

# **Marketing** *A Managerial Approach*

*Cunningham, Cunningham & Swift*

*Second Edition*





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# Marketing

## A Managerial Approach

Second Edition

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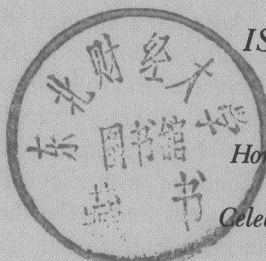
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## **Part 1**

# *The Environments of Marketing*

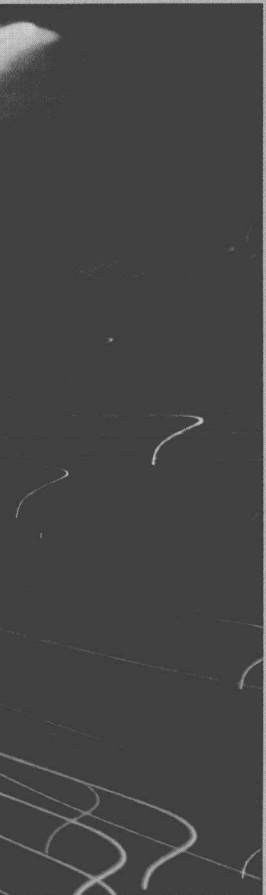
### *Chapters*

*1. What Is Marketing?*

*2. Marketing Planning  
and Strategy*

*3. Uncontrollable  
Environmental Variables*

*4. Legal and Ethical  
Aspects of Marketing*





# **Chapter 1**

## *What Is Marketing?*

RCA's videodisc system, called SelectaVision, may have been the company's biggest gamble ever. RCA introduced the product simultaneously to 5,000 dealers in 74 locations over a closed-circuit television system. The total price for its massive marketing effort was in excess of \$20 million. In introducing this product, RCA was banking on its reputation as a leader in the home electronics market and on its \$200 million in development costs for the product.

At first glance, SelectaVision would seem to be a sure winner. It was a relatively inexpensive system allowing people to view motion pictures and other forms of entertainment in their homes at their convenience. The SelectaVision player was attached to the user's TV set. The discs, priced at \$15 to \$30, resembled records and could be played again and again. RCA believed that consumers were being increasingly pressured by rising food, gasoline, and entertainment prices; SelectaVision offered them a way to stay at home and to enjoy the kind of entertainment for which they used to go out.

If RCA was right about consumer attitudes, why was SelectaVision considered a gamble, not a sure thing? One reason was competition from videocassette recorders (VCRs). Most VCRs sold for \$300 to \$600, which was \$60 to \$100 more expensive than SelectaVision. Prerecorded videotapes sold for \$50 to \$70, which was more expensive than SelectaVision discs. Videocassettes allowed the user to record television movies and programs directly off their TV sets, which was not possible with the RCA System. VCR systems also allowed for erasing programs and recording new ones on the same tape.

The second problem RCA faced was persuading movie distributors to release their movies for production on videodiscs. The original list of movies available for SelectaVision included only 100 movies. If the product was to be successful, the movie list would have to grow.

The third problem was competition from other manufacturers of videodisc systems, both domestic and foreign. While it is usually difficult for a firm to predict the exact impact that competition will have on a product, RCA was aware that if its videodisc system was successful, then foreign and domestic manufacturers could be expected to begin selling competitive products.

The real question was whether or not consumers were ready for SelectaVision. Said RCA vice-president David Heneberry, "We recognize that the market is not waiting breathlessly for this machine, and we'll have to educate the public and market it very shrewdly." RCA took a big gamble that might have paid handsome rewards for the company in the future. Unfortunately, the product failed, and RCA recently

announced its discontinuation. Most firms find it much easier to sell products that consumers want rather than to try and educate them as to the potential benefits of new products.

Source: "RCA's Biggest Gamble Ever," *Business Week*, March 9, 1981; pp. 79-84.

