readings, an even easier-to-use and more comprehensive *Instructor CD to Accompany Essentials of Marketing*, and a host of new and improved teaching and learning materials available at the *Essentials of Marketing* website at www.mhhe.com/fourps.

Critically Revised, Updated, and Rewritten

This new edition of *Essentials of Marketing* is the highest-quality teaching and learning resource ever published for the introductory marketing course. The whole text and all of the supporting materials have been critically revised, updated, and rewritten. As in past editions, clear and interesting communication has been a priority. *Essentials of Marketing* is designed to make it easy, interesting, and fast for students to grasp the key concepts of marketing. Careful explanations provide a crisp focus on the important “basics” of marketing strategy planning. At the same time, we have thoroughly

- Researched and incorporated new concepts.
- Integrated hundreds of new examples that bring the concepts alive.
- Illustrated marketing ideas and “best practices” in a rich variety of contexts.

We have deliberately used marketing examples from a host of different contexts. Examples span large and small firms, profit and nonprofit organizations, organizations that have moved to e-commerce and those that have found other ways to innovate, domestic and international settings, purchases by organizations as well as by final consumers, services and ideas or “causes” as well as

physical goods, and established products as well as new technologies—because this variety reinforces the point that effective marketing is critical to all organizations.

Clear Focus on Changes in Today's Dynamic Markets

This edition focuses special attention on changes taking place in today's dynamic markets. Throughout every chapter of the text we have integrated discussion and examples of

- Lifetime customer value and customer equity.
- Best practices in marketing, and how to avoid the mistakes of death-wish marketing (including errors and omissions all too common among many failed dot-com operators).
- Effective e-commerce innovations and changes in marketing over the Internet.
- The costs and benefits of different approaches for customer acquisition and retention.
- Relationship building in marketing.
- Social impacts of marketing and macro-marketing.
- The importance of providing superior customer value as the means to achieve customer satisfaction and competitive advantage.
- International perspectives.
- Ethical issues and social impacts of marketing.

Similarly, we've also integrated new material on many important and fast-evolving topics. The following are but a sampling:

- Multichannel marketing.
- Integrated marketing communications, direct-response promotion, and customer-initiated interactive marketing communications.
- Promotional campaigns that build "buzz" among consumers.
- Impact of economic fluctuations, changes in international exchange rates, and other topics central to how the economy impacts marketing.
- The growth of business-to-business (B2B) exchanges on the Web and the expanding use of reverse auctions and interactive bidding.
- The circumstances when using a website for direct distribution or dual distribution makes sense and when it doesn't.
- The expanding role of sales technologies and self-service technology.
- The increasing channel power of large retail chains.

- Competitor analysis and how to develop competitive advantage.
- How to use flexible pricing and evaluate price sensitivity.

Driving Home Competitive Advantage

Throughout the 10th edition we've continued to put more emphasis on the *process* of marketing strategy planning. In today's dynamic markets it's not enough to simply figure out an attractive opportunity and an effective marketing mix. The real challenge is to quickly but logically zero in on the target market and marketing mix that is really best for the firm, while recognizing that strategies need to be refined and improved as market conditions change. This highlights the need for breakthrough opportunities, the problems with me-too imitation, and the crucial role of competitive advantage in providing customers with superior value. In other words, we sharpen the focus on how to figure out the best blend of the four Ps and crush the mistaken view fostered by some texts that the marketing job is just coming up with *some* marketing mix.

Coupled with this, you'll learn how breakthroughs in information technology are driving changes in all aspects of marketing—whether it's e-commerce ordering, getting marketing information, preparing salespeople to interact with customers, or analyzing the "fire-hydrant" flow of data on sales and costs. We'll also highlight the many ways that relationships among marketing partners are changing—ranging from coordination of logistics to alliances among firms focused on the same market opportunity. You'll see how intense competition, both in the United States and around the world, is affecting marketing strategy planning. You'll see what it takes to transform an effective new-product development process into a profitable business.

Some other marketing texts are attempting to describe such changes. But that's not adequate. What sets *Essentials of Marketing* apart is that the explanations and examples equip students to see *why* these changes are taking place and what changes to expect in the future. That is an important distinction—because marketing is dynamic. Our objective is to prepare students to analyze marketing situations and develop exceptional marketing strategies—not just recite endless sets of lists.

A Fresh Design—to Make Important Concepts Even Clearer

Along with the new content, we've given the text a fresh design. The changes range from the new cover to hundreds of new photographs, ads, web pages, and

illustrations. We've created many new exhibits—conceptual organizers, charts, and tables—and updated proven pieces from past editions, all with a fresh new design.

