

MARKETING

7th
EDITION



KERIN BERKOWITZ HARTLEY RUDELIUS

MARKETING

7th
E D I T I O N

Roger A. Kerin

Southern Methodist University

Eric N. Berkowitz

University of Massachusetts

Steven W. Hartley

University of Denver

William Rudelius

University of St. Thomas



**McGraw-Hill
Irwin**

Boston Burr Ridge, IL Dubuque, IA Madison, WI New York San Francisco St. Louis
Bangkok Bogotá Caracas Kuala Lumpur Lisbon London Madrid Mexico City
Milan Montreal New Delhi Santiago Seoul Singapore Sydney Taipei Toronto

McGraw-Hill Higher Education

A Division of The McGraw-Hill Companies

MARKETING

Published by McGraw-Hill/Irwin, a business unit of The McGraw-Hill Companies, Inc., 1221 Avenue of the Americas, New York, NY, 10020. Copyright © 2003, 2000, 1997, 1994, 1992, 1989, 1986 by The McGraw-Hill Companies, Inc. All rights reserved. No part of this publication may be reproduced or distributed in any form or by any means, or stored in a database or retrieval system, without the prior written consent of The McGraw-Hill Companies, Inc., including, but not limited to, in any network or other electronic storage or transmission, or broadcast for distance learning.

Some ancillaries, including electronic and print components, may not be available to customers outside the United States.

This book is printed on acid-free paper.

domestic 4 5 6 7 8 9 0 QWV/QWV 0 9 8 7 6 5 4 3

international 1 2 3 4 5 6 7 8 9 0 QWV/QWV 0 9 8 7 6 5 4 3 2

ISBN 0-07-241075-2

Publisher: *John E. Biernat*

Executive editor: *Gary L. Bauer*

Developmental editors: *Gina M. Huck/Tracy L. Jensen*

Marketing manager: *Kim Kanakes Szum*

Senior project manager: *Kimberly D. Hooker*

Lead production supervisor: *Heather D. Burbridge*

Media producer: *Craig Atkins*

Supplement producer: *Susan Lombardi*

Photo research coordinator: *Ira C. Roberts*

Photo researcher: *Michael Hruby*

Cover design: *Laurie Entringer*

Interior design: *Laurie Entringer*

Cover illustration: *©tom white.Images*

Typeface: *10.5/12 Times Roman*

Compositor: *GTS Graphics, Inc.*

Printer: *Quebecor World Versailles Inc.*

Library of Congress Cataloging-in-Publication Data

Marketing / Roger A. Kerin . . . [et al.]. — 7th ed.

p. cm. — (the Irwin/McGraw-Hill series in marketing)

Includes bibliographical references and index.

ISBN 0-07-241075-2

1. Marketing

I. Kerin, Roger A.

II. Series.

HF5415.M29474 2002

658.8—dc21

12595516

INTERNATIONAL EDITION ISBN 0-07-121725-8

Copyright © 2003. Exclusive rights by The McGraw-Hill Companies, Inc., for manufacture and export. This book cannot be re-exported from the country to which it is sold by McGraw-Hill.

The International Edition is not available in North America.

PREFACE

Dynamic . . . Exciting . . . Challenging . . . and Surprising! The 21st century is an extraordinary time for instructors, students, and managers to be involved in the field of marketing. Virtual advertising, multichannel retailing, eCRM, cashless vending, everyday fair pricing, online coupons, data mining, and brand equity are just a few of the many indications that marketing is racing into a new era. At the same time, many traditional elements of the discipline such as segmentation, new product development, and pricing are growing in importance and use. The combination of the contemporary and the traditional elements of marketing create a truly exceptional topic to study and understand. We appreciate the opportunity to share our enthusiasm for the field with you and welcome you to your introduction to marketing!

The Seventh Edition of *Marketing* is the result of a detailed and rigorous development process designed to provide customer value in several ways. First, we continue to use the active-learning approach that has been the foundation of our previous editions. Second, we have incorporated many new examples, tools, and design elements that are consistent with the learning styles of today's students. Third, we have added, deleted, and modified topics and content based on our own expertise and the advice of many knowledgeable reviewers. Finally, we have invested in the most effective of the many evolving educational technologies. Overall, the Seventh Edition of *Marketing* represents our efforts to guarantee the high quality of previous editions and to continue our tradition of growth and improvement.

We are gratified by the growing interest in our approach to the study of marketing. Feedback from students and instructors from around the world continues to reinforce our pedagogical style. The text and its translations and adaptations are now used extensively throughout the United States, and in Canada, Poland, Russia, China, and many other countries. We hope that you will enjoy the text and your exploration of the knowledge, skills, and tools of the marketing discipline!

DISTINCTIVE FEATURES OF OUR APPROACH

The innovative pedagogical approach we developed through our own classroom experiences was introduced in the first edition in 1986. While each new edition has offered new content, cases, and examples to reflect changes in the marketing discipline and the marketplace, the distinctive features of our approach have remained as the foundation of the text and the supporting supplements. The features which you may recognize from previous editions and which are prominent in this edition include:

- An easy-to-read, high-involvement, interactive writing style that engages students through active learning techniques, timely and interesting examples, and challenging applications.
- A vivid and accurate description of businesses and marketing professionals—through cases, exercises, and testimonials—that allows students to “personalize” marketing and identify possible career interests and role models.
- The use of extended examples, involving people making marketing decisions, that students can easily relate to text concepts and that emphasize a decision-making orientation.
- Comprehensive and integrated coverage of traditional and contemporary scholarly concepts illustrated through relevant practitioner-related literature.
- A rigorous pedagogical framework based on the use of learning objectives, concept checks, key words, chapter summaries, and supportive student supplements such as the Student CD-ROM and Study Guide.