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*After studying this chapter, you should be able to:*

- *Define the role of marketing in the distribution of products from producers to consumers.*
- *Illustrate the role of marketing within the firm.*
- *Compare the production, sales, and marketing concepts.*
- *Identify the many variables involved in marketing decision making.*
- *Discuss the application of marketing to nonprofit sectors of the economy.*
- *Explain the importance of studying marketing.*

Marketing is much more an art than a science, unlike other academic disciplines in which problems, if clearly defined, yield definite solutions. However, the study of marketing still requires a rigorous exploration of the important issues in the discipline. This text helps you explore these issues.

In many ways, effective marketing is the key to success in business. As our RCA SelectaVision example shows, profitability is not assured even for a high-technology product in a fast-growing consumer market with strong advertising support. In the free enterprise marketplace, the consumer decides who wins and who loses. RCA brought a high quality product to the home video market, but the market chose the less expensive and more flexible VHS and Beta videocassette recorder (VCR) technologies offered by General Electric, Zenith, TKI, Sony, and others. A great variety of video programming is available on tape, and of course VCR players allow for the taping of broadcast programming off television sets. More than 10,000 retail outlets now offer video software to the public. Most are small retail operations, but an increasing number of mass marketers and audio chains are jumping into the business.

The growth of home entertainment video is one of the big marketing stories of the 1980s. Our RCA SelectaVision vignette suggests the excitement as well as some of the opportunities and uncertainties of the marketplace. We begin our study of marketing by looking at the role of marketing in our economy.



## THE ECONOMIC ROLE OF MARKETING

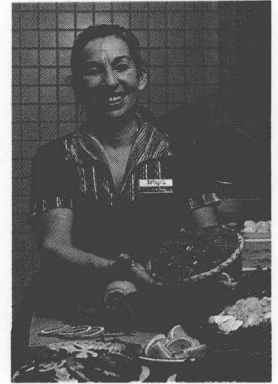
In 1984 the Board of Directors of the American Marketing Association defined marketing as, “the process of planning and executing the conception, pricing, promotion and distribution of ideas, goods, and services to create exchanges that satisfy individual and organizational objectives.” This definition clearly indicates that marketing managers, in addition to making distribution and selling decisions, play a major role in deciding which products are brought to the marketplace. Also, marketing managers are active in the distribution of goods and services and of ideas, information, and recommended practices. For example, the National Safety Council has a sophisticated marketing program to encourage American motorists to use seat belts regularly.

### Marketing Activities

To fully appreciate the role marketing plays, we must understand the basic transaction freedoms in our private enterprise economy. Within certain limits set by law, buyers have the right to choose the goods and services that they want to buy, and businesses and nonprofit organizations are free to decide which goods and services they want to bring to the market. At the heart of any definition of marketing is the notion of exchange. Thus we define marketing in terms of the exchange process: **Marketing** consists of all activities that bring buyers and sellers together. Such activities include the following.

**Communicating with Customers.** Many people equate marketing with advertising and selling. As we will discover, advertising and selling are important parts of marketing; they involve communicating with potential buyers about the firm’s products or services. However, as Figure 1-1 indicates, in addition to promotion, marketing also involves decisions with respect to which products or services should be brought to the market (product), how much to charge for these goods and services (price), and where the product should be made available to buyers (distribution).

**Managing Products and Services.** Which products and services do consumers want? The identification of real buyer needs can increase the likelihood of a successful marketing effort. Also, in planning such an effort, marketing managers should remember that when consumers buy a product, they also “buy” the selling firm’s reputation, the product’s warranty, and any peripheral items made available with it. When IBM



### **Marketing**

Consists of all activities that bring buyers and sellers together.

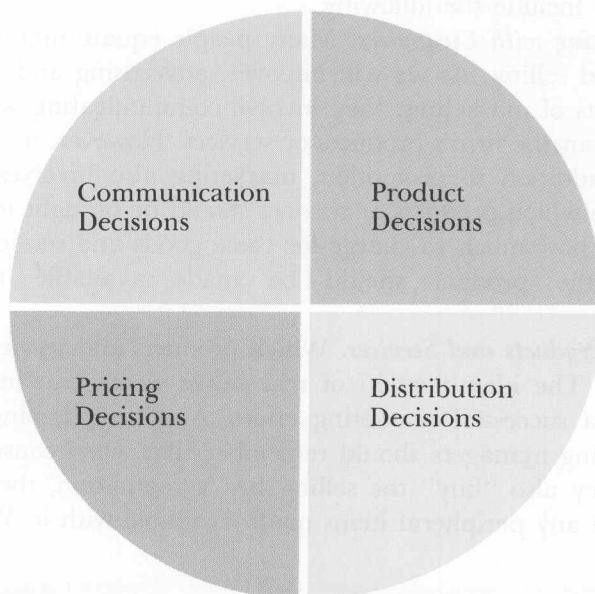
entered the personal computer market, many people continued to buy Radio Shack and Apple computers because of the large number of software packages available for these brands. IBM personal computer sales increased quickly when more computer software was made available for its machines.

