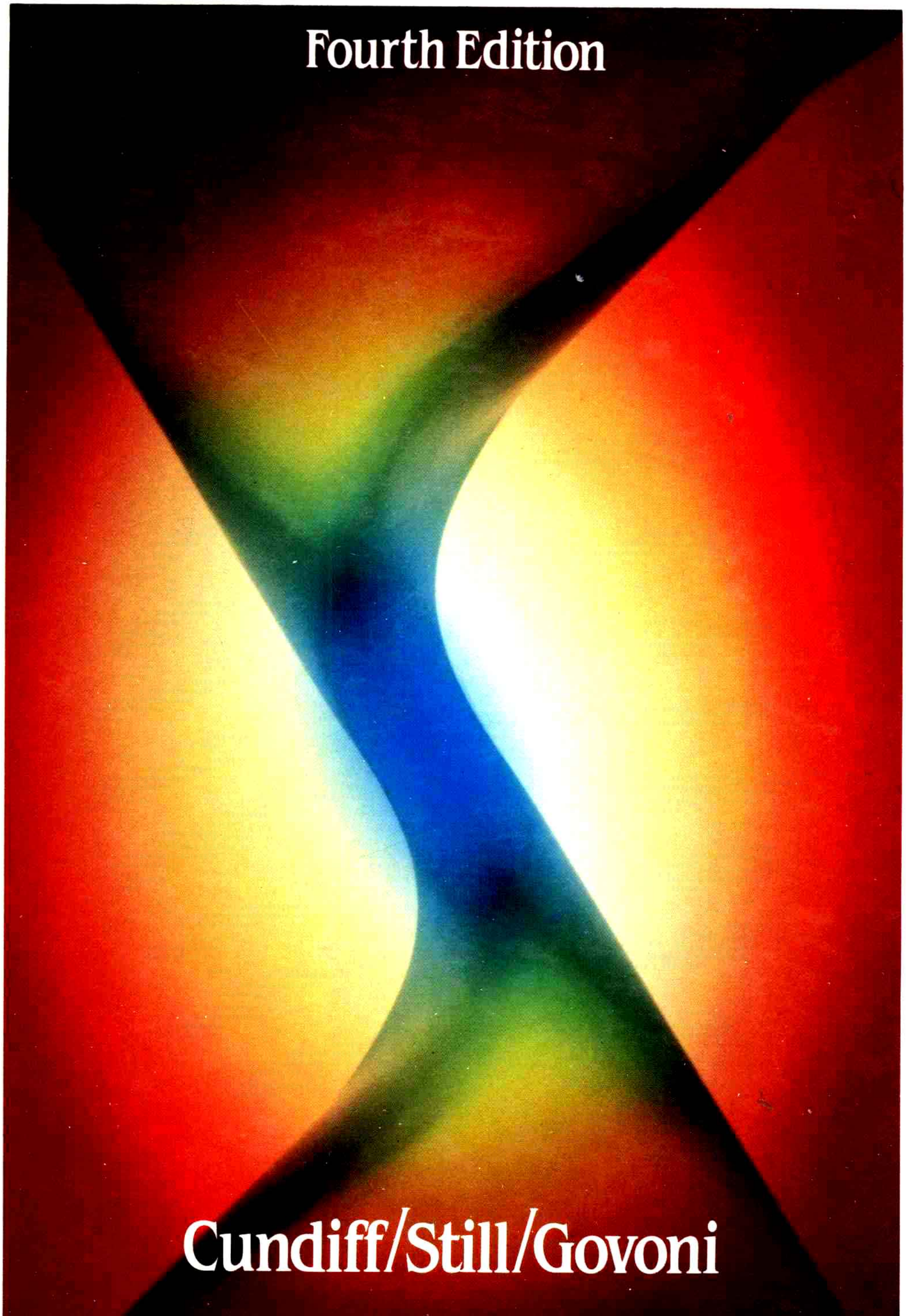
# FUNDAMENTALS OF MODERN MARKETING

Fourth Edition



Cundiff/Still/Govoni

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# PREFACE

This is the fourth edition of *Fundamentals of Modern Marketing,* an introductory marketing text emphasizing key concepts and issues underlying the modern practice of marketing. Although the basic format of the first three editions has been retained, in this edition certain changes have been made in keeping with the dynamic character of modern marketing. Greater emphasis has been placed on the marketing environment, with new chapters on the international environment and the changing environment positioned with marketing society in a new final section. Statistical data have been updated wherever possible, additional figures and tables have been added, and new material and examples have been included. Introductory vignettes have been added to each chapter to provide the reader with a feeling for the subject matter to be discussed.

