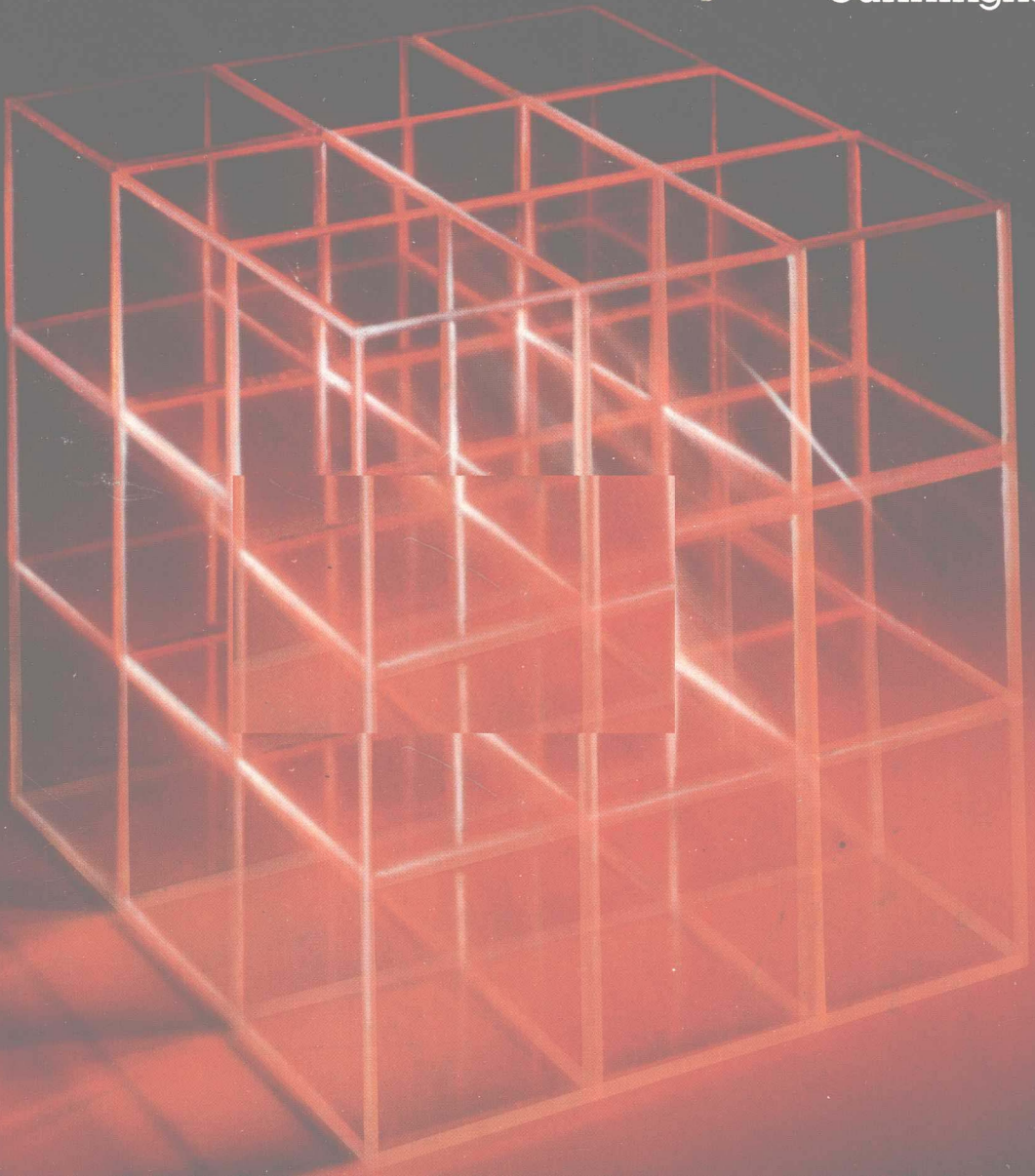


MARKETING

A Managerial Approach

Cunningham
and
Cunningham



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PREFACE

Marketing is essential to the operation of any business firm or public service organization. The successful enterprise in today's changing and competitive world is increasingly characterized by its understanding of the many facets of marketing and by its ability to deliver goods and services to the market more efficiently than its competitors.