The aim of all this revising, refining, editing, and illustrating is to make important concepts and points even clearer to students. We want to make sure that each student really does get a good feel for a market-directed system and how he or she can help it—and some company—run better. We believe marketing is important and interesting—and we want every student who reads *Essentials of Marketing* to share our enthusiasm.

Eighteen Chapters—with an Emphasis on Marketing Strategy Planning

The emphasis of *Essentials of Marketing* is on marketing strategy planning. Eighteen chapters introduce the important concepts in marketing management and help the student see marketing through the eyes of the marketing manager. The organization of the chapters and topics is carefully planned. But we took special care in writing so that

- It is possible to rearrange and use the chapters in many different sequences—to fit different needs.
- All of the topics and chapters fit together into a clear, overall framework for the marketing strategy planning process.

Broadly speaking, the chapters fall into two groupings. The first seven chapters introduce marketing and a broad view of the marketing strategy planning process. They cover topics such as segmentation, differentiation, the marketing environment, and buyer behavior, as well as how marketing information systems and research provide information about these forces to improve marketing decisions. The second half of the text goes into the details of planning the four Ps, with specific attention to the key strategy decisions in each area. Then we conclude with an integrative review and an assessment of marketing's challenges and opportunities.

The first chapter deals with the important role of marketing—focusing not only on how a marketing orientation guides a business or nonprofit organization in the process of providing superior value to customers but also on the role of macro-marketing and how a market-directed economy shapes choices and quality of life for consumers. Chapter 2 builds on these ideas with a focus on the marketing strategy planning process and why it involves narrowing down to selection of a specific target market and blending the four Ps into a marketing mix to meet the needs of those customers. With that founda-

tion in place, the chapter introduces an integrative model of the marketing strategy planning process that serves as an organizing framework for the rest of the text.

Chapter 3 shows how analysis of the market and external market environment relate to segmentation and differentiation decisions as well as the criteria for narrowing down to a specific target market and marketing mix. This strategic view alerts students to the importance of evaluating opportunities in the external environments affecting marketing—and these are discussed in Chapter 4. This chapter also highlights the critical role of screening criteria for narrowing down from possible opportunities to those that the firm will pursue.

You have to understand customers to understand marketing, segment markets, and satisfy target market needs. So the next two chapters take a closer look at *customers*. Chapter 5 studies the behavioral aspects of the final consumer market. Chapter 6 looks at how business and organizational customers—like manufacturers, channel members, and government purchasers—are using e-commerce and how they are similar to and different from final consumers.

Chapter 7 is a contemporary view of getting information—from marketing information systems and marketing research—for marketing management planning. This chapter includes discussion of how information technology—ranging from intranets to speedy collection of market research data—is transforming the marketing manager's job. This sets the stage for discussions in later chapters about how research and marketing information improve each area of marketing strategy planning.

The next group of chapters—Chapters 8 to 17—is concerned with developing a marketing mix out of the four Ps: Product, Place (involving channels of distribution, logistics, and distribution customer service), Promotion, and Price. These chapters are concerned with developing the “right” Product and making it available at the “right” Place with the “right” Promotion and the “right” Price—to satisfy target customers and still meet the objectives of the business. These chapters are presented in an integrated, analytical way—as part of the overall framework for the marketing strategy planning process—so students' thinking about planning marketing strategies develops logically.

Chapters 8 and 9 focus on product planning for goods and services as well as new-product development and the different strategy decisions that are required at different stages of the product life cycle. We emphasize the value of an organized new-product development process for developing really new products that propel a firm to profitable growth and explain the role that total quality management plays in the continuous improvement of both goods and services.

Chapters 10 through 12 focus on Place. Chapter 10 introduces decisions a manager must make about using direct distribution (for example, selling from the firm's own website) or working with other firms in a channel of distribution. We put special emphasis on the need for channel members to cooperate and coordinate to better meet the needs of customers. Chapter 11 focuses on the fast-changing arena of logistics and the strides that firms are making in using e-commerce to reduce the costs of storing, transporting, and handling products while improving the distribution service they provide customers. Chapter 12 provides a clear picture of retailers, wholesalers, and their strategy planning, including exchanges taking place via the Internet. This composite chapter helps students see why the big changes taking place in retailing are reshaping the channel systems for many consumer products.

Chapters 13 to 15 deal with Promotion. These chapters build on the concepts of integrated marketing communications, direct-response promotion, and customer-initiated digital communication, which are introduced in Chapter 13. Chapter 14 deals with the role of personal selling and sales technology in the promotion blend. Chapter 15 covers advertising and sales promotion, including the ways that managers are taking advantage of the Internet and other highly targeted media to communicate more effectively and efficiently.

