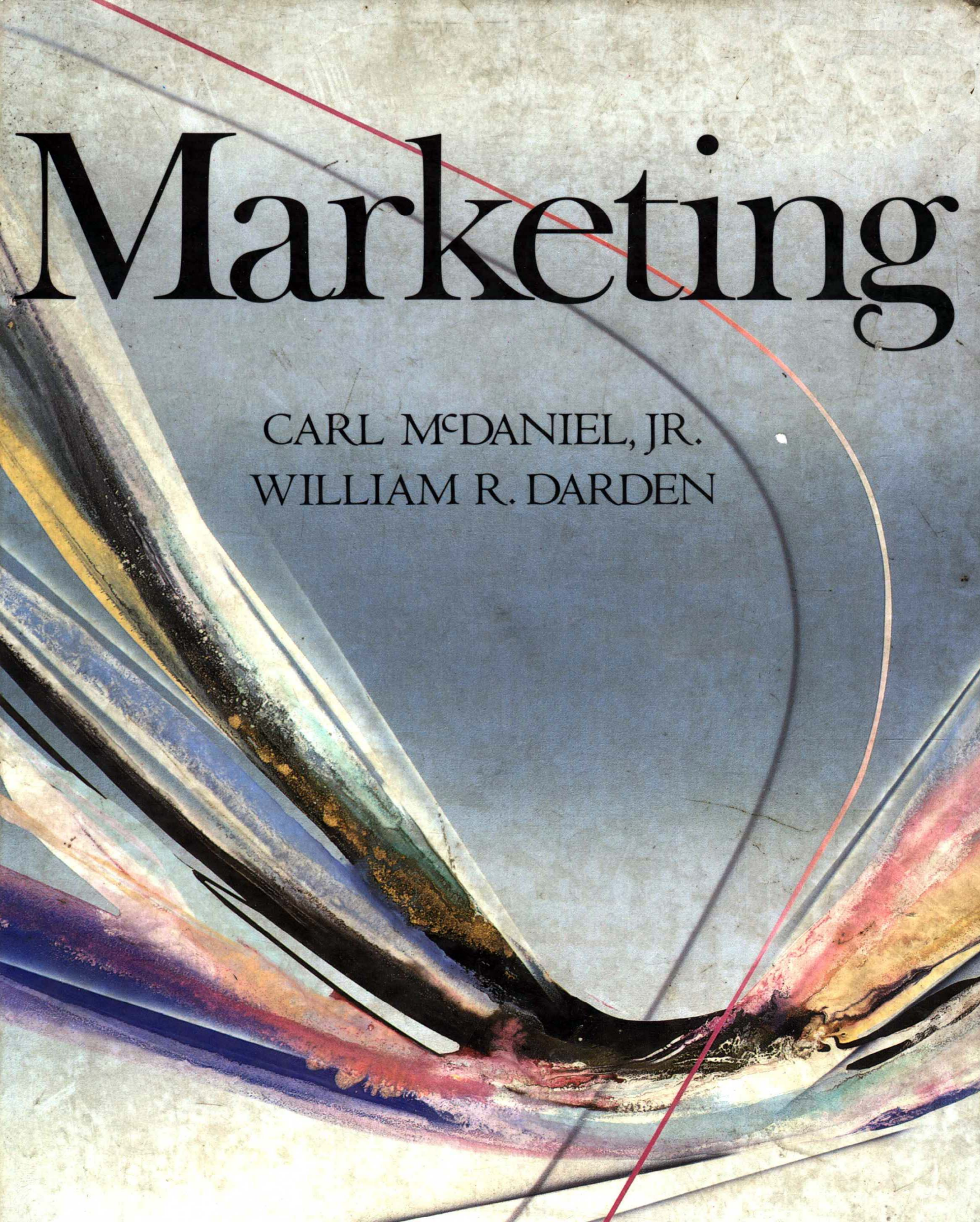


# Marketing



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# Marketing

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# Preface

Our book has been created to provide students with a stimulating, interesting, and comprehensive introduction to the field of marketing. The primary focus of this text is on the marketing mix of product, pricing, promotion, and distribution decision making. We devote slightly over half of the book to a thorough and lively explanation of how a marketing manager plans and implements the marketing mix to reach the organization's objectives.