The text is designed to meet the needs both of students taking only the introductory marketing course and of those planning to take more advanced courses in the field. We hope that both groups will find that this book provides a clear understanding of marketing's role in modern organizations (business and nonprofit) and in society. Even more fundamentally, we hope, too, that readers will conclude that marketing is a highly interesting subject, extremely important not only in the world of affairs but also to each individual as a consumer and citizen.

The plan of presentation is straightforward. Part One, the general introduction, is a survey of the nature of marketing, the marketing organization, and marketing strategy. Part Two is an overview of markets and market segmentation, buyer behavior, and marketing information. Parts Three through Six are descriptions and analyses of the four main decision areas in marketing: products, distribution, pricing, and promotion. Part Seven focuses upon marketing strategy. Part Eight gives special emphasis to the marketing environment: marketing and society, the international marketing environment, and, finally, to the changing environment and its effect on marketing.

Each chapter's contents has been planned to constitute a unit of understanding. Each opens with a vignette introducing the topic, followed by a statement of learning objectives, proceeds with descriptions and analyses of key concepts and issues, and closes with a highlight of the chapter's coverage. We have sought, in other words, to adhere closely to the time-tested pedagogical formula of "tell them what you're going to tell them, tell them, and tell them what you have told them." In addition, being strong believers in the discussion method, we have included for each chapter a wide variety of questions, problems, and short cases aimed at provoking interesting and meaningful discussion.

For the successful completion of this book, we owe a great deal to a great many people. For providing us with definite notions on what should and should *not* be included in an introductory marketing text, our greatest debt is to our present and former students. For candid appraisals and helpful suggestions made at various stages in the development of the manuscript, we are indebted to numerous reviewers and users of the earlier editions. For contributing frank criticism and advice—most of it informally—we owe considerable thanks to numerous present and former members of the marketing staffs at Emory University, California Polytechnic State University, and Babson College, as well as our ex-colleagues at the University of Texas at Austin and the University of Georgia.

For providing continual help and encouragement, we are deeply indebted to the following Prentice-Hall personnel: Elizabeth Classon, editor, Marketing, and Joan Foley, College Book Editorial-Production Department. Last, but by no means least, for consistently aiding us through their sympathetic understanding, we are indebted to our wives and families. For all this assistance—both that acknowledged here and throughout the book, as well as that received from business executives and others—we express our sincere thanks. However, as usual, we accept full responsibility for any and all deficiencies.

EDWARD W. CUNDIFF
RICHARD R. STILL
NORMAN A. P. GOVONI

# CONTENTS

# FUNDAMENTALS OF MODERN MARKETING

# 1

# The Emerging Role of Marketing

**When you have mastered the contents of this chapter, you should be able to:**

1. Explain the basic role of marketing in different kinds of profit-seeking and nonprofit organizations.
2. Define marketing in terms of product-market interrelationships and ownership transfers.
3. Identify the different environmental factors influencing marketing decisions and activities.
4. Explain the marketing concept in terms of its essential features.
5. Identify the key environmental factors that influence companies in their decisions to adopt the marketing concept.
6. Identify the organizational conditions that generally precede management's recognition of the necessity for adopting the marketing concept.
7. Illustrate how a company should view its planning and operating activities under the marketing concept.
8. Explain how management should go about implementing the marketing concept.

# PART ONE

# Marketing as a Managerial Tool

During the middle 50 years of the twentieth century the American automobile industry was a shining example of American production know-how and ingenuity at its best. As automobile company sales and profits grew ever larger, the auto industry became one of the most powerful and successful in the United States and in the world. Although U.S. automobiles were never so popular in world markets, their success in the American market was extraordinary. Over the years, the American consumer was persuaded to spend increasingly more money on family transportation.