Chapters 16 and 17 deal with Price. Chapter 16 focuses on pricing objectives and policies, including use of information technology to implement flexible pricing, pricing in the channel, and the use of discounts, allowances, and other variations from a list price. Chapter 17 covers cost-oriented and demand-oriented pricing approaches and how they fit in today's competitive environments. The careful coverage of marketing costs helps equip students to deal with the renewed cost-consciousness of the firms they will join.

Chapter 18 reinforces the integrative nature of marketing management and reviews the marketing strategy planning process that leads to creative marketing plans and programs. This final chapter also considers how efficient the marketing process is. Here we evaluate the effectiveness of both micro- and macro-marketing—and we consider the competitive, technological, ethical, and social challenges facing marketing managers now and in the future. After this chapter, many students want to look at Appendix C—which is about career opportunities in marketing.

Careful Integration of Special Topics

Some textbooks treat “special” topics—like e-commerce, relationship marketing, international marketing, services marketing, marketing over the Internet, marketing for nonprofit organizations, marketing ethics,

social issues, and business-to-business marketing—in separate chapters. We deliberately avoid doing that because we are convinced that treating such topics separately leads to an unfortunate compartmentalization of ideas. We think they are too important to be isolated in that way. For example, to simply tack on a new chapter on e-commerce or marketing applications on the Internet completely ignores the reality that these are not just isolated topics but rather must be considered broadly across the whole fabric of marketing decisions. In fact, the huge losses piled up by the collapse of thousands of dot-com firms a few years ago are evidence of what happens when managers fail to understand the need to integrate marketing strategy planning decisions and don't come to grips with issues such as competitor analysis, customer value, and the marketing concept. Conversely, there is virtually no area of marketing decision making where it's safe to ignore the impact of e-commerce, the Internet, or information technology. The same is true with other topics. So they are interwoven and illustrated throughout the text to emphasize that marketing thinking is crucial in all aspects of our society and economy. This edition is again packaged with a grid that shows, in detail, how and where specific topics are integrated throughout the text. Talk is cheap, especially when it comes to the hype from some publishers about how important topics are treated in a new text. But the grid offers proof that in *Essentials of Marketing* we have delivered on the promise of integrated treatment.

Students Get “How-to-Do-It” Skill and Confidence

Really understanding marketing and how to plan marketing strategies can build self-confidence—and it can help prepare a student to take an active part in the business world. To move students in this direction, we deliberately include a variety of frameworks, models, classification systems, cases, and “how-to-do-it” techniques that relate to our overall framework for marketing strategy planning. Taken together, they should speed the development of “marketing sense” and enable the student to analyze marketing situations and develop marketing plans in a confident and meaningful way. They are practical and they work. In addition, because they are interesting and understandable, they motivate students to see marketing as the challenging and rewarding area it is.

Essentials of Marketing Motivates High-Involvement Learning

So students will see what is coming in each *Essentials of Marketing* chapter, behavioral objectives are included

on the first page of each chapter. And to speed student understanding, important new terms are shown in red and defined immediately. Further, a glossary of these terms is presented at the end of the book. Within chapters, major section headings and second-level headings (placed in the margin for clarity) immediately show how the material is organized and summarize key points in the text. Further, we have placed annotated photos and ads near the concepts they illustrate to provide a visual reminder of the ideas and to show vividly how they apply in the current business world. In each chapter we have integrated Internet exercises related to the concepts being developed. The focus of these exercises is on important marketing issues, not just on “surfing the Net.”

All of these aids help the student understand important concepts and speed review before exams. End-of-chapter questions and problems offer additional opportunities. They can be used to encourage students to investigate the marketing process and develop their own ways of thinking about it. They can be used for independent study or as a basis for written assignments or class discussion.

Varied Types of Cases

Understanding of the text material can be deepened by analysis and discussion of specific cases. *Essentials of Marketing* features several different types of cases. Each chapter starts with an in-depth case study developed specifically to highlight that chapter’s teaching objectives and the specific marketing decision areas covered in that chapter. Students are encouraged to reread the chapter-opening case after finishing the chapter—when they have a deeper understanding of the issues involved. In addition, each chapter features a special case report in a highlighted box. These thought-provoking cases illustrate how companies handle topics covered in that chapter. All of these cases provide an excellent basis for critical evaluation and discussion. And we’ve included relevant Internet addresses so that it is easy for students to quickly get updated information about the companies and topics covered in the cases. Of course, website addresses referenced in the cases may change. Some companies change their websites to get a fresh look, to take advantage of new Web capabilities, or just to update the information that’s available. However, when that occurs, our *Essentials of Marketing* website at www.mhhe.com/fourps provides up-to-date links relevant to the chapters in the text. Our CDs also include links to the website so you can bookmark the site in your Internet browser.