- A package of support materials to accommodate a wide variety of instructor teaching styles and student learning styles.

Feedback from many of the 2,500 instructors and 600,000 students who have used our text and package in the past has encouraged us to build on these strengths as we developed the Seventh Edition of *Marketing*.

NEW AND REVISED CONTENT

- **The Role of the Internet and Technology in Marketing Today:** *Marketing, 7/e* recognizes that the Internet and other digital technologies provide us with powerful new tools that can greatly enhance communication and commerce. From cover to cover, *Marketing, 7/e* integrates coverage of e-Commerce topics such as e-marketplaces, dynamic pricing, viral marketing, permission marketing, personalization, multichannel retailing, eCRM, collaborative commerce, file sharing and peer-to-peer communication, cyberservices, Internet appliances, interactive television, online secondary data sources, and virtual advertising.
- **New Chapter 21: “Implementing Interactive and Multichannel Marketing”:** This new chapter provides a framework for how to think about and implement marketing strategy in an Internet/Web-enabled marketplace. Emphasis is placed on interactive marketing practice and the growing application of multichannel marketing. Students will also find this chapter of interest because they will see how important it is for companies to forge collaborative channel relationships to improve their global market competitiveness.
- **Consumer Behavior and Organizational Behavior Chapters Earlier in Text:** In response to reviewer feedback the global chapter has been moved to follow the behavior chapters allowing earlier coverage of these key chapters (now Chapters 5 and 6).
- **Increased Emphasis on Customer Value:** Chapter 1 presents an enhanced emphasis on customer value, the role of brands and how they make firms accountable to consumers, new products, the breadth of marketing and how it is used by many types of organizations, and a complete update of Rollerblade’s marketing program.
- **Updated Overview of the Marketing Environment:** Chapter 3 now includes a discussion of Napster’s dramatic impact on the music industry; an introduction to current electronic business technologies including the Internet, the World Wide Web, e-Commerce, and the growth of collaborative commerce; the shifting age distribution of the population; and the changing attitudes and roles of women.
- **Updated CB Coverage:** Chapter 5 includes new examples related to the stages of the consumer-decision process; new discussions of customer satisfaction and retention, and marketing strategies for high- and low-involvement products; and an updated discussion of VALS profiles.
- **New Organizational Buying Coverage:** Chapter 6 features new sections on online buying in organizational markets, e-marketplaces, and online auctions.
- **Updated Global Coverage:** Chapter 7 includes discussions of the emergence of a networked global marketplace, the influence of the World Trade Organization on the global rules of trade between nations, and important differences in the economic infrastructures of China, India, Eastern Europe, and the countries of the former Soviet Union. Discussions of global regulatory influences, such as the Economic Espionage Act and the Foreign Corrupt Practices Act, have been updated to reflect the latest regulatory changes.
- **Expanded Coverage of Marketing Research Technology:** Chapter 8 opens with an exciting example—the *Lord of the Rings* movie trilogy—and introduces

up-to-date and comprehensive coverage of online databases and Internet resources. The chapter also includes new discussions of creative research techniques such as hiring “cool hunters” to identify important cultural trends, and new coverage of Internet and fax survey techniques, data mining, and the impact of research on marketing actions.

- **Expanded Segmentation, Positioning, and Customization Material:** Chapter 9 includes coverage of the mass customization of shoes at Customatix.com, Apple’s segmentation strategy, the chocolate milk positioning challenge, and updated coverage of product-market grids.
- **Updated Coverage of Brand Equity:** Chapter 11 now includes the Customer-based Brand Equity Pyramid, which helps explain the relationship between brand awareness and how consumers think and feel about a brand. This helps students understand how the added value of a brand name gives a product competitive and price advantage.
- **Updated Channels Coverage:** Chapter 15 includes new material and examples related to multiple channels of distribution, strategic alliances, vertical marketing, exclusive distribution, slotting allowances, and satisfying buyer requirements that show students how marketing channels are a necessity as a company builds sustainable market value.
- **Updated Supply Chain and Logistics Coverage:** Chapter 16 features current examples, such as “Dell Computer Corporation: A Responsive Supply Chain,” and “Wal-Mart, Inc.: An Efficient Supply Chain,” and current topics, such as “Information’s Role in Supply Chain Responsiveness and Efficiency.” Reverse logistics are used to explain the role of supply chains and logistics management in marketing and how a firm balances distribution costs against the need for effective customer service.
- **Updated Retailing Coverage:** Chapter 17 offers a new discussion of the repositioning of Target as an “upscale discount store,” updated coverage of the global expansion of many retailers and e-tailers, and popular retail formats such as franchising. In addition, the chapter provides coverage of important new technologies, including cashless vending systems and interactive television shopping, as well as new concepts, such as everyday fair pricing and multi-channel retailing.
- **Updated Advertising Coverage:** Chapter 19 now includes virtual advertising, interactive television, satellite radio, as well as Internet advertising. Up-to-date examples of the latest forms of promotion, including sweepstakes, product placement, and online coupons are also provided.