At the same time, the industry engendered a fierce loyalty for American-made automobiles. The typical American consumer believed that American cars were better built, more durable, more comfortable, and a much better buy for the money. Yet, by the end of the 1970s this same industry was waging a not very successful fight for survival. Imported cars were taking a continually increasing share of the market, in some markets over half of total volume. Profits had plummetted; Chrysler, one of the Big Three, was saved from bankruptcy only by U.S. government aid, and General Motors and Ford sustained enormous losses. How could this industry go from reaping high sales volumes and huge profits to reporting a rapidly declining share of the national automobile market and near bankruptcy in less than ten years? The answer seems to be marketing, or lack thereof.

The American automobile industry has been consistently dominated by a production and engineering orientation that tended to ignore the wishes or needs of the market. During the 1920s Henry Ford made a huge fortune manufacturing the Model T and then almost lost it by continuing to manufacture the Model T after consumers' preferences had shifted to more sophisticated cars. During the 1930s Chrysler introduced the Airflow model at a large financial loss because, although the new model represented major advances in engineering, it did not meet consumer specifications for acceptable design and styling.

This same marketing myopia led to the disaster of the 1970s. During the late 1960s and early 1970s, a gradually increasing demand for compact and subcompact cars developed in the American market. American manufacturers believed that the profit per unit on these cars was too small and that the entire market was too small to serve profitably. Although most Americans considered the U.S. product superior to imports, those who wanted economy cars were forced to buy imports. They learned that imported cars were often of equal or even superior quality to American cars. When the energy crisis engendered by OPEC (Organization of Petroleum Exporting Countries) developed in 1973, the trickle of demand for economy cars in the United States became a flood, and the American industry had next to nothing to satisfy this growing market. By the time new American small-sized cars were developed and introduced on the market five or more years later, imports from Europe and Japan had taken over a large share of the American market, and the American firms had suffered enormous losses in sales volume and income. Proper concern for changes in consumers' needs and desires as opposed to short-term profit maximization on the part of the American auto industry would have prevented this debacle.

This chapter has been designed to provide you with an understanding of marketing and its role in different organizations and in the societies of which it is a part. Since marketing both affects and is affected by its environment, it may vary considerably from one country to another. Discussion focuses first on the various kinds of marketing activities performed by each organization. Then marketing is formally defined and its relationship to production and to the environment is analyzed. Finally, the marketing concept—a philosophy of management that strongly influences the management of marketing effort—is examined. Recent significant changes in markets, in technology, and in the ways available for reaching and communicating with markets have intensified competition. These changes, coupled with the growth in size and complexity of business and nonprofit organizations, have made it increasingly important for companies to move toward adoption of the marketing concept.

## WHAT DOES MARKETING DO?

Marketing basically involves relating the needs and desires of people for products or services to the objectives of producers of the products and services to achieve transfers of ownership of products or enjoyment of services. A record company, for example, expects its marketing experts to provide information on consumer preferences as to music types and styles, and performers, the location of prospective buyers, and the relative strengths and weaknesses of competitors' products; tell prospective consumers about its products and where to buy them; make records and tapes available where consumers can buy them conveniently, and provide recommendations on prices that will sell the product and yield a satisfactory profit. Marketing plays the same basic role for all producers of goods, whether they produce steel for industrial buyers, pencils for schoolchildren, or fresh fruits and vegetables for household consumption.

Marketing, however, is not concerned solely with tangible goods. It also plays a similar role in the distribution of services. A life insurance company (which sells the protection service against potential losses) expects its marketing staff to provide information about potential buyers and the kinds of insurance service they need and want, provide channels through which these services are made available to prospective buyers, make potential buyers aware of the types and nature of services offered, and participate in the determination of prices that are both acceptable to buyers and profitable to the company. Whether the service is banking, dancing instruction, travel advice, or hair styling, marketing is responsible for the ultimate delivery of the service to buyers and for the inward flow of income to the organization.[1]