In addition, there are several suggested cases at the end of each chapter. These suggested cases have been

selected from the set of 31 cases that appear at the end of the book. The focus of these cases is on problem solving. They encourage students to apply, and really get involved with, the concepts developed in the text.

Each of the first 17 chapters also features a computer-aided problem. These case-based exercises stimulate a problem-solving approach to marketing strategy planning and give students hands-on experience that shows how logical analysis of alternative strategies can lead to improved decision making. For the convenience of students and faculty alike, printed versions of the cases for the computer-aided problems are incorporated in the book itself. Further, the award-winning spreadsheet software we developed specifically for use with these problems has been revised so that it is fully integrated with the other applications on the *Student CD* that comes with the text. With this edition a feature has been added in the software so that students can type their responses to questions on screen while viewing the computer spreadsheet—and then print both the comment and spreadsheet on one page.

New Multimedia Video Cases Are Integrative

In recent editions we’ve included a custom-produced set of exciting video cases. The response to them has been great, and this time we’ve expanded the set and updated some of the best from the previous set. Each of these combines a written case with an accompanying video. These 7 cases are a bit longer than the 31 text-only cases and open up the opportunity for students to analyze an organization’s whole marketing program in more depth and with even greater integration. Marketing professors wrote the scripts for both the videos and text portions of the cases—so the videos reinforce real content while bringing a high-involvement multimedia dimension to the learning experience. And to assure consistency with all of the other *Essentials of Marketing* materials, we’ve carefully edited and coordinated the whole effort. These cases were developed so that they focus on different areas of the text, and thus they deal with a variety of issues:

- How a well-known company won profits and customer loyalty by developing a marketing mix that’s carefully matched to the needs of its target market.
- New-product development for a major component part that is sold to producers who serve consumer markets.
- Shopping behavior and marketing strategy issues involved with a regional shopping mall.

- The growth strategy for a vineyard that is working to develop a major brand.
- The development of a new market awareness and strategy by a major nonprofit organization.
- A case on the promotional program for the introduction of an exciting new automobile.
- An integrated case on the marketing strategy for an innovative household appliance.

We designed these cases so that students can analyze them before or after seeing the video, or even without seeing the video at all. They can be used in a variety of ways, either for class discussion or individual assignments. To get the ball rolling, students can see clips from the video segments for the cases on their own *Student CD*. We're proud of these video cases, and we're sure that they will provide you with a valuable new way to learn about marketing.

Comprehensive, Current References for Independent Study

Some professors and students want to follow up on text readings. Each chapter is supplemented with detailed references—to both classic articles and current readings in business publications. These can guide more detailed study of the topics covered in a chapter.

Instructor Creates a System—with *Essentials of Marketing's P.L.U.S.*

Essentials of Marketing can be studied and used in many ways—the *Essentials of Marketing* text material is only the central component of our Professional Learning Units Systems (our *P.L.U.S.*) for students and teachers. Instructors (and students) can select from our units to develop their own personalized systems. Many combinations of units are possible, depending on course objectives. As a quick overview, in addition to the *Essentials of Marketing* text, the *P.L.U.S.* package includes a variety of new and updated supplements:

- A redesigned and updated *Student CD to Accompany Essentials of Marketing*, which includes clips for the video cases, a database of ads and annotations that illustrate key concepts for each chapter, a new version of our computer-aided problems (CAP) spreadsheet software, self-test quizzes (with two levels of questions), and narrated self-study PowerPoint electronic slide shows, to introduce students to what's ahead. The CD also includes a

new graphics-rich edition of the *Essentials of Marketing Hypertext Reference* for use in developing marketing plans or reviewing for tests.

- An online learning center at our revised website (www.mhhe.com/fourps) for students and instructors, with features such as (constantly updated) links to just-published articles from myPowerWeb on topics in each chapter, chat rooms, software downloads, Internet website links, and other exciting features.
- A new and updated set of Interactive PowerPoint lecture slides, incorporating full-motion video clips, photos, ads, and interactive exercises to support the professor.
- An improved *Instructor CD to Accompany Essentials of Marketing*, which includes all of the instructor resources available for *Essentials of Marketing* in electronic form and a redesigned interface that makes it even easier to access the specific items the instructor wants to use.

In addition, we've completely revised and updated

- The *Multimedia Lecture Support Package*.
- The *Learning Aid* workbook.
- *Applications in Basic Marketing*, an annually updated book of marketing clippings from the popular press, free and shrinkwrapped with the text and, new to this edition, supplemented with myPowerWeb digital articles on the Web.
- 225 color transparencies (also available as PowerPoint slides).
- 277 overhead masters (also available as PowerPoint slides).
- *Instructor's Manual*.
- Author-prepared *Manual of Tests*, accompanied by the test-generator software that supports both printed and online testing.
- A complete set of new and updated *teaching videos* and seven great video cases (all supported with a specially prepared *Instructor's Manual to Accompany the Teaching Videos*).
- A Windows version of *The Marketing Game!* (and instructor's manual) that offers password-protected digital plan and report files and supports working over the Internet.

