

3rd EDITION

# MARKETING MANAGEMENT

STRATEGY AND CASES

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DOUGLAS J. DALRYMPLE  
LEONARD J. PARSONS

3rd EDITION

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# **MARKETING MANAGEMENT**

## **STRATEGY AND CASES**

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# PREFACE

The first two editions of this book were adopted by more than 150 schools and colleges for use in both undergraduate and graduate marketing management courses. This widespread acceptance suggests that the text-and-case format and the emphasis on data-based decision making were desirable features. In the third edition, we retain these special attributes and add some refinements to update the coverage and to make the book easier to use. The most important changes are:

- 1 A new chapter and emphasis on strategic planning.
- 2 Twenty-three new cases.
- 3 More cases and longer cases.
- 4 Additional flowcharts to explain the organization of the chapters and the book.

New cases have been added to each chapter to expand coverage and to provide a change of pace. A total of thirty-eight cases have been included in this edition so that most chapters now have three cases for discussion. The new cases are about four pages longer than those in the second edition, to give students more data for analysis. Fifteen of the most popular cases from the second edition have been retained.

The new chapter (Chapter 2, "Strategic Planning") is designed to introduce students to the principles of strategic planning. The chapter discusses how to set objectives, analyze business units, establish target product portfolios, and create strategic marketing plans.

The layout of the book is not drastically changed, and we start in Chapter 1 by defining marketing and explaining the marketing concept. We also cover marketing organization. Chapter 2 discusses the relationship between strategic planning and marketing management. Chapter 3 examines a variety of approaches to demand forecasting. Success in business and not-for-profit organizations often depends on attracting customers and understanding how and why they make purchases. In Chapter 4, we review the theory of buyer behavior and show how these ideas can be used to plan marketing programs. Chapter 5 introduces the concept of segmentation and explains why organizations divide customers into subgroups that can be approached separately.

The traditional marketing mix coverage starts in Chapter 6 with product development. In Chapter 7, we focus on the management of products after they have

been introduced and discuss their eventual burial. Chapter 8 introduces a variety of pricing strategies to provide the student with background for making decisions in this area. Chapter 9 talks about selecting distribution channels that maximize sales and minimize costs. In Chapter 10, we are concerned with the size of advertising budgets and the allocation of funds among different promotional activities and media. Chapter 11 deals with the problems of organizing and controlling field sales personnel. Then, Chapter 12 brings together all of the elements of the marketing mix and integrates them with the goals of the firm. Finally, Chapter 13 adds a social dimension to our discussion of marketing management.

Cases are placed at the end of each chapter to stimulate interest and to add realism to the marketing curriculum. Our experience has shown that cases force students to analyze data and to make decisions. This gives them an opportunity to apply the concepts and techniques they have learned from the chapters and their instructor. We have also found that a discussion of the cases helps students improve their skills in oral and written expression.

The thirty-eight cases selected for the third edition cover a wide range of products and organizations. Twenty-one cases deal with consumer products, fourteen are concerned with industrial goods, and three cases deal with the marketing of services. Nine of the cases are set in foreign countries to add an important international dimension to the book. Two of the cases are built around data banks that encourage the use of the computer for analysis, and two others employ computer simulations. The data banks and simulation programs are available on cards from us for a nominal cost.

We believe that the book offers instructors the flexibility to emphasize text or case material as they prefer and to employ different methods of instruction. Some faculty may want to supplement this book with specialized readings or to add some of their own cases. The revised text and new cases have worked well for us; we hope others will find this combination useful in their marketing management courses.

The revision of this book was made possible through the cooperation and contributions of many friends and colleagues. We especially thank our advisory editor Dave Aaker, Judy Wilkinson of Louisiana State University, and Saeed Samiee of Rutgers University for their many valuable comments and suggestions. We also thank Dennis Rosen and several groups of students who helped to review parts of the manuscript. In addition, we thank our secretaries Brenda, Gina, and Suzanne for typing countless drafts and revisions. Finally, we thank our wives Nancy and Julie for their help and encouragement.