ORGANIZATION

The Seventh Edition of *Marketing* is divided into five parts. Part 1, “Initiating the Marketing Process,” looks first at what marketing is and how it creates customer value and customer relationships (Chapter 1). Then Chapter 2 provides an overview of the strategic marketing process that occurs in an organization—which provides a framework for the text. Appendix A provides a sample marketing plan as a reference for students. Chapter 3 analyzes the five major environmental factors in our changing marketing environment, while Chapter 4 provides a framework for including ethical and social responsibility considerations in marketing decisions.

Part 2, “Understanding Buyers and Markets,” first describes, in Chapter 5, how individual consumers reach buying decisions. Next, Chapter 6 looks at organizational buyers and how they make purchase decisions. And finally, in Chapter 7, the nature and scope of world trade and the influence of cultural differences on global marketing practices are explored.

In Part 3, “Targeting Marketing Opportunities,” the marketing research function and how information about prospective consumers is linked to marketing strategy

and decisions is discussed in Chapter 8. The process of segmenting and targeting markets and positioning products appears in Chapter 9.

Part 4, “Satisfying Marketing Opportunities,” covers the four Ps—the marketing mix elements. The product element is divided into the natural chronological sequence of first developing new products and services (Chapter 10) and then managing the existing products (Chapter 11) and services (Chapter 12). Pricing is covered in terms of underlying pricing analysis (Chapter 13), followed by actual price setting (Chapter 14), and Appendix B, Financial Aspects of Marketing. Three chapters address the place (distribution) aspects of marketing: Managing Marketing Channels and Wholesaling (Chapter 15), Integrating Supply Chain and Logistics Management (Chapter 16), and Retailing (Chapter 17). Retailing is a separate chapter because of its importance and interest as a career for many of today’s students. Promotion is also covered in three chapters. Chapter 18 discusses integrated marketing communications and direct marketing, topics that have grown in importance in the marketing discipline recently. The primary forms of mass market communication—advertising, sales promotion, and public relations—are covered in Chapter 19. Personal selling and sales management is covered in Chapter 20.

Part 5, “Managing the Marketing Process,” discusses issues and techniques related to interactive marketing technologies and the strategic marketing process. Chapter 21 describes how interactive technologies influence customer value and the customer experience through context, content, community, customization, connectivity, and commerce. Chapter 22 expands on Chapter 2 to describe specific techniques and issues related to blending the four marketing mix elements to plan, implement, and control marketing programs.

The book closes with several useful supplemental sections. Appendix C, “Planning a Career in Marketing,” discusses marketing jobs and how to get them, and Appendix D provides 22 alternate cases. In addition, a detailed glossary and three indexes (name, company/product, and subject) complete the book.

ACKNOWLEDGMENTS

DEVELOPMENT OF THE TEXT AND PACKAGE

To ensure continuous improvement of our product we have utilized an extensive review and development process for each of our past editions. Building on that history, the Seventh Edition development process included several phases of evaluation and a variety of stakeholder audiences (e.g., students, instructors, etc.).

- The first phase of the review process asked adopters to suggest improvements to the text and supplements through a detailed review of each component while used in the classroom. We also surveyed students to find out what they liked about the book and what changes they would suggest.
- The second phase utilized user and non-user focus groups. These sessions focused specifically on the supplements package and its effectiveness for instructors and students.
- Finally, a group of experienced marketing instructors gave us feedback on selected chapters of the Sixth Edition and the supplements package.

Reviewers who were vital in the changes made to this edition include:

Christie Amato
University of North Carolina, Charlotte

Gerard Athaide
Loyola College

Andy Aylesworth
Bentley College

Karen Becker-Olsen
New York University

Joseph Belonax
Western Michigan University

Parimal Bhagat
William Paterson University

Jeff Blodgett
University of Mississippi

Charles Bodkin
University of North Carolina, Charlotte

Thomas Brashear
University of Massachusetts, Amherst

Martin Bressler
Thomas College

Bruce Brown
New River Community College

Alan Bush
University of Memphis

S. Choi Chan
Rutgers University

Clare Comm
University of Massachusetts, Lowell

Cristanna Cook
Husson College

John Coppett
University of Houston, Clear Lake Campus

John Cox
Campbellsville University

Scott Cragin
Missouri Southern College

Hugh Daubek
Purdue University, Calumet

Tino DeMarco
SUNY, Albany

Michael Drafke
College of DuPage

Eric Ecklund
Cambria Rowe Business College

Lori Feldman
Purdue University, Calumet

Kevin Feldt
University of Akron

Theresa Flaherty
Old Dominion University

Renee Foster
Delta State University

Stan Garfunkel
Queensborough Community College

James Ginther
Northern Virginia Community College

Susan Godar
William Paterson University

Dan Goebel
University of Southern Mississippi

Darrell Goudge
University of Central Oklahoma

Dotty Harpool
Wichita State University

Lynn Harris
Shippensburg University

Jonathan Hibbard
Boston University

Deb Jansky
Milwaukee Area Technical College

Sudhir Karunakaran
New York University

George Kelley
Erie Community College

Nanda Kumar
University of Texas, Dallas

Ann Kuzma
Minnesota State University, Mankato

John Kuzma
Minnesota State University, Mankato

Jay Lambe
Virginia Polytechnic Institute

Ron Larson
Western Michigan University

Robert Lawson
William Paterson University

Ann Little
High Point University

James Lollar
Radford University

Ann Lucht
Milwaukee Area Technical College

Richard Lutz
University of Florida

Rhonda Mack
College of Charleston

Phyllis McGinnis
Boston University

Jo Ann McManamy
Middlesex Community College

George Miaoulis
University of New Hampshire

Melissa Moore
Mississippi State University

Bill Murphy
Winona State University

Bob Newberry
Winona State University

Stephen Pirog
Seton Hall University

Cathie Rich-Duval
Merrimack College

William Rodgers
St. Cloud State University

Vicki Rostedt
University of Akron

Roberta Schultz
Western Michigan University

Jim Spiers
Arizona State University

Joe Stasio
Merrimack College

Tom Stevenson
University of North Carolina, Charlotte

Michael Swenson
Brigham Young University

Sue Umashankar
University of Arizona

Jeff von Freymann
Wingate College

Mark Weber
University of Minnesota

Don Weinrauch
Tennessee Tech

Sheila Wexler
University of Virginia

Janice Williams
University of Central Oklahoma

Wendy Wood
Bevill State Community College

Mark Young
Winona State University

Leon Zurawicki
University of Massachusetts, Boston

The preceding section demonstrates the amount of feedback and developmental input that went into this project, and we are deeply grateful to the numerous people who have shared their ideas with us. Reviewing a book or supplement takes an incredible amount of energy and attention. We are glad so many of our colleagues took the time to do it. Their comments have inspired us to do our best.

Reviewers who contributed to the first six editions of this book include:

Nadia J. Abgrab
Kerri Acheson
Roy Adler
Linda Anglin
William D. Ash
Patricia Baconride
Siva Balasubramanian
A. Diane Barlar
James H. Barnes
Frederick J. Beier
Thom J. Belich
Thomas M. Bertsch
Kevin W. Bittle
Nancy Bloom
William Brown
William G. Browne
Stephen Calcich
William J. Carner
Gerald O. Cavallo
S. Tamer Cavusgil
Sang Choe
Kay Chomic
Clare Comm
Clark Compton
Ken Crocker
Joe Cronin
James Cross
Lowell E. Crow
John H. Cunningham
Bill Curtis
Dan Darrow
Martin Decatur
Francis DeFea
Linda M. Delene
Paul Dion
William B. Dodds

James H. Donnelly
Eddie V. Easley
Roger W. Egerton
Steven Engel
Barbara Evans
Charles Ford
Donald Fuller
Marc Goldberg
Leslie A. Goldgehn
Kenneth Goodenday
James Gould
James L. Grimm
Pola B. Gupta
Richard Hansen
Donald V. Harper
Robert C. Harris
James A. Henley, Jr.
Richard M. Hill
Al Holden
Kristine Hovsepian
Jarrett Hudnal
Mike Hyman
Donald R. Jackson
Kenneth Jameson
James C. Johnson
Robert Jones
Mary Joyce
Jacqueline Karen
Herbert Katzenstein
Ram Kesaran
Roy Klages
Douglas Kornemann
Terry Kroeten
Priscilla LaBarbera
Duncan G. LaBay
Richard Lapidus

Irene Lange
Ed Laube
Debra Laverie
Gary Law
Wilton Lelund
Karen LeMasters
Richard C. Leventhal
Leonard Lindenmuth
Lynn Loudenback
Mike Luckett
Robert Luke
Michael R. Luthy
Richard J. Lutz
Barton L. Macchietta
Patricia Manninen
Kenneth Maricle
Elena Martinez
James McAlexander
Peter J. McClure
Jim McHugh
Gary F. McKinnon
Lee Meadow
James Meszaros
Ronald Michaels
Stephen W. Miller
William G. Mitchell
Linda Morable
Fred Morgan
William Motz
Donald F. Mulvihill
Janet Murray
Keith Murray
Joseph Myslivec
Donald G. Norris
Carl Obermiller
Dave Olson

James Oliver
 Philip Parron
 Allan Palmer
 Dennis Pappas
 Richard Penn
 June E. Parr
 John Penrose
 William Pertula
 Michael Peters
 William S. Piper
 Gary Poorman
 Vonda Powell
 Joe Puzi
 James P. Rakowski
 Barbara Ribbens
 Heikki Rinne
 Jean Romeo
 Larry Rottmeyer
 Robert W. Ruekert

Maria Sanella
 Eberhard Scheuing
 Charles Schewe
 Starr F. Schlobohm
 Stan Scott
 Harold S. Sekiguchi
 Doris M. Shaw
 Eric Shaw
 Bob E. Smiley
 Allen Smith
 Ruth Ann Smith
 James V. Spiers
 Craig Stacey
 Miriam B. Stamps
 Scott Swan
 Robert Swerdlow
 Vincent P. Taiani
 Clint Tankersley
 Ruth Taylor