We've been busy. You may not want to use all of this. Some people don't want any of it. But whatever you elect to use—and in whatever medium you like to work—the teaching and learning materials work well together. We've designed them that way.

Hypertext—a Marketing Knowledge Navigator

We introduced the innovative *Essentials of Marketing Hypertext Reference* with the 6th edition of *Essentials of Marketing* and have expanded its capabilities ever since. This easy-to-use Windows software puts almost all of the key concepts and graphics from *Essentials of Marketing* at your fingertips. It features hyperlinks, which means that when you are reading about a concept on screen you can instantly jump to more detail on that topic. You simply highlight the concept or topic and click with a mouse or press the enter key. Books assemble information in some specific order—but hypertext allows you to integrate thinking on any topic or combination of topics, regardless of where it is treated in the text.

The new version of the software provides an even clearer and easier way to search for ideas while developing a marketing plan. You can also use the software to review topics in “book order”—starting with learning objectives and then “paging” through each set of ideas.

Free Applications Book—Updated Each Year

It is a sign of the commitment of our publisher to the introductory marketing course that it will publish a new edition of *Applications in Basic Marketing* every year and provide it free of charge shrinkwrapped with each new copy of the 10th edition of *Essentials of Marketing*. This annually updated collection of marketing “clippings”—from publications such as *The New York Times*, *Business Week*, *The Wall Street Journal*, *Advertising Age*, and *Fortune*—provides convenient access to short, interesting, and current discussions of marketing issues. Each edition features about 100 articles. There are a variety of short clippings related to each chapter in *Essentials of Marketing*. In addition, because we revise this collection each year, it includes timely material that is available in no other text.

Learning Aid—Deepens Understanding

There are more components to *P.L.U.S.* A separate *Learning Aid* provides several more units and offers further opportunities to obtain a deeper understanding of the material. The *Learning Aid* can be used by the student alone or with teacher direction. Portions of the *Learning Aid* help students to review what they have studied. For example, there is a brief introduction to each chapter, a list of the important new terms (with page numbers for easy reference), true-false questions (with answers and page numbers) that cover all the important terms and concepts, and multiple-choice questions (with answers and page numbers) that illustrate the kinds of questions that may

appear in examinations. In addition, the *Learning Aid* has cases, exercises, and problems—with clear instructions and worksheets for the student to complete. The *Learning Aid* also features computer-aided problems that build on the computer-aided cases in the text. The *Learning Aid* exercises can be used as classwork or homework—to drill on certain topics and to deepen understanding of others by motivating application and then discussion. In fact, reading *Essentials of Marketing* and working with the *Learning Aid* can be the basic activity of the course.

Compete and Learn—with *The Marketing Game!*

Another valuable resource is *The Marketing Game!*, a PC-based competitive simulation. It was developed specifically to reinforce the target marketing and marketing strategy planning ideas discussed in *Essentials of Marketing*. Students make marketing management decisions—blending the four Ps to compete for the business of different possible target markets. The innovative design of *The Marketing Game!* allows the instructor to increase the number of decision areas involved as students learn more about marketing. In fact, many instructors use the advanced levels of the game as the basis for a second course. *The Marketing Game!* is widely heralded as the best marketing strategy simulation available—and the Windows edition widens its lead over the others available. Competitors don’t even need to be on the same continent. It works great with password-protected decisions submitted over the Internet and reports returned the same way.

Multimedia Support for Preparation, Lectures, and Discussion

Essentials of Marketing and all of our accompanying materials have been developed to promote student learning and get students involved in the excitement and challenges of marketing management. Additional elements of *P.L.U.S.* have been specifically developed to help an instructor offer a truly professional course that meets the objectives he or she sets for students. Complete instructor’s manuals accompany all of the *P.L.U.S.* components.

Electronic Presentation Slides with Many Uses

Essentials of Marketing is supported with a large variety of high-quality PowerPoint electronic slide presentations. This flexible package features a large number of PowerPoint graphics developed for every chapter in the text. An instructor can use the provided software to display the electronic slides with a computer-controlled

video projector, in the order that they're provided or branching in whatever sequence is desired. Presentations can be based on composite slides, or the points on a slide can "build up" one point at a time.

Because we provide the native-format PowerPoint files, instructors can modify or delete any slide or add other slides by using their own copy of PowerPoint. And, of course, if electronic projection equipment isn't available, the instructor can print out the images to customized color transparencies or black and white overheads. All of the overhead masters are also available, in color, as PowerPoint slides.