The orientation of the text is managerial: concepts, ideas, and principles are presented through the eyes of the marketing manager. In some instances, we present a series of managerial "how to" steps such as how a marketing manager should go about setting a price, segmenting a market, or establishing a channel of distribution. The notion of marketing management is explained early in the text (Chapter 3), and the concept of strategic planning is described using numerous examples. In every chapter, an explanation is given of how and why the chapter material is important to the marketing manager.

Because this is the only marketing course many students will take, it is imperative that the material isn't given a "quick once-over." For this reason, we have created a thoroughly researched, classroom-tested, intellectually sound text to meet the highest standards. Before each chapter was written, the latest research findings and contemporary practices were reviewed. The result is a book that covers "cutting-edge" principles explained with the latest trends in marketing practice. To accomplish this, we have developed the following features in the book:

- *A lively, informal writing style that talks to the student in an interesting and instructive way.* The style is a product of many years of teaching and writing by two very successful professors.

- *Real-world examples integrated with principles at several levels.* A major objective of the text is to clarify important concepts with relevant examples from the world of marketing management. This is done frequently as part of the text itself, as well as in accompanying advertisement exhibits, special feature boxes, chapter cases, and longer cases accompanying each part unit.

- *A chapter format designed to be a stimulating learning tool.* Each chapter begins with a lively, real-world vignette specifically chosen to arouse the student's interest in the forthcoming material. The vignette is followed by several "teaser" questions, selected to pique the student's interest in specific chapter concepts,

and a Chapter Focus section which provides a broad outline of the chapter. We then offer a brief explanation of why the chapter material is important to the marketing manager. This section helps put the chapter content in perspective by pointing out the “real world value” of the text that follows.

Chapters conclude with a number of pedagogical devices to enhance learning, retention, and comprehension of the material. For example, there are a series of review questions to aid recall of important concepts, and a separate set of discussion questions to stimulate further thinking and creative applications of the subject matter. A comprehensive list of key terms serves as a checklist of important concepts and terms in each chapter. Two real-world mini-cases have been specifically chosen for every chapter to illustrate problem-solving that uses the tools and principles developed in the chapter. Finally, each section of the text contains a longer part-case that integrates material presented in several chapters.

● *A fully integrated presentation of services marketing.* Because more than half of the dollar value of all retail sales is accounted for by services rather than goods, the notion of “services marketing” is far from an inconsequential topic. Indeed, we feel that it deserves far more attention than it is usually given. We have endeavored to offer the first marketing text with a balanced presentation of services marketing throughout the book. To this end, we placed a special services marketing section in every chapter. Where there are major distinctions between service marketing and goods marketing, we devote considerable space to the topic. This has been done for “creating new services,” “managing the service line,” “distributing services,” and a variety of other areas. We have also been careful to balance our examples throughout the text between consumer and organizational marketing firms. The same is true for the end-of-chapter cases.

● *Special treatment of entrepreneurship and small businesses.* We recognize that many students will not end up working for a major corporation. Some will start their own enterprises and others will simply go to work for a small or moderate-size company. We have covered these areas of entrepreneurship in a boxed section in each chapter. These unique boxes describe entrepreneurship in action by applying the concepts covered in the chapter to show how small businesses and entrepreneurs may encounter and solve special problems. For example, one box discusses circumstances unique to small retailers; another in the promotion section explains how entrepreneurial businesses with limited budgets can use media effectively.

● *A systematic and logical approach to the study of marketing.* A student’s initial introduction to marketing can easily become confusing and overwhelming because of the numerous topics, concepts, and theories that must be presented. We feel, and students have told us, that the topical sequencing of *Marketing* is a logical and orderly approach for mastering the material. The text is developed on a seven-part format. Part One begins by explaining the importance of marketing, defining basic terms and concepts, and outlining a brief overview of the text. Next, we discuss the external environment with which the manager must cope. Problems related to inflation, shortages, changing values, and other contemporary challenges are woven through the text, as are examples of not-for-profit businesses. The environmental chapter is followed by a presentation on the marketing system, marketing management, and the concept of strategic planning.