Andrew Thacker
 Fred Trawick
 Thomas L. Trittipo
 Sue Umashankar
 Ottilia Voegtli
 Gerald Waddle
 Randall E. Wade
 Blaise Waguespack, Jr.
 Harlan Wallingford
 Robert S. Welsh
 Ron Weston
 Max White
 James Wilkins
 Kaylene Williams
 Robert Williams
 Jerry W. Wilson
 Robert Witherspoon
 Van R. Wood
 William R. Wynd

Thanks are also due to many faculty members who contributed to the text chapters and cases. They include: Linda Rochford of the University of Minnesota, Duluth; David Gobeli of Oregon State University and Corrine Gobeli; Kenneth Goodpaster, Thomas Holloran, David Brennan, and Mark Spriggs of the University of St. Thomas; Thomas Belich of Bethel College; and Kathy Chadwick of St. Olaf College. Krzysztof Przybylowski of the Warsaw School of Economics and Olga Saguinova of the Plekhanov Academy of Economics provided a number of international materials. Michael Vessey provided cases, research assistance, many special images, and led our efforts on the In-Class Activities and Instructor's Survival Kit. Rick Armstrong produced the videos. William Carner of the University of Texas provided the study guide. Thomas K. Pritchett of Kennesaw College and Betty M. Pritchett were responsible for the revision of the test bank. Steve Engel of the University of Colorado and David Nowell of Sheridan College produced the interactive exercises. Milton Pressley and Steve Henson of the University of New Orleans produced the PowerPoint package. Steven White, University of Massachusetts, Dartmouth wrote the marketing plan guidelines and the sample marketing plan included on the Student CD. Our Russian edition coauthors provided the idea for the new descriptive case titles. Finally, Anne Harbour provided assistance with the glossary and was responsible for the revision of the Instructor's Manual.

Many businesspeople also provided substantial assistance by making available information that appears in the text and supplements—much of it for the first time in college materials. Thanks are due to Jimmy Jam, Terry Lewis, and Susan Owens of Flyte Tyme Productions; Carol Watzke of CNS; David Ford of Ford Consulting Group; Maureen Cahill of Mall of America; Jack McKeon and Frank Lynch of Golden Valley Microwave Foods; Wayne Johansen of HOM Furniture; Sarah Casanova of McDonald's in Russia; Donald Dunham of BP plc; Ken Hart of 3M; Debra Kennedy and Keith Nowak of Nokia; Monica Noordam, Umberto Milletti, and Shelly Berkowitz of DigitalThink; and Mark Rehborg of Tony's Pizza. We also acknowledge the special help of a team that worked with us on the Fallon Worldwide video case: Fred Senn, Bruce Bildsten, Kevin Platt, Ginny Grossman, Kim Knutson, Julie Smith, Erin Tait, and Rob White.

Staff support from Southern Methodist University, the University of Denver, and the University of St. Thomas was essential. We gratefully acknowledge the help of Wanda Hanson, Louise Holt, Jeanne Milazzo, Gloria Valdez, and Karin Zeller for their many contributions.

Finally, we acknowledge the professional efforts of the McGraw-Hill/Irwin staff. Completion of our book and its many supplements required the attention and commitment of many editorial, production, marketing, and research personnel. Our Burr

Ridge-based team included John Biernat, Gary Bauer, Tracy Jensen, Scott Becker, Kimberly Kanakes, Mike Beamer, Erwin Llereza, Dave Kapoor, Kimberly Hooker, Laurie Entringer, Heather Burbidge, Melanie Becker, Sue Lombardi, Craig Atkins, Nick Barrett, Ira Roberts, and many others! In addition we relied on Claudia McCowan of GTS Graphics and Michael Hruby for constant attention regarding composition and photo elements of the text. Finally, our development editor, Gina Huck of Imaginative Solutions, provided outstanding assistance, advice, coordination, editing, and guidance with extraordinary professionalism and enthusiasm. Handling the countless details of our text, supplement, and support technologies has become an incredibly complex challenge. We thank all these people for their efforts and—in the end—their good work and good humor!

Roger A. Kerin

Eric N. Berkowitz

Steven W. Hartley

William Rudelius

A STUDENT'S GUIDE TO MARKETING, 7/e

Marketing, 7/e offers an array of pedagogical features to help you learn and apply the concepts at hand.

Chapter-Opening Vignettes—Over 95% are new or revised!

Chapter-opening vignettes introduce you to the chapter concepts ahead, using a recognizable and interesting company example. For instance in Chapter 9, the authors use Heelys (a shoe with built-in wheels targeted at skateboard and inline skate enthusiasts) and the segmentation strategies of Reebok, Nike, New Balance, Vans, and others to grab your interest.



CHAPTER

9

IDENTIFYING MARKET SEGMENTS AND TARGETS

AFTER READING THIS CHAPTER YOU SHOULD BE ABLE TO:

- Explain what market segmentation is, when to use it, and the five steps involved in segmentation.
- Recognize the different factors used to segment consumer and organizational markets.
- Understand the significance of heavy medium- and light users and consumers in targeting markets.
- Develop a market-product grid to use in segmenting and targeting a market.
- Interpret a cross-tabulation to analyze market segments.
- Understand how marketing managers position products in the marketplace.