While these slides are intended mainly for instructor use in class discussions and lectures, they are easy to use and can be placed on the Internet, on the school's computer network, or in a computer lab as a supplement for independent review by students. For distance education applications, narrated slide shows are available.

Complete Multimedia Lecture Support

With the PowerPoint electronic slide presentations we also provide detailed lecture notes, as well as lecture outlines. The PowerPoint slide show includes small versions of the slides for class handouts. All of these materials are packaged in our *Multimedia Lecture Support Package*. This supplement is also available in an electronic form on the *Instructor CD*, and that makes it even more convenient to use. It gives instructors a great deal of flexibility and saves time that can be spent on other teaching activities. Instructors who prefer to use materials like those that were in the past included with our *Lecture Guide* won't be disappointed either. The new package will provide that material as well—in both printed form and in the form of word-processing files (which makes it easier for instructors to electronically cut and paste and incorporate their own materials or to save time and effort in creating a website for the course).

In addition, the *Multimedia Lecture Support Package* is accompanied by a high-quality selection of overhead masters and color transparencies—over 500 in all. The manual provides detailed suggestions about ways to use them. All of these items are also available on the CD.

Exciting New Videos—Created by Marketing Experts

The newly revised and expanded *Essentials of Marketing Videos* are also available to all schools that adopt *Essentials of Marketing*. Half of the teaching videos are

completely new—based on scripts written by expert marketing scholars and carefully linked to key topics in the text. In addition, several of the most popular video modules from the previous edition—the ones instructors and students said they most wanted to keep—have been thoroughly revised and updated. These new videos are really great, but it doesn't stop there! As we noted earlier, there are also seven great new videos to accompany the video cases.

Testing that Works for Faculty and Students

In addition, thousands of objective test questions—*written by the authors* to really work with the text—give instructors a high-quality resource. We provide test-generator software that allows the instructor to select from any of these questions, change them as desired, or add new questions—and quickly print out a finished test customized to the instructor's course. As an added benefit, the instructor can publish questions to a website and students can take tests online.

The Responsibilities of Leadership

In closing, we return to a point raised at the beginning of this preface. *Essentials of Marketing* has been a leading textbook in marketing since its first edition. We take the responsibilities of that leadership seriously. We know that you want and deserve the very best teaching and learning materials possible. It is our commitment to bring you those materials—today with this edition and in the future with subsequent editions.

We recognize that fulfilling this commitment requires a process of continuous improvement. Improvements, changes, and development of new elements must be ongoing—because needs change. You are an important part of this evolution, of this leadership. We encourage your feedback. The most efficient way to get in touch with us is to send an e-mail message to Bill_Perreault@unc.edu. There's also a comment form built into the book's website, and if you prefer the traditional approach, send a letter to 2104 N. Lakeshore Dr., Chapel Hill, NC, 27514. Thoughtful criticisms and suggestions from students and teachers alike have helped to make *Essentials of Marketing* what it is. We hope that you will help make it what it will be in the future.

William D. Perreault, Jr.

E. Jerome McCarthy

Walkthrough

ESSENTIALS OF MARKETING HELPS YOU LEARN ABOUT MARKETING AND MARKETING STRATEGY PLANNING.

At its essence, marketing strategy planning is about figuring out how to do a superior job of satisfying customers. With that in mind, the 10th Edition of *Essentials of Marketing* was developed to satisfy your desire for knowledge and add value to your course experience. Not only will this text teach you about marketing and marketing strategy planning, but its design, pedagogy, and supplementary learning aids were developed to work well with the text and a variety of study situations.

Each person has a different approach to studying. Some may focus on reading that is covered during class, others prefer to prepare outside of the classroom and rely heavily on in-class interaction, and still others prefer more independence from the classroom. Some are more visual or more “hands on” in the way they learn and others just want clear and interesting explanations. To address a variety of needs and course situations, many hours went into creating the materials highlighted in this section. When used in combination with the text, these tools will elevate your understanding of marketing.

Take a moment now to learn more about all of the resources available to help you best prepare for this course—and for your future career.

ESSENTIALS OF MARKETING: AN INNOVATIVE MARKETING EXPERIENCE.

With eighteen chapters that introduce the important concepts in marketing management, you will see all aspects of marketing through the eyes of the marketing manager. The first seven chapters introduce marketing and give you a framework for understanding marketing strategy planning in any type of organization, and then the second half of the text takes you into planning the four Ps of marketing (Product, Place, Promotion, and Price) with specific attention to the key strategy decisions in each area.

Basic Marketing and *Essentials of Marketing* pioneered the “four Ps” approach to organize and describe managerial marketing for introductory marketing courses. This new edition covers the dynamic changes taking place in marketing management and the marketing environment. Some of these changes have been dramatic, and others have been subtle. But the 10th Edition helps you understand the changes taking place and reflects today’s best marketing practices and ideas.