Part Two focuses on selecting and measuring target markets. Chapter 4 reveals the role of marketing research and marketing information systems in identifying opportunities and solving marketing problems. In Chapters 5 and 6 the students learn about consumer and organizational purchase motivations and behavior. Part Two ends with a discussion of market segmentation, product differentiation, and positioning.

Parts Three, Four, Five, and Six cover the elements of the marketing mix. Part Three, Product Planning, begins by introducing students to basic product concepts, then moves to creating new goods and services, and concludes with product management. Part Four, Price Planning, builds a foundation for understanding price by thorough coverage of demand and cost concepts. The second pricing chapter explains marketing applications of pricing and how to set a price.

Part Five, Distribution Planning, explains the roles and functions of marketing channels and then moves to separate chapters on wholesaling, retailing, and physical distribution. Part Six, Promotion Planning, begins by describing the communication process, and in the following chapter discusses the role and scope of advertising, sales promotion, and public relations. The next chapter is an integrative discussion of promotion management with emphasis on the promotion campaign. Part Six concludes with a presentation of personal selling and sales management.

Part Seven rounds out the text by focusing on four topics important to most marketing managers. The first chapter is devoted to tactical planning, marketing organization, and control. Chapter 22 follows by examining marketing in not-for-profit businesses. Chapter 23 explores international marketing. The final chapter delves into two topics of ever-increasing importance—ethics and social responsibility in marketing.

- Graphics, photos, and ads that contribute to understanding.* In this text, art and graphic pieces are planned for their usefulness in supporting key concepts. Rather than fragmenting the book with distracting effects, these illustrations help pull together ideas in the text and in many instances, show how principles can be applied to concrete situations.

- Distinctive supplementary learning publications.* This text's outstanding supplements include a Study Guide and a book of readings, *The Dynamics of Marketing*.

The Study Guide is designed to reinforce the information presented in the text, provide aid in mastering its concepts and terms, and help students prepare for examinations. It contains a chapter overview, quizzes with answers and a variety of exercises designed to test the student's understanding of the text.

*The Dynamics of Marketing: Classic and Current Readings* is a collection of important classic readings combined with articles on current developments and thinking. It provides the student with current illustrations, shows the interaction among marketing variables, adds relevance, and provides bases for class discussions. The classic articles are works that marketing students should be familiar with; they show that marketing is more than the sum of current practices—it is a field with an established body of knowledge. The classics set the stage and provide a basis for evaluating current practices.

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Every textbook owes its knowledge, personality, and features not just to the authors but to a team of hard-working individuals behind the scenes. A great debt is owed to our research assistants, Barbara Losacano and Diane Dalrymple, who helped pull together information from literally thousands of sources, and to our typists, especially Sharon James. Carl also wishes to single out his administrative assistant, RoseAnn Reddick, who not only typed many chapters but also took on numerous departmental duties that freed-up precious writing time.

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# *Part One*

## Introduction to Marketing

Part One is a broad overview of the nature of marketing—a field where the disciplined creativity of the individual can make a difference, both in society and on the scene of business activity. These chapters introduce the role of the marketing manager, whose job is to analyze the marketing environment and use the marketer's tools to help the organization accomplish its objectives. The first chapter presents the components of the marketing field and the manager's role in it. Chapter 2 describes the complex environment in which managers operate, with a view of the factors they must weigh in making decisions. The third chapter presents the significance of strategic planning for managers who must carefully assess their marketing opportunities and priorities as they strive to attain the firm's goals.



# *Chapter 1* | The Nature of Marketing

## ***LEARNING OBJECTIVES***

- To define marketing.
- To understand the importance of studying marketing.
- To examine the evolution of marketing.
- To understand the marketing concept.
- To become aware of the variables that make up the marketing mix.
- To learn how a marketing department operates in an actual business.
- To describe the broadened concept of marketing.
- To learn about the content of chapters to follow.

Imagine your first day on the job after college graduation. Your college diploma may not impress your colleagues, but buying lunch with your American Express charge card may help tell them you're a pro.