SNEAKERS MARKETING WARS: HEELYS, AIR PUMPS, AND 3 BILLION TRILLION CHOICES

Late for a flight out of the Dallas-Ft. Worth airport, Roger Adams rushed to the gate. By "heating" Adams, a former psychologist and skateboarder, had just invented Heelys, the latest craze (or fad) in sneakers.

Heelys combine the thrill of in-line skating, skateboarding, and scooting—along with running and walking—in one set of shoes. The sneakers come with an embedded, detachable wheel located in the heel of each shoe. To "heel," you lift up the foot at the heel on one shoe, push off on the other foot, and glide fearfully. In 2001, Heelys Inc. (heelys.com), which average \$90 to \$100 per pair, were so hot that retailers couldn't keep them on their shelves. Heelys Sports LTD sold 1 million pairs of Heelys sneakers in 2001, its first full year of operations.



237

MARKET SEGMENT		PRODUCT									
GENERAL	GROUP WITH NEED	HURTING SHOES (1980)	AIRFOOT SHOES (1982)	TENNIS SHOES (1984)	BASKETBALL SHOES (1986)	KIDS SHOES (1988)	WALKING SHOES (1990)	CROSS-TRAINING SHOES (1992)	GOLF SHOES (1994)	MEN'S PLEASURE SHOES (1996)	ADULT BIRTHDAY SHOE (2000)
Performance-oriented 27%	Runners										
	Aerobic/fitness exercisers										
	Tennis players										
	Basketball players										
	Golfers										
Nonathletic-oriented 73%	Adventure seekers										
	Walkers										
	Children										
	Comfort/Style-conscious										

Key: Primary market Secondary market

WEB LINK

Mass Customizing Your Own "Designer" Sneakers



The chapter-opening discussion is then woven throughout parts of the narrative, exhibits, and boxed features as well.

Don't like the looks of those things on your feet right now? If you think your style instincts could design you a better running shoe or hiking boot, go to www.customize.com. There you can design your own shoe—customizing 15 elements of your shoe. All possible combinations of these 15 design elements are the basis for Customatix's claim of offering more than 3 billion trillion design variations.

A bit too complex? Design a simpler sneaker on Nike's website: www.nike.com/nike_id.



MARKETING NEWSNET

Communicating with Gen Y...
29.8 Hours per Day!

CROSS FUNCTIONAL

Marketing NewsNet— Nearly 75% new or updated!

This boxed feature provides exciting, current examples of marketing applications in action, organized around the following themes: Technology & E-Commerce, Customer Value, Global, and Cross Functional.

Recent research indicates that consumers have created 29.8-hour days by using more than one communication medium at the same time—a behavior often called “multitasking.” Generation Y seems to be particularly adept at this new phenomenon. For example, it would not be unusual for a college freshman to log onto the Internet while listening to the radio and checking out Web addresses in a magazine! One reason is that media is pervasive—the average student may be exposed to 5000 messages each day—but another reason is the desire to be informed and to “keep in touch.” As a result, this group of consumers probably doesn’t give its full attention to any single message. Instead it uses continuous partial attention to scan the media.

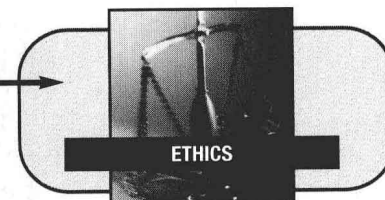
Marketers can still communicate with Gen Y by utilizing a variety of promotional tools—from advertising to packaging to word-of-mouth communication—with an integrated message. Which media work particularly well with Gen Y? The most popular television channel is MTV. The most popular magazines are *Sports Illustrated* and *Seventeen*.

Favorite websites include anything with content related to their interests: celebrities, music, sports, and videogames. Another tactic growing in popularity is viral, or “buzz” marketing. Volkswagen of America, for example, holds contests on college campuses to see how many people can fit into a Volkswagen Beetle (the current record is 26). The participants and the observers end up experiencing and talking about the product for at least part of their 29.8-hour day!



Ethics and Social Responsibility Alert—Over 50% new or updated!

These boxes increase your awareness and assessment of current topics of ethical and social concern.



Web Link—Over 70% new or updated!

Integrated throughout the text, Web Links encourage you to explore digital strategies that innovative companies and organizations are employing online.

Concept Check

1. How does a product manager help manage a product's life cycle?
2. What does “creating new use situations” mean in managing a product's life cycle?
3. Explain the difference between trading up and trading down in repositioning.

Concept Checks

Found at the end of each major chapter section, these checkpoints offer critical thinking and memory recall questions, helping you reflect on the text and test your comprehension of the material before reading on.

Firms use actors or athletes as spokespersons to represent their products, such as Pierce Brosnan and Anna Kournikova for Omega watches, in the hope that they are opinion leaders.

Omega

www.omega.com



Pierce
Brosnan's Choice



Ω
OMEGA

www.omegawatches.com

Anna
Kournikova's Choice



Ω
OMEGA

www.omegawatches.com

Website Addresses

The URLs of companies and organizations discussed in the text are easily located in the text margin—facilitating further exploration of these real-world examples.