Marketing is a vital function in both profit-seeking and not-for-profit organizations. Marketing has traditionally been studied only from the viewpoint of profit-seeking institutions; only recently have the marketing-type problems of not-for-profit institutions been given more than scant attention.[2] Perhaps because marketing is so essential to the production of income (and profit) in the profit-seeking organization, nonprofit types of institutions (such as community chests and charitable foundations) are reluctant to identify their own marketing activities as marketing, lest their publics construe this as profit seeking. For example, the marketing executive of a nonprofit institution may be called the director of public relations or the business manager. Nevertheless, the top management of a symphony orchestra needs very nearly the same kind of help as does a profit-making record company with respect to identifying its market and its preference in music, providing ways to make the music available to prospective patrons, informing them about and stimulating an interest in the music offered, and establishing a price that optimizes customer patronage and income. Similar marketing activities are essential, whether the nonprofit institution is a hospital, a university or school, or an art museum. Unfortunately, in the past, this reluctance to recognize marketing as a necessary and integral part of the nonprofit institution's total function has too often resulted in marketing ineptitude and operating inefficiency.

## DEFINITION OF MARKETING

Marketing activities are those most directly concerned with the demand-stimulating and demand-fulfilling efforts of the enterprise. These activities interlock and interact with one another as components of the total system—by which a company develops and makes its products available, distributes them through marketing channels, promotes them, and prices them. Specifically, then, *we define* **marketing** *as the managerial process by which products are matched with markets and through which the consumer is enabled to use or enjoy the product.*[3]

It should be noted that **product** as used in the preceding definition is an all-inclusive term that includes services as well as physical goods. In this sense, piano lessons are just as much a product as is the piano itself. The matching of services with markets to effect consumption is also marketing.

### *Product-Market Interrelationship*

Our definition states, in part, that "marketing is the managerial process by which products are matched with markets." Marketing and production activities are interlocked—we can only market products that can be produced, and we should only produce those that can be marketed. Thus, it is logical to think of marketing as the business process by which specific products are matched up with specific markets and to think of production as the business process concerned with manufacturing these products.

Matching products with markets is both a marketing and a production problem. It involves selecting, manufacturing, and marketing products that possess as many as possible of the characteristics desired by those who make up the markets while at the same time attempting to achieve maximum progress in reaching the company's overall goals. While top management bears the ultimate responsibility for satisfactorily solving these problems, marketing management plays a highly important role.

Consider, for instance, how products are matched with markets. In some cases, marketing research first uncovers the product characteristics wanted by final buyers; then top management (working with both production and marketing executives) translates these wants into product specifications. In other cases, the products are initiated through technical research carried on within the company, and marketing research focuses on finding potential users and measuring their numbers. In all cases, if management decides to go ahead and market the product, marketing management is responsible for making decisions on such matters as personal selling, advertising, other promotion, distribution policy, and price to gain and hold market favor (these decision areas are described jointly as marketing controllables).

In addition, marketing management is responsible for the continual adjustment of **marketing controllables** with respect to the company's existing products, whereas production management is responsible for manufacturing them. Thus, modern management regards marketing and production as interdependent subsystems—marketing as the subsystem by which specific products are matched up with specific markets and production as the subsystem charged with manufacturing these products. This combination of marketing controllables used to market a product or service is often described as the **marketing mix** or strategy.

### *Ownership Transfers and Consumption Activities*

Ownership transfers occur repeatedly as physical products flow from producers to final buyers. For instance, a manufacturer may sell its output to wholesalers, who, in turn, resell it to retailers who, again in turn, resell it to consumers. In this instance, every unit of the manufacturer's product that is finally purchased by a consumer has had its ownership transferred three times (from manufacturer to wholesaler, from wholesaler to retailer, and from retailer to consumer). Of course, for an ownership transfer to take place, buying as well as selling is necessary, and in moving a product to market, the producer only sells. The resellers (wholesalers and retailers) both buy and sell, and the consumer only buys.

As services are provided by the product to consumers, these consumers acquire the right to enjoy these services. Thus, the purchaser of a theater tick-

**Figure 1–1** "The customer is always right." Retailers generally seem more sympathetic to customers' views and desires than is true of most manufacturers. But there are many notable exceptions—among them: The Coca-Cola Company, General Mills, and Whirlpool Corporation.

*Source:* Courtesy IBM