***Distributing Products and Services.*** How should the products and services be delivered to customers? The goal of a delivery system is to make sure that the right products and services arrive at the right place at the right time. In addition, distribution must be efficient. For many businesses, profits are largely a function of the efficiency of their distribution systems.

***Pricing Products and Services.*** Price is an important marketing variable, too. An unnecessarily high price may scare off customers; too low a price may give the product or service a wrong image. In selecting the price, the firm must ask the following questions: Are there closely competitive products or services available? How much do competitors charge for their products and services? Does our product or service have distinguishing features? Are industry sales increasing, stable, or declining? Is there a segment of the market that should pay a higher price for our product or service? How much does it cost to make the product or service available to customers?

Now that we have defined marketing, we need to look at the role of marketing in our society.

**Figure 1-1 Marketing Activities**



## Macromarketing

**Macromarketing** refers to the role of marketing, in general, in distributing goods and services to buyers. A simplified version of a marketing system for many consumer products is shown in Figure 1-2. The producer manufactures a product and sells it to a wholesaler, who in turn sells it to a retailer. The final member of the marketing system is the consumer. While the product, along with advertising and promotional communications, flows from producer to consumer, payment flows from the consumer to the retailer and wholesaler and then eventually to the producer. Information about consumer preferences flows in the same direction as payment.

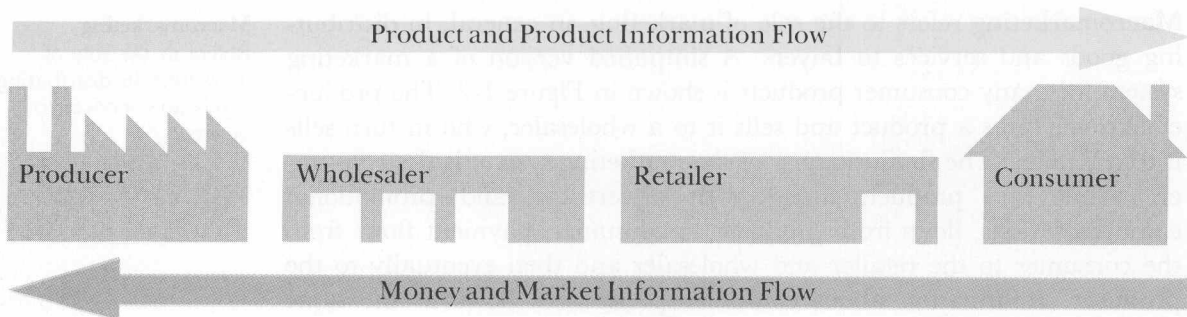
In primitive or tribal societies, most goods used within a household are produced by members of the household. Sooner or later, people realize that some of their needs could be better met by exchange than by production. For example, one family may be good at making clothing, whereas another is skillful at 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.

### **Macromarketing**

Refers to the role of marketing in distributing goods and services to buyers.





*Figure 1-2 The Marketing System for Many Consumer Products*

This same basic value of exchange exists in our modern world, but of course our world is much more complex and has many more businesses and people. To make the exchange process more efficient, marketing performs four essential functions for society. These functions are outlined below.

**Information Function.** First, when goods and services are marketed effectively, producers and consumers are linked together in an information network. Information flow is vital if producers are to meet the changing needs of consumers in a cost-efficient manner. For example, before they determine the size of their herds, cattle ranchers need to know how much the market will pay for beef as well as the expected cost of feed. The more timely and accurate the information flowing through the market, the closer the market comes to being efficient.