American Express Travel Related Services, marketer of American Express charge cards, is telling college students, "Don't leave school without it," and is backing its appeal with film festivals, talent shows, and posters and kiosks in classrooms and bookstores—all to encourage graduating students to sign up for the American Express card.

"The student market is a good one for us," says Diane Shaib, vice-president, card-member acquisition, American Express. "They are demonstrated good payers, and are sensitive to the importance of establishing credit. We provide a good starting point for them since the American Express card (which requires monthly payment in full) is the closest thing to the cash- and check-based systems students are used to."

## American Express

"We try to combine our sales push with information that will be of use to students," Ms. Shaib says. "At some campuses, we have seminars in career planning. At other campuses, we try to entertain, such as with our talent shows, film series, and programs where we urge students to write original 'Do you know me?' commercials."

"Our preference is to sponsor a 'campus week' where we have multiple programs aimed at informing and entertaining students while getting our message across," Ms. Shaib says. "About fifty campuses get that type of program."

An American Express-sponsored student talent show, called Starbound, drew 20,000 people at the University of Miami. American Express provides funding, banners, posters, and fliers to publicize their student talent shows as well as local radio and newspaper advertising and prizes for the winners. In exchange, American Express gains its own publicity and distributes applications for the American Express card.<sup>1</sup>

The American Express story illustrates how one major company markets to people like yourself. What are the basic components of American Express's (or anyone else's) marketing program? How did this phenomenon called marketing come about? Does marketing always mean selling a product? What am I going to learn from reading this text? These are some of the questions we will answer in Chapter 1.

### Chapter Focus

Chapter 1 begins by defining marketing and its major components. We then explain the significance of marketing to businesses, society, and you. Next we present a brief history of the field of marketing. Two very important components of marketing are then discussed—the marketing concept and the marketing mix. These concepts are put into action by explaining how a marketing department actually works. You will also learn how marketing can be applied in not-for-profit businesses as well. Chapter 1 concludes with a preview of this book.

## Marketing—What Does It Really Mean?

Let us begin our examination of marketing with some definitions. **Marketing is the process of planning and executing the conception, pricing, promotion, and distribution of ideas, goods, and services to create exchanges that satisfy individual and organizational objectives.**<sup>2</sup> **Exchange occurs when there are at least two parties and each has something of potential value to the other.** When the two parties can communicate and have the ability to deliver the desired goods or services, exchange can take place. In the United States, exchange typically involves one party offering money and the other a good or service. For example, when you obtained this book, you probably exchanged cash for the text at the bookstore. Exchange occurs because people and organizations are ready to acquire something to accomplish their goals. In this case, the bookstore wants to make a profit and you need the text in order to learn about marketing.

Not all exchanges involve money. You may swap a text you have already used with a student who has completed the basic marketing course. **In order for exchange to occur, both parties (or at least one party) must feel they are better off than they were previously.**<sup>3</sup> You often pass up items in a store because you feel you are better off keeping your cash.

Not all exchanges are profit-oriented, yet they are still part of marketing. The American Cancer Society and the local museum are as much in business to survive as Pepsi-Cola. A politician offers promises and hope of good service in

Thus, the fourteen-quart bucket of milk from the cow is packaged in gallon, half-gallon, pint, and half-pint containers. In this way the marketing function of breaking bulk also creates form utility.

The other three types of utility are created only through marketing. **Place utility** means having the product at the place you would like to buy it or use it. **Time utility** is having the good or service available when you want it. **Possession utility** means completing a transaction and gaining possession so that you have a right to consume it. Marketing creates place utility through distribution. A set of Revere ware cookware would have little value for you if it were sitting in a warehouse in Philadelphia and you are living in Chicago! Time utility is created by storage. Marshall Field, a Chicago-based department store chain, purchases Revere ware sets and stores them in warehouses and on the shelves in their housewares departments until you are ready to buy. By advertising the Revere ware, perhaps on sale, and offering credit and other services, Marshall Fields facilitates possession utility. Thus, through the exchange process, the consumer can gain form, time, place, and possession utilities.