As a principles book, this text is designed to introduce college students to the basic concepts, practices, and analytic techniques of marketing. The book is comprehensive in scope, contemporary in outlook, and managerial in orientation. Many of the students who will use this book will take up careers in marketing management. Other students will pursue careers in nonbusiness-related fields. It is our hope that this book will help all its readers, regardless of career path, become more informed consumers and more knowledgeable participants in the great drama of economics, politics, and history shaping the world today.

Because of our concern for clarity, we have made this book as concise and readable as possible. We have included many examples and illustrations to show students how abstract theory and principle relate to marketing as it is actually practiced. The text contains a large amount of tabular and graphic material that is designed to present summary data about an industry or topic, or to depict key relationships or otherwise difficult concepts.

Each of the 21 chapters concludes with a list of summary points and a set of questions for discussion and review; each of the eight parts is concluded with at least two cases based on real business problems. Finally, a study guide is available for the student. The study guide, with questions and answers keyed to pages in the text, reinforces the major ideas in each chapter and gives the student an opportunity to apply these ideas in exercises and problems.

Another primary concern in developing the book was to arrange the topics in a straightforward, logical manner. All too often, unfortunately, texts suffer from an almost random sequencing of chapters. Accordingly, this book begins with a discussion of foundation concepts, the marketing environment, and strategic planning. The second part looks at buyer behavior and two important marketing tools — marketing research and market segmentation. The next four parts address, in turn, the basic elements of the marketing mix — product, communication, price, and distribution. Two special topics, international marketing and the marketing of services, are examined in the seventh part. The last part discusses alternative forms of organizing the marketing department, marketing information systems, and the integrating role of the marketing control function. The text concludes with a look at the extension of the marketing concept to nonprofit organizations and the future of marketing.

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*William H. Cunningham
Isabella C. M. Cunningham*

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The Environments of Marketing

Marketing decisions cannot be made in a vacuum. Instead, marketing, in its broadest sense, operates in many environments. These environments can be categorized as either societal or organizational in nature.

In Part 1, you will discover: ways in which marketing decisions affect society; how marketing planning takes place within a firm and how it relates to other business activities; how marketing decisions are constrained by social and legal considerations.

Chapter

- 1 Marketing and Society**
- 2 Planning the Marketing Effort**
- 3 Social and Legal Aspects of Marketing**

1 Marketing and Society

Topics discussed in Chapter 1:

1. The place of marketing in the distribution of products from manufacturers to consumers.
2. The role and importance of marketing within the firm.
3. The historical development of marketing as a discipline.
4. The production and marketing concepts.
5. The interactive variables involved in marketing problems, as well as the fact that such problems do not automatically yield correct, absolute solutions.
6. The application of marketing to the nonprofit sectors of the economy.
7. The importance of studying marketing.

This first chapter provides a framework for our study of marketing. You will soon realize that marketing is much more of an art than a science, unlike some disciplines in which each problem, if clearly defined, has a definite answer. However, the study of marketing still requires a rigorous exploration of the important issues in the discipline. This text helps you explore these issues. We begin by looking at the role of marketing in a capitalistic society.

THE ROLE OF MARKETING IN SOCIETY

Some people think of marketing as an evil, wasteful practice and of marketers as manipulators who enjoy taking advantage of innocent consumers in the marketplace. According to this view, the objective of marketing is to induce consumers, by whatever means available, to buy low-quality merchandise at unjustifiably high prices. Some people view marketing, one of the major functions of the firm, as generally divorced from the production function. For some mystical reason, the men and women who manufacture or grow products are often considered more valuable in our society than the merchants who distribute them even though both groups are involved in providing the goods and services we desire. These merchants are thought to add little or no value to the goods they handle; instead they simply tack on their own markups and reap large profits for themselves. Finally, marketing is said to foster materialism, often through advertising, by “making” us purchase products that we don’t even want.