*Douglas J. Dalrymple*  
*Leonard J. Parsons*

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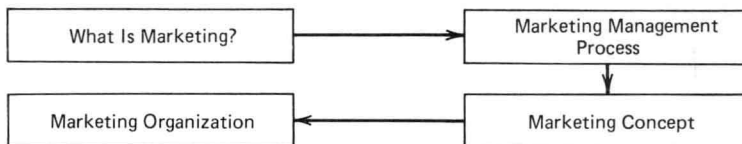
## MARKETING AND THE FIRM

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Drive thy business or it will drive thee.

BENJAMIN FRANKLIN

Marketing activities are a key stimulus employed by business and nonprofit organizations to promote the consumption of goods and services. This book is designed to explain what marketing is all about and show how it is used by organizations to sell their services to customers. The sequence of topics that will be covered in this chapter is shown in the following flow diagram.



The book begins by defining marketing and then explains the marketing management process that will provide the framework for the text. Next, the powerful guiding philosophy known as the marketing concept is discussed. Then the organizational arrangements used to control marketing activities are explained.

## WHAT IS MARKETING?

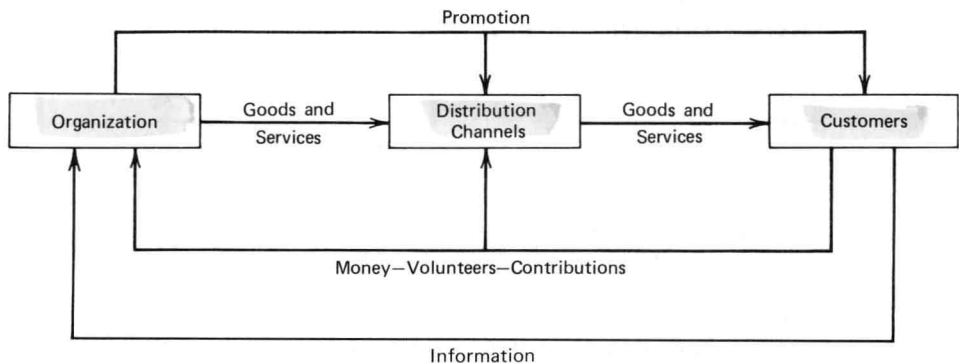
Marketing is one of the essential ingredients employed by organizations in their never-ending search for survival and growth. Success often depends on the skills an organization commands in marketing, finance, and other areas and on its ability to combine these functions into a smoothly running establishment. Marketing can be defined as

*A system of interrelated activities designed to develop, price, promote, and distribute goods and services to groups of customers.<sup>1</sup>*

These activities operate within an environment bounded by the resources of the firm, the laws of the land, and the social conscience of the community. In most cases marketing attempts to generate profits from the sale of goods and services created to fill customer needs. However, marketing is increasingly being used to develop, promote, and distribute programs sponsored by nonprofit organizations such as Planned Parenthood, the U.S. Navy, and municipal orchestras.

The basic components of a marketing system are an organization, a delivery channel, and a customer (Figure 1-1). Marketing has the job of moving goods and services from the point of production to the final customer. For example, beer is produced in a factory and shipped by truck to distributors who deliver the beer to retail stores where it is purchased by customers. Marketing managers help to determine the physical properties of the beer (calories, color, etc.), organize the channel, and devise the promotional messages that are sent out to attract customers. Money from the sale of the beer then flows back to the distributor and the manufacturer (Figure 1-1). Information about how consumers like the beer is also sent back to the firm to help future marketing planning.

The marketing system illustrated in Figure 1-1 also works for services such as rental vehicles and nonprofit organizations such as an orchestra or Common



**FIGURE 1-1 A Basic Marketing System**

<sup>1</sup> Adapted from a definition by William J. Stanton in *Fundamentals of Marketing*, 6th ed. (New York: McGraw-Hill, 1981), p. 4.

Cause. With services, the central organization plans and promotes the service package, and delivery of the rental vehicles is made by local sales offices. In the case of an orchestra, the objective is to gain financial support through gifts, season subscriptions, and individual ticket sales. Marketing programs for orchestras often include direct mail campaigns to attract old patrons and radio and newspaper ads to recruit new customers. For lobbying organizations such as Common Cause, marketing managers design direct mail campaigns to attract members who will contribute their time and money to help local support groups.