WHEN YOU FINISH THIS CHAPTER, YOU SHOULD

1. Understand what “Product” really means.
2. Know the key differences between goods and services.
3. Know the differences between the various consumer and business product classes.
4. Understand how the product classes can help a marketing manager plan marketing strategies.
5. Understand what branding is and how to use it in strategy planning.
6. Understand the importance of packaging in strategy planning.
7. Understand the role of warranties in strategy planning.
8. Understand the important new terms (shown in red).

CHAPTER EIGHT

Elements of Product Planning for Goods and Services

The Segway™ Human Transporter (HT) isn't just a new product, it's a new product concept. A design engineer is likely to be excited by the Segway HT's unique features. Under the power of its rechargeable batteries, its onboard computers and five gyroscopes automatically balance the two-wheel superscooter as its rider glides down the sidewalk at up to 12 mph. Even the two-tone plastic fenders that sit above the wheels are unique. They are coated with Solix, a high-quality chemical film developed by General Electric; Solix gleams like colorful paint, but it resists scratches.

Of course, most customers don't dwell on technical features like Solix, gyroscopes, or central processors; instead, they think about the benefits and satisfaction that might come from using the product. The benefits



that the Segway HT offers depend to some extent on whether it is sold as a consumer product or a business product. For example, the Post Office has evaluated it as a way to cut costs as mail carriers go from house to house. Alternatively, upscale consumers who live in congested urban areas might see it as a fun, quiet, and flexible way to get around without worrying about traffic, parking, or fill-ups at a gas station.

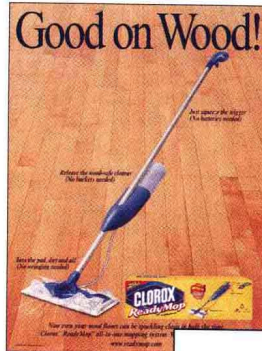
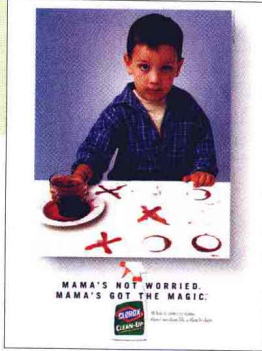
Before the Segway HT was introduced, the new-product development process was wrapped in secrecy. Rumors even spread on the Internet that it might be some sort of hovercraft. This created some unrealistic expectations, but it also stimulated media coverage, publicity, and initial sales at Amazon.com.

Thousands of units sold that way. Now Segway's website (www.segway.com) lists the names and locations of Segway dealers. This is still a selective distribution effort. Distribution through dealers makes sense for this sort of product. A customer who visits a local dealer can inspect the different models in the Segway product line and a salesperson can answer questions. In addition, before spending \$4,500 on a Segway HT, a customer is likely to ask “where do I get warranty service if I have a problem?” In fact, some customers were reminded of such after-the-sale service issues when Segway announced a voluntary product recall. The Consumer Product Safety Commission encouraged the recall to head off

Each chapter begins with a list of learning objectives that will help you understand and identify important terms and concepts covered in the chapter, and then provides an in-depth case study, developed specifically to motivate your interest and highlight real-life examples of the learning objectives and specific marketing decision areas covered in that chapter.

Market grid is a visual aid to market segmentation

Initially the Clorox brand name became well known as laundry bleach, but now the brand is used with other products related to the broader product-market for household cleaning needs.



Using Marketing Strategy with Segmentation and Positioning

Full-color photos and current ads are carefully placed in every chapter and annotated—to provide a visual emphasis on key concepts and ideas discussed in the text. These illustrations vividly show how companies apply marketing concepts in the modern business world.

A variety of interesting exhibits—“conceptual organizers,” charts, and tables—illustrate each chapter and focus your attention on key frameworks and ideas.

Exhibit 9-7
Pareto Chart Showing Frequency of Different Complaints

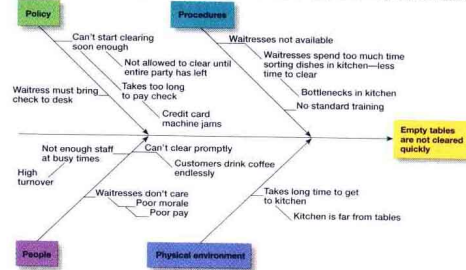


This is typical. The worst problems often occur over and over again. This focuses the manager's attention on which quality problem to fix first. A rule of quality management is to slay the dragons first—which simply means start with the biggest problem. After removing that problem, the battle moves on to the next most frequent problem. If you do this continuously, you solve a lot of problems—and you don't just satisfy customers, you delight them.