Unfortunately, some marketers do use hard-sell tactics to sell inferior goods at high prices. Although this is no defense of such marketers, it is also true that we have a few fast-buck physicians, dishonest politicians, lazy bureaucrats,

faithless ministers, and ignorant teachers. The point is that the unscrupulous behavior of a few practitioners does not characterize all those involved in the field, nor should those practitioners be allowed to represent to the public the image of the discipline as a whole. Therefore, let's begin by examining the vital functions that marketing performs for society, as well as for the individual firm, i.e., macromarketing and micromarketing.

Macromarketing

Macromarketing refers to the role of the total marketing system in distributing goods and services to buyers. In a primitive society, most goods used within a household are produced by members of the household. People soon realize that some of their family needs can be met better by exchange than by production. For example, one family may be good at making clothing whereas another is skillful in making baskets. The clothing family may be able to produce two units of clothing and the basket family two baskets faster than either family could make one unit of clothing and one basket. Therefore, if both families produce a surplus of goods beyond their immediate needs, they can exchange merchandise and obtain more total goods with less effort.

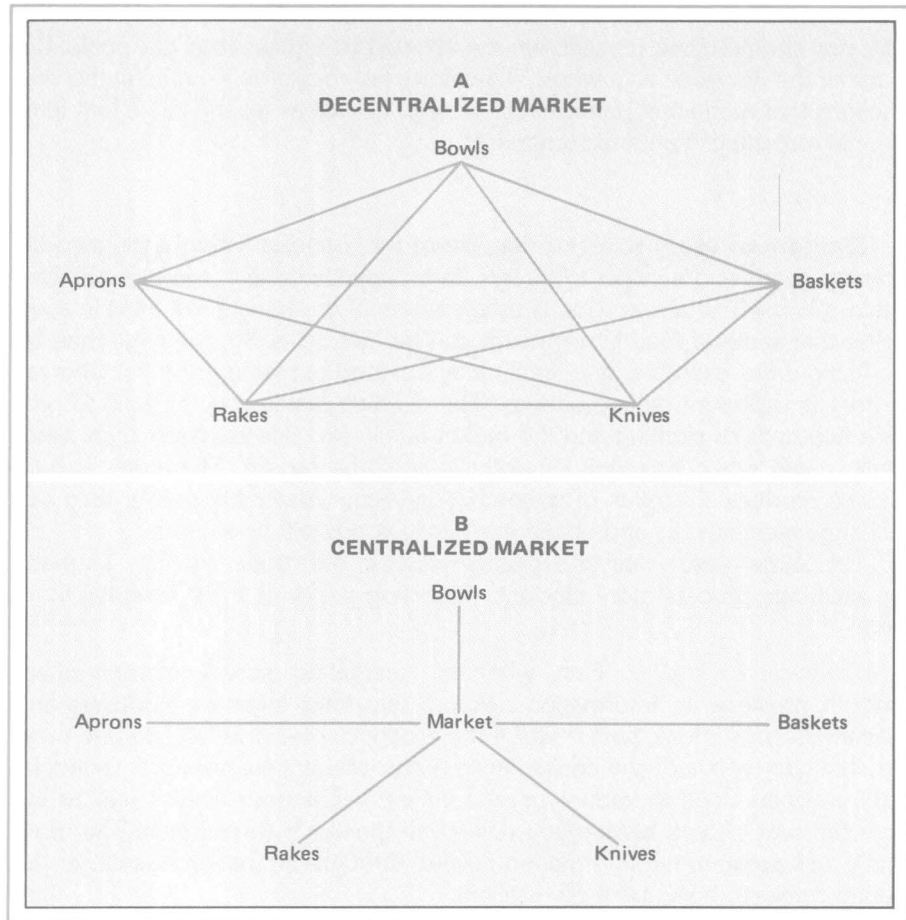
This same basic value of exchange exists in our modern world. To make the exchange process more efficient, marketing performs three essential functions.

Information Function. First, when the marketing system operates effectively, it provides an information network that links together producers and consumers. This information is vital if the productive sector of society is to meet the changing needs of the consumer in a cost-efficient manner. For example, cattle ranchers need to know what the market will pay for beef as well as the expected cost of feed before they determine the size of their herds. The more timely and accurate the information flowing through the market, the closer the market comes to being perfectly efficient.