Internet Exercises—Over 70% new or updated!

These end-of chapter exercises ask you to go online and think critically about a specific company's use of the Internet—helping you apply your knowledge of key chapter concepts, terms, and topics, as well as evaluate the success or failure of the company's efforts.

INTERNET EXERCISE

Jalapeno soda? Aerosol mustard? Fingos? These are just three of the more than 65,000 products (both successes and failures) on the shelves of the NewProductWorks Showcase in Ann Arbor, Michigan. The Showcase includes food, beverages, health and beauty care, household, and pet products appearing from 1965 to the present. Although you probably can't personally visit the company, you can visit its new website (www.newproductworks.com).

ture is in doubt; "Failures," which are recent products that have failed miserably; and "Favorite Failures," which are those that cause people to ask "What were they thinking?" Study several of the failed products listed on the website and



VIDEO CASE 1-1 Rollerblade®: Rediscovering Growth

In the fiercely competitive in-line skate marketplace, what does the future hold for Rollerblade®?

As David Samuels, senior director for Sports Innovation at Rollerblade explains, innovative technology—in the form of new and better skates—will continue to be key for Rollerblade to stay ahead of the competition. Rollerblade must also find ways to expand the market for in-line skates. “Our challenge is to provide new venues, new reasons for people to skate. There’s a lot of growth for us to catch up on in terms of household penetration,” says Samuels.

THE SITUATION TODAY

When Rollerblade was founded, it was the only manufacturer of in-line skates in the world. Today the industry has more than 30 competitors, many that sell lower-priced skates than Rollerblade through mass-merchandising chains. Some of the large sporting goods manufacturers, like Nike, that have not traditionally sold in-line skates are now looking for ways to grow and are exploring the in-line skate market.

In addition, both Rollerblade and other in-line skate manufacturers are facing increased competition from

VIDEO CASE 3-1 Flyte Tyme Productions, Inc.: The Best Idea Wins!

“Terry was looking for a keyboard player to be in the band he was just starting,” remembers Jimmy Jam of Flyte Tyme Productions, Inc. “I had sort of rebelled because I had first thought of myself as a drummer,” says Jam. But after he listened and heard how good the drummer was, he told Terry, “I’ll be the keyboard player.”

The conversation took place a few weeks after Terry Lewis and Jimmy Jam met at a summer math program for gifted junior high school students, sponsored by a local university. The two came to prominence in the early 1980s as members of the funk band “The Time” that appeared as the opener on many of Prince’s early tours. The pair still credit Prince for much of their tenacious work ethic and eclectic musical tastes. After leaving the band,

Terry and Jimmy started a music company—creating the new Flyte Tyme—creating the new one. Now in their early 40s, together for 20 years, most of it (www.flytetime.com), where J. Blige, Boyz II Men, Mariah Carey, Michael Jackson, Patti LaBelle, and others!

Flyte Tyme’s successes are impressive. Recently they produced Usher’s No. 1 pop hit “U Remind Me,” which held the top spot on the charts for four weeks. They also produced Sting’s Oscar-nominated song “My Funny Friend and Me” for the film *The Emperor’s New Clothes*. And their work on Hikaru Utada’s album helped it climb to the top of Japan’s pop charts, selling 4 million copies in two weeks!

These and other hits put Flyte Tyme in extraordinary company. Having produced 16 No. 1 singles on *Billboard*’s pop chart, they are second only to the producer for the Beatles (with 23) and tied with the producer for Elvis Presley. Flyte Tyme has managed to stay at the top throughout the 1980s, ’90s, and ’00s, thanks in large part

VIDEO CASE 9-1 Nokia: A Phone for Every Segment

“While practically everybody today is a potential mobile phone customer, everybody is simultaneously different in terms of usage, needs, lifestyles, and individual preferences,” explains Nokia’s Media Relations Manager, Keith Nowak. Understanding those differences requires that Nokia conduct ongoing research among different consumer groups throughout the world. The approach is reflected in the company’s business strategy:

We intend to exploit our leadership role by continuing to target and enter segments of the communications market that we believe will experience rapid growth or grow faster than the industry as a whole....

In fact, Nowak believes that “to be successful in the mobile phone business of today and tomorrow, Nokia has to fully understand the fundamental nature and rationale of segmentation.”

THE COMPANY

tures that were sold mainly in North America. In the 1990s, second generation (2G) devices consisted of voice/data digital cell phones with higher data transfer rates, expanded range, and more features. Sales of these devices expanded to Europe and Asia. In the twenty-first century, Nokia and other companies are combining several digital technologies into third generation (3G) communication devices that reach globally and feature the convergence of the cell phone, personal digital assistant (PDA), Internet services, and multimedia applications.

The global demand for cell phones has increased significantly over the years—from 284 million in 1999 to 410 million units in 2000 to 510 million units in 2001.

Producers of first and second generation cell phones used a geographic segmentation strategy as wireless communication networks were developed. Most started with the U.S. and then proceeded to Western Europe and Asia. However, each market grew differently.



THE MUSIC

Alternate Cases (Appendix D)

Not only do you get 22 end-of-chapter video cases, but 22 alternate cases found in Appendix D—now that’s a lot of learning opportunities!