Figure out why things go wrong

So far, our manager has only identified the problem. To solve it, she creates a fishbone diagram—a visual aid that helps organize cause-and-effect relationships for “things gone wrong.” See Exhibit 9.8. With this diagram, our restaurant manager discovers that customers wait to be seated because tables aren't cleared soon enough. In fact, the Pareto chart (Exhibit 9.7) shows that customers also complain

Exhibit 9-8 Fishbone Diagram Showing Cause and Effect for “Why Tables Are Not Cleared Quickly”



other mothers to ask for SoapWorks products and to tell friends about stores that carried them. This wasn't the fastest possible way to introduce a new product line, but her cash-strapped strategy played to her unique strengths with her specific target market.¹⁰

INTERNET EXERCISE



Go to the SoapWorks website (www.soapworks.com) and click on the link for its store locator. Click your state on the map and see if there is a retailer in your area that carries SoapWorks products. Check several other states in different regions of the country. Why do you think that SoapWorks has distribution through retail stores in some states but not in others?

Exhibit 2-10 focuses on planning each strategy carefully. Of course, this same approach works well when several strategies are to be planned. Then, having an organized evaluation process is even more important. It forces everyone involved to think through how the various strategies fit together as part of an overall marketing program.¹¹

Internet exercises are integrated with the discussion of important ideas as they are developed—to help you learn about marketing while you surf interesting websites.

www.mbhe.com/fourps HYBRID CARS PLUG INTO A PITCH FOR CONVENIENCE AND POWER

For 100 years, gasoline-powered vehicles have been the king of the road. And unlike in some cultures, people in the United States drive everywhere they go. Yet this has created problems. The high cost of gasoline, its environmental impact, and reliance on oil from the politically volatile Middle East long ago led to federal laws that required automakers to improve gas mileage. In response, during the 1980s and 90s automakers redesigned vehicles to improve mileage. Even so, progress was slow. Many consumers preferred big gas-guzzler SUVs that were a better match for their suburban lifestyles. A decade ago, to help curb smog in cities like Los Angeles, desperate California lawmakers even told automakers that by 2003, 10 percent of the autos and trucks they sell must produce zero emissions. To nudge toward that target, a few manufacturers offered electric vehicles. Yet battery-powered cars, like GM's EV1, were very costly, had a drive-range less than 100 miles, and were generally underpowered. A few wealthy celebrities drove them for publicity or to make an environmental "statement." But for most consumers, electric cars were too expensive and the need to plug them into an electric outlet was a real obstacle.

Now sales of hybrid vehicles (which combine power from gasoline and electric motors) are beginning to grow. Competition among producers is encouraging innovations based on this new technology. Costs are lower, mileage is higher, and power is better. For example, both Toyota and Honda enjoyed a dramatic jump in sales when they introduced their new Prius and Civic hybrids. This jump occurred in spite of a weak economy—when many consumers postpone big purchases. Initial sales might have been even higher if it were not for a problem that was revealed by Toyota's marketing research. Even after thousands of hybrids were on the road, about half of all consumers wrongly believed that you still have to plug in a hybrid (or said that they just didn't know). In light of this, Toyota worked with its ad agency to develop promotions to constantly remind consumers that "you never have to plug it in." Yet many consumers are still not very motivated to pay extra to buy a "green" vehicle. This may explain why Ford's promotion focuses on the increased power of its new hybrid SUVs and trucks rather than on an environmental appeal.³¹

current attitudes and work within these constraints—as it seeks new and better opportunities.³²

USING SCREENING CRITERIA TO NARROW DOWN TO STRATEGIES

Developing and applying screening criteria

After you analyze the firm's resources (for strengths and weaknesses), the environmental trends the firm faces, and the objectives of top management, you merge them all into a set of product-market screening criteria. These criteria should include both quantitative and qualitative components. The quantitative components summarize the firm's objectives: sales, profit, and return on investment (ROI) targets. (Note: ROI analysis is discussed briefly in Appendix B, which comes after Chapter 18.) The qualitative components summarize what kinds of businesses the firm wants to be in, what businesses it wants to exclude, what weaknesses it should avoid, and what resources (strengths) and trends it should build on.³³

Developing screening criteria is difficult but worth the effort. They summarize in one place what the firm wants to accomplish. When a manager can explain the specific criteria that are relevant to selecting (or screening out) an opportunity, others can understand the manager's logic. Thus, marketing decisions are not just made or accepted based on intuition and gut feel.

The criteria should be realistic—that is, they should be achievable. Opportunities that pass the screen should be able to be turned into strategies that the firm

Each chapter features a special case report in a highlighted box that illustrates how companies handle a topic of special interest covered in that chapter.