Equalizing and Distributing Function. Second, goods do not flow in a perfectly even pattern from producers to consumers. Nor do consumers purchase an amount of merchandise exactly equal to that which is produced. The function of equating supply and demand falls on the marketing system. Therefore, the marketplace must create ways of storing goods until buyers are willing to accept them. The trade-off is always between the expected increase in the price of the merchandise and the added cost of warehousing the product. As an example, if the entire U.S. corn crop were sold immediately after the fall harvest, the price of corn would fall so low because of the preponderance of supply over demand that the farmer could not earn a living. As a result, much of the crop is withheld from the market for several months through storage in order to prevent the price of corn from dropping. In this case, the added storage costs are more than offset by the price stability obtained.

Centralized Exchange Function. Third, the marketing system provides a centralized exchange through which merchandise is distributed to members of society in return for some form of payment. To illustrate the efficiency of such

FIGURE 1-1 Exchanges in Decentralized and Centralized Markets



an exchange mechanism, let's look at an economy consisting of five households. Each of these households produces a surplus of a given product needed by the other families. As shown in Figure 1-1A, ten separate exchanges are required if there is no central market. However, as illustrated in Figure 1-1B, only five exchanges are required if this decentralized pattern of exchange is replaced by a centralized market.

Micromarketing

Whereas the focus of macromarketing is society, the focus of micromarketing is the firm. **Micromarketing** is the process of formulating and implementing a product development, distribution, pricing, and communication strategy that enables the firm to earn a profit in the marketplace. This process begins with marketing research, that is, a determination of the needs of potential buyers. After an appropriate product is developed to satisfy these needs, it is priced, its virtues are made known through a mix of advertising and personal selling, and the product is sold to the consumer.

FIGURE 1-2 Basic Marketing Tasks

Demand State	Marketing Task	Formal Name
No Demand	Create Demand	Stimulational Marketing
Latent Demand	Develop Demand	Developmental Marketing
Faltering Demand	Revitalize Demand	Remarketing
Full Demand	Maintain Demand	Maintenance Marketing
Overfull Demand	Reduce Demand	Demarketing

Source: Adapted from Philip Kotler, "The Major Tasks of Marketing Management," *Journal of Marketing* (October, 1973), pp. 42–49, by permission of the American Marketing Association.

The actual role of marketing within the organization is a function of several factors, of which the state of demand for the product is probably the most critical.¹ Figure 1-2 presents five states of demand along with the principal marketing task required by each.

No Demand. The situation of no demand is self-explanatory: no demand whatsoever exists for the item in question. This situation occurs under three conditions: (1) the item is common and has no value, such as empty beer cans or old barbed wire; (2) the item has value but not in the place where it is located, such as burglar alarms in a low crime area or boats in a desert; or (3) the item is unfamiliar and has no value because the market is not aware of its existence or its value, such as any *totally* new product.

The no-demand situation poses an extremely difficult challenge to the marketing executive. The task of converting no demand to positive demand is called **stimulational marketing**. It is usually accomplished by connecting the valueless object with some existing need in society. Empty beer cans, for example, could be given value by promoting their collection and recycling as a partial solution to the national problems of waste disposal and energy consumption. A second approach is to modify the environment to make the product more acceptable — an artificial lake, for example, might be created to stimulate interest in boating. Finally, the marketing executive can make more information available about the product in the hope that the lack of demand is simply the result of a lack of information.

When marketing people practice stimulational marketing, they are often criticized for inducing or coercing people into purchasing unwanted products. However, the real need is not manufactured by the organization; it is merely stimulated or activated. If consumers did not perceive any benefits in the product, they would not buy it. Stimulational marketing has been responsible for the adoption by society of many new life-improving products, practices, and services. Examples include new vaccines to eliminate disease, new child-rearing practices, and better farming machinery. Although marketing may have

¹The following sections on demand are adapted from Philip Kotler, "The Major Tasks of Marketing Management," *Journal of Marketing* (October, 1973), pp. 42–49. Adapted by permission of the American Marketing Association.