### Importance of Marketing to Management

Marketing, via the exchange process, creates utility for the consumer and generates revenue for the company. Both parties are satisfied and typically better off than before the exchange took place. Marketing is a critical function to management because it stimulates the lifeblood of any firm: sales revenue for the profit-oriented company and client interaction and funds for the not-for-profit business. The more efficient a firm's marketing effort, other things being equal, the greater will be market share and profits (assuming expenses are properly controlled). This, in turn, helps insure long-run survival and the ability to command resources in the marketplace. A highly profitable firm, for example, can outbid competitors for scarce top managerial talent.

In the nonprofit sector, marketing is also very important to management. Marketing can help fill a symphony hall. It can help the military meet its recruitment quotas and stimulate donations to the Heart Fund, American Cancer Society, and countless other charities. Moreover, by using marketing techniques, a nonprofit organization can better serve its clientele. Marketing, for example, can help determine facilities and equipment for a new YMCA or where to locate a public health clinic.

## Marketing: Three Perspectives

There are several different ways of approaching the study of marketing. Three of the most important ways of conceptualizing marketing are normative versus positive marketing, macro marketing, and micro marketing.

### Normative versus Positive Marketing

**Positive marketing** attempts to explain, predict, and understand existing marketing activities and phenomena. For example, what factors and techniques can be effectively used to motivate a sales force? How should a manager set a price on a new product? What makes some retailers more successful than others?

**Normative marketing** is concerned with what a given society believes ought to be and what its people and companies should do. For example, should companies be allowed to advertise tobacco products on television? Is it right for

grocery chains to charge higher prices in some ghetto markets? Should society allow politicians to be sold like toothpaste?

## Macro Marketing

**Macro marketing** refers to the study of (1) marketing systems, (2) the impact and consequence of marketing systems on society, and (3) the impact and consequence of society on marketing systems.<sup>1</sup> Macro marketing is thus a multidimensional concept. When viewed from a broad (macro) perspective, it can be seen that marketing creates utility for society as a whole and not just for one organization. This is a macro marketing perspective, which begins with the examination of broad marketing systems, of aggregate units of marketing activity. Marketing systems are studied to discover how goods and services go from producer to consumer within a country and to compare one country's marketing system with that of another. The U.S.S.R. and China, for example, have highly centralized marketing systems, whereas the United States has a decentralized one.

Consumers are not passive recipients of a standard of living; they actively construct their life styles. The way consumers determine "who they are" is through their purchase behavior. This, in turn, influences what is produced. For example, when the weekend athlete buys jogging suits and shoes, racquetball gear, and a new set of golf clubs, he or she helps determine the nature of what is produced. In planned economies, by contrast, central planning boards determine what will be the components (goods and services) of a standard of living.

Consumers and businesses also help construct a macro marketing system in a free-market system by their votes for legislators they feel will vote for or against economic and consumer legislation. Pressure on legislators, consumer movements, and even protest activities help mold and shape the marketing system.

The American economic and marketing systems are essentially decentralized and based on a free-market economy. The allocation of goods and services is not done by a central planning arm of government (as in a planned economy); instead, purchasers direct the flow of goods and services. Our system is a free-enterprise one because we are free to enter any occupation or business we choose, to decide what to produce, how to produce it, and at what price to sell it.

A macro marketing system examines the transactional flows that decide a society's standard of living. In barter economies, goods and services are exchanged without the use of money. A bunch of bananas may be exchanged for a dozen eggs. Central markets developed once societies moved beyond a subsistence level (where each family produces and consumes its own output). A central market offers a place where transactions for goods and services can take place. As a society grows in complexity and begins to industrialize, its marketing system also becomes more intricate and complex. The complexity of the Japanese system, for example, has been found to be frustrating for many American businesspersons.

**The Marketing System and Society.** The study of macro marketing also involves the analysis of how a marketing system affects a society. Does the system, for example, aid or hinder economic development? The rebuilding of Western Europe's transportation system after World War II, along with modern storage and physical handling equipment, provided great impetus for economic growth. Conversely, in some South American countries wholesaling has been carried on