## THE MARKETING MANAGEMENT PROCESS

In the examples that have been discussed, the job of the marketing manager has been to plan and implement a set of activities that help the firm achieve its goals. The precise actions taken vary with the product or service to be promoted, but a general idea can be obtained from the flow chart shown in Figure 1-2. This diagram provides a basic conceptual framework for the book. The first step in marketing is to set guidelines and organize the people needed to run the marketing program. This is covered in this chapter, which explains the principles that control marketing activities and discusses the tasks to be performed. The second step in the management process is concerned with strategic planning (Chapter 2). The focus is on situational analysis, and the cases at the end of the chapters provide opportunities to apply what has been learned about problem solving.

A data-based approach to marketing management (Figure 1-2) demands information for analysis. This can be obtained from forecasts (Chapter 3) or from applications of the principles of buyer behavior (Chapter 4). The next step for the manager is to select market segments to be the targets of the marketing effort (Chapter 5). Once this is done, the manager must design a marketing program to reach the target segments. Products or services must be created to match customer needs (Chapters 6 and 7) and be appropriately priced (Chapter 8). Then channels of distribution need to be organized and directed (Chapter 9). Managers must also plan promotional activities to encourage purchases. This usually includes advertising to inform customers about the product (Chapter 10) and direct contact by the field sales force to get the order (Chapter 11).

After a marketing program has been created, managers must continually monitor results so that improvements can be made as market conditions change (Chapter 12). Sometimes simulation models are used to find the best combination of marketing factors. The last step in the marketing management process is to tie the program into the overall goals of society (Chapter 13). Although managers are charged with promoting the sale of goods and services, they must learn to balance these objectives against the long-term needs of society for a safe and healthy environment. Placement of this material at the end of the book does not distract from its importance but rather indicates that students must first understand marketing before they can relate it to the demands of society.

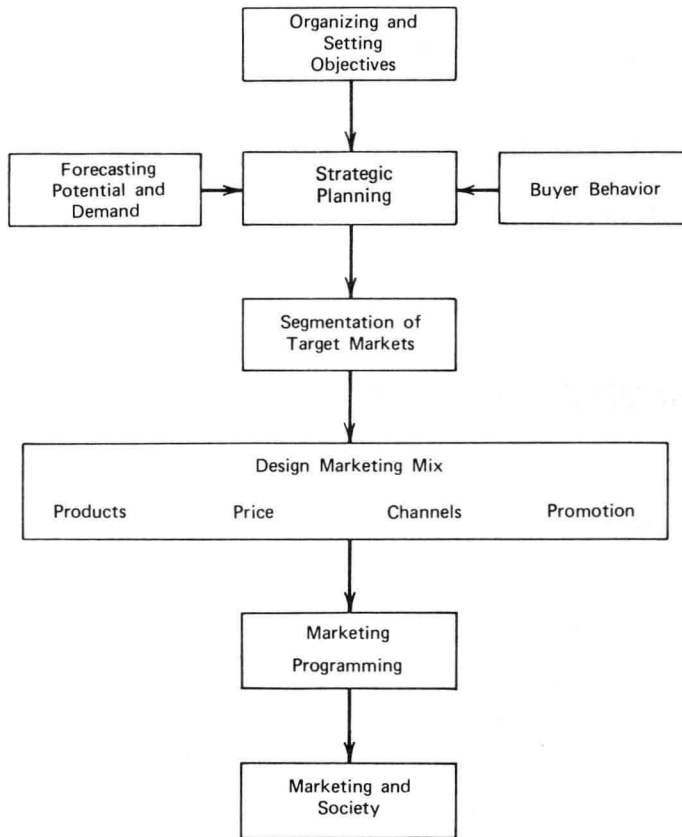


FIGURE 1-2 The Marketing Management Process

## MARKETING CONCEPT

American business has historically followed a production orientation. The emphasis has been on producing standard products and selling them aggressively to generate profits through volume. The assembly line Model T Ford presents a classic example. The Model T was simple, cheap, available in one color (black), and it dominated the auto market for 20 years. However, another auto firm, General Motors, came up with the idea that customers might like more styling and variety. Soon GM had stolen 50 percent of the auto market, a position they have maintained ever since.