**Distribution Function.** Second, the function of equating supply and demand falls on the marketing system. Goods do not naturally flow in an even pattern from producers to consumers. Nor do consumers purchase an amount of merchandise exactly equal to that which is produced. The marketplace creates ways of storing goods until buyers are willing to accept them. The trade-off is between the expected increase in the price of the merchandise and the added cost of warehousing the product. For 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. Therefore, much of the crop is withheld from the market for several months from the time of harvest 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 consumers in return for payment. To illustrate the efficiency of such 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 *A* of Figure 1-3, ten separate exchanges are required if there is no central market. However, as illustrated in *B* of Figure 1-3, only five exchanges are required if the decentralized pattern of exchange is replaced by a centralized market.

**Routine Transaction Function.** Fourth, the marketing system not only centralizes the buying and selling of goods and services but also provides routine or standardized exchange mechanisms. Without routine buying practices, buyers and sellers would have to develop a new set of exchange procedures each time they did business. This would be expensive, time consuming, and inefficient. Instead, all one must do is visit the nearest shopping area to secure most products needed. Similarly, the buying and selling of stock in large corporations takes place at the New York Stock Exchange. In late May of 1985, it was announced that the total number of shares of all companies traded on the Exchange had reached 50 billion! Imagine the confusion if stock trading were not routinized at a central market through nationwide brokerage houses.



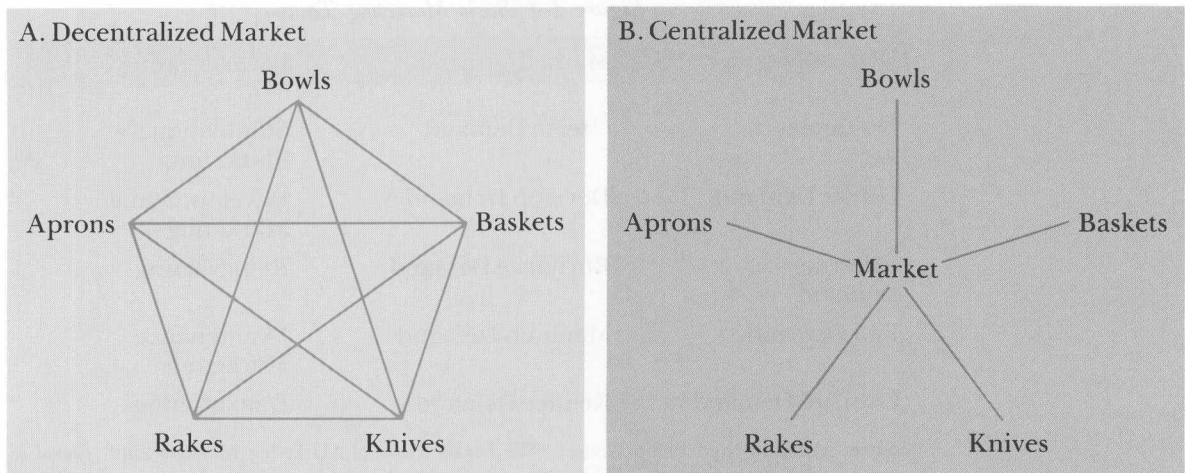
### Micromarketing

Whereas the focus of macromarketing is society, the focus of micromarketing, or marketing management, is the firm. **Micromarketing** refers to the process of formulating and implementing a product development, distribution, pricing, and communication strategy that

### Micromarketing

Refers to the process of formulating and implementing strategy that enables the firm to earn a profit.

**Figure 1-3** Exchanges in Decentralized and Centralized Markets



enables the firm to earn a profit in the marketplace. This process begins with a determination of the needs of potential buyers. After a product is developed to satisfy these needs, it is priced, its virtues are communicated, and, at the proper time and place, it is sold to the consumer. Finally, the seller often keeps in touch with buyers to make sure they are satisfied with the product.

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.<sup>1</sup> Figure 1-4 lists five states of demand along with the principal marketing task required by each.

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

The no-demand situation poses a difficult challenge to the marketing executive. The task of generating demand is called **stimulational marketing**. It is usually accomplished by connecting the valueless object with some sort of prior need. Empty beer cans, for example, are given value by promoting their collection and recycling as a solution to the problem 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.

**Stimulational marketing**  
The task of generating demand.

Figure 1-4 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.