Video Case Studies

This end-of-chapter feature provides an up-close look at a company example—reinforcing the chapter content, while bringing the material to life! Rollerblade, Flyte Tyme, and Nokia are just a few of the exciting video cases now available with the Seventh Edition.

Appendix A: Creating an Effective Marketing Plan

Following Chapter 2, this sample marketing plan of Howlin' Coyote Chili provides you with an effective reference early on in the text.

Color-coding Legend

Blue boxes explain significance of Marketing Plan elements

Red boxes give writing style, format, and layout guidelines

FIVE-YEAR MARKETING PLAN
Paradise Kitchens,® Inc.

The Table of Contents provides quick access to the topics in the plan, usually organized by section and subsection headings.

Seen by many experts as the single most important element in the plan, the two-page Executive Summary reads and b... sons, but q... of Ch... reads... tive S...

The C... highlight... tory a... of the...

The S... Plan... direct... organ... with v... tions... must... section... all ma... Chapt...

The o... Vision... the ac... Kitch... holder... serve...

To improve readability, each numbered section usually starts on a new page. (This is not done in this plan to save space.)

The Situation Analysis is a snapshot to answer the question, "Where are we now?" See Chapter 2.

The SWOT Analysis identifies strengths, weaknesses, opportunities, and threats to provide a solid foundation as a springboard to identify subsequent actions in the marketing plan. See Chapter 2.

Each long table, graph, or photo is given a figure number and title. It then appears as soon as possible after the first reference in the text, accommodating necessary page breaks. This also avoids breaking long tables like this one in the middle. Short tables or graphs that are less than 1 1/2 inches are often inserted in the text without figure numbers because they don't cause serious problems with page breaks.

Effective tables seek to summarize a large amount of information in a short amount of space.

4. Situation Analysis

This situation analysis starts with a snapshot of the current environment in which Paradise Kitchens finds itself by providing a brief SWOT (strengths, weaknesses, opportunities, threats) analysis. After this overview, the analysis probes ever-finer levels of detail: industry, competitors, company, and consumers.

SWOT Analysis

Figure 1 shows the internal and external factors affecting the market opportunities for Paradise Kitchens. Stated briefly, this SWOT analysis highlights the great strides taken by the company since its products first appeared on grocers' shelves. In the

Figure 1. SWOT Analysis for Paradise Kitchens

Management	Experienced and entrepreneurial management and board	Small size can restrict options
Offerings	Unique, high-quality, high-price products	Many lower-quality, lower price competitors
Marketing	Distribution in 3 markets with excellent acceptance	No national awareness or distribution
Personnel	Good work force, though small; little turnover	Big gap if key employee leaves
Finance	Excellent growth in sales revenues	Limited resources may restrict growth opportunities when compared to giant competitors
Manufacturing	Sole supplier ensures high quality	Lack economies of scale of huge competitors
R&D	Continuing efforts to ensure quality in delivered products	
Consumer/Social	Upscale market, likely to be stable; Southwestern/Mexican food category is fast-growing segment	Premium price may limit access to mass markets
Competitive	Distinctive name and packaging in its markets	Not patentable; competitors can attempt to duplicate product
Technological	Technical breakthroughs enable smaller food producers to achieve many economies available to large competitors	
Economic	Consumer income is high; convenience important to U.S. households	More households "eating out," and bringing prepared take-out into home
Legal/Regulatory	High U.S. Food & Drug Admin. standards eliminate fly-by-night competitors	Mergers among large competitors being approved by government



Plus, when combined with the Marketing Planning Software on the enclosed Student CD-ROM, you can't lose when it comes to learning!

AN INSTRUCTOR'S GUIDE TO SUPPLEMENTS

With the greatly enhanced Seventh Edition package, you and your students are covered from the basic supplements to the latest in educational technologies. Check it out for yourself!

LECTURE PREPARATION TOOLS

Instructor's Manual: The thoroughly revised Instructor's Manual includes: lecture notes; discussions of the Marketing NewsNet boxes, Web Link boxes, Ethics and Social Responsibility Alerts, Internet Exercises; answers to the Applying Marketing Concepts and Applications questions; supplemental lecture notes; teaching suggestions; and detailed information about integrating other supplements into the course and classroom.

Instructor's CD-ROM: The CD-ROM includes the print and electronic supplements, so you have access to all of the supplements on one disk. It also contains the seventh edition Computest package.

Video Case and Appendix D Case Teaching Notes: This media resource guide includes teaching notes for the video cases and alternate cases.

New PowerPoint Lecture Presentation Assembly Guide: This printed guide contains a description of all of the individual multimedia assets from which you can construct a custom presentation. The assets are organized by chapter and by topic, and are contained on the CD-ROM packaged with the guide. This guide also includes instructions on how to import the video, audio, art, photos, and other files into new or existing PowerPoint presentations.

Online Updates and Current Events: Adopters can sign up to be emailed updates on cases and material specific to the text, and postings of new *BusinessWeek* articles, all accompanied with teaching notes and new PowerPoint slides as appropriate.

In-Class Activities Guide in the Instructor's Survival Kit: This resource provides you with detailed teaching notes, relevant handouts, props, and products for use in-class to illustrate marketing concepts and encourage student participation and collaboration.