The belief that satisfying customers can help achieve organization goals has grown in importance until it has become known as the marketing concept. The marketing concept can be described as



*A management philosophy that seeks to determine and satisfy customer needs using integrated marketing programs to achieve organizational goals.<sup>2</sup>*

This idea of focusing a whole organization on serving customer needs has gained widespread acceptance among managers during the past 30 years. The concept has been used successfully to reorient production personnel and to revitalize marketing programs in thousands of firms.

There are three important dimensions of the marketing concept that must be understood. These are

- 1 A customer orientation.
- 2 Integrated company effort.
- 3 Goal-directed behavior.

Although these three factors interact to help improve marketing activities, they will be discussed separately.

## A Customer Orientation

The basic idea of the marketing concept is to give customers what they want. This means organizations must decide who their target customers are and then conduct marketing research studies to discover their wants and needs. The net result should be the creation of goods and services that are easy to use (twist-off bottle caps), easy to buy (stores open at night), and easy to repair (modular construction). The advantages of a customer orientation seem so obvious that it is hard to understand why the concept was such a breakthrough. However, there have been and still are a lot of organizations that take a very narrow view of their mission. Banks, for example, once thought of themselves as protectors of their customers' money. They hid behind bars and their hours were from 10 till 3 a few days a week. Following the marketing concept, banks have added convenient bank locations that are open 10 hours a day. They have also installed 24-hour teller machines which dispense cash and perform other services to better serve customers' needs.

## Integrated Company Effort

A second dimension of the marketing concept suggests that marketing activities should be closely coordinated with each other and with the other functional areas of the organization. Under the marketing concept, sales, finance, production, and personnel all work together to satisfy customer needs. With the old-fashioned production orientation, the finance department often kept cash balances low so they could show high returns on idle cash. The marketing concept emphasizes

<sup>2</sup> Adapted from a definition by Philip Kotler in *Marketing Management: Analysis, Planning, and Control*, 4th ed. (Englewood Cliffs, N.J.: Prentice-Hall, 1980), p. 31.

larger cash balances so that the firm can buy raw materials when needed and can extend credit to important customers during hard times.

A production emphasis also meant rigid schedules so that costs would be kept low on long production runs. If the sales department said that a customer wanted 15-day delivery of 100,000 cases of perfumed, two-color facial tissues in boutique boxes, they were told it couldn't be done because it would raise costs. Under the marketing concept, the job of the production department is to learn how to rearrange schedules to meet customer needs at an acceptable cost.

In the past, marketing has emphasized sales goals, production has attempted to minimize costs, and research and development has been concerned with unique ways to apply technology. Although these objectives may be useful performance standards in individual departments, they are not compatible with the marketing concept, and it is unlikely that the goals of the firm will be achieved when they are pursued separately. The objective should be to operate each part of the firm in order to reach the overall targets. The marketing concept has been a useful vehicle in helping to unify the independent functional areas to increase customer satisfaction and improve revenues.

The task of getting the separate units of an organization to work together to meet customer needs is the most challenging part of the marketing concept. Individual departments are often managed by executives who are concerned with maintaining their own prestige. This means it takes strong leadership from the top to break the barriers around departments and install performance criteria that are compatible with the marketing concept.

## Goal-Directed Behavior

The third major dimension of the marketing concept is that behavior should be directed at achieving the goals of the organization. In the early days of the marketing concept, the most important objective was profits. However, the marketing concept is now used by many nonprofit organizations, and objectives have to be stated in more general terms. For example, the goal of the U.S. Army is to get recruits and reenlistments, the goal of a bus line is more passengers, and the goal of Big Brother–Big Sister programs is to get volunteers to contribute their time. Nonbusiness organizations should set their goals in fairly broad terms. A community orchestra could set as its objective to raise the public's appreciation for classical music. Programs would then be organized on the basis of what the director and orchestra liked to play rather than on the basis of what the customer wanted to hear. A more useful goal for a community orchestra would be to play music that would fill all of the available seats and then worry about generating enough revenue to cover expenses.

## A Societal Marketing Concept

One of the most amazing things about the marketing concept is that it has been an effective managerial tool for almost 30 years. The durability of the marketing concept is proof that it works and also evidence that it has been able to adapt to