**fourteenth edition**

# MARKETING

Michael J. Etzel  |  Bruce J. Walker  |  William J. Stanton

# Marketing

## 14th Edition

**Michael J. Etzel**
University of Notre Dame

**Bruce J. Walker**
University of Missouri–Columbia

**William J. Stanton**
University of Colorado–Boulder

**McGraw-Hill**
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# Marketing

## 14<sup>th</sup> Edition

# About the Authors

**Michael J. Etzel** received his Ph.D. in marketing from the University of Colorado. Since 1980, he has been a professor of marketing at the University of Notre Dame. He also has been on the faculties at Utah State University and the University of Kentucky. In 1990, he was a Fulbright Fellow at the University of Innsbruck, Austria. He returned to the University of Innsbruck in 2006 as a Fulbright Distinguished Chair in Social and Economic Sciences. His other overseas assignments have included directing and teaching in the University of Notre Dame's program in Fremantle, Australia, in 1994, and in Notre Dame's London MBA program in 1998. Professor Etzel has taught marketing courses from the introductory through the doctoral level. He received a Kaneb undergraduate teaching award from the University of Notre Dame in 2001. His research, primarily in marketing management and buyer behavior, has appeared in the *Journal of Marketing, Journal of Marketing Research, Journal of Consumer Research, Journal of Retailing,* and other publications. He is the coauthor of another college-level text, *Retailing Today.*

Professor Etzel has been active in many aspects of the American Marketing Association at the local and national levels. He served as chairman of AMA's board of directors in 1996–1997.

**Bruce J. Walker** became professor of marketing and dean of the College of Business at the University of Missouri–Columbia in 1990. Professor Walker received his undergraduate degree in economics from Seattle University and his master's and Ph.D. degrees in business from the University of Colorado.

Professor Walker was a member of the marketing faculties at the University of Kentucky and then at Arizona State University. Dr. Walker has taught a variety of courses, including principles of marketing. His research, focusing primarily on franchising, marketing channels, and survey-research methods, has been published in the *Journal of Marketing, Journal of Marketing Research,* and other periodicals. He has also coedited or coauthored conference proceedings and books, including *Retailing Today.*

Dr. Walker has been involved with the American Marketing Association, including serving as vice president of the Education Division. Currently, he is a trustee for the International Franchise Association's Education Foundation and a member of several corporate boards including Salton, Inc., an international housewares company.

**William J. Stanton** is professor emeritus of marketing at the University of Colorado–Boulder. He received his Ph.D. in marketing from Northwestern University, where he was elected to Beta Gamma Sigma. He has worked in business and has taught in several management development programs for marketing executives. He has served as a consultant for various business organizations and has engaged in research projects for the federal government. Professor Stanton also has lectured at universities in Europe, Asia, Mexico, and New Zealand.

A coauthor of the leading text in sales management, Professor Stanton has also published several journal articles and monographs. *Marketing* has been translated into Spanish, and separate editions have been adapted (with coauthors) for Canada, Italy, Australia, and South Africa. In a survey of marketing educators, Professor Stanton was voted one of the leaders in marketing thought. And he is listed in *Who's Who in America* and *Who's Who in the World.*

# Dedication

**Mike Etzel**
*To Jake, Eric, Nick, and Audrey*

**Bruce Walker**
*To Pam, and Walker, Nicole, Justin, Aidan, Chase, and Evangeline*

**Bill Stanton**
*To Kelley and Little Joe*
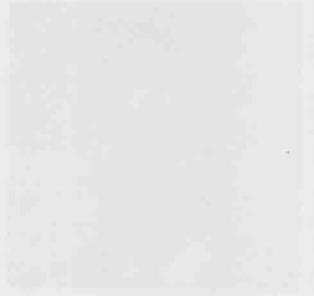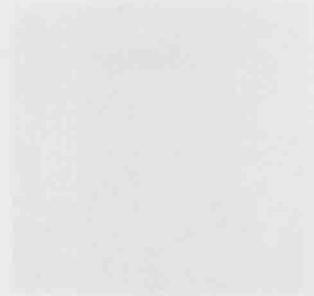
# Preface

As we began planning this, the 14th edition of *Marketing*, we asked ourselves: How can a textbook best meet the needs of its market? We started out by defining the market as consisting of two related groups, each with a quite different role:

- One group is *students,* who would learn about marketing from the book. Many of these students are taking their first course in marketing at the college level. Some, but not all, of these students have practical marketing experience in part-time or full-time jobs. They actually buy the book.

- The other group is *professors* who choose what text their students will read in a marketing course. The professors don't actually purchase the book, but they are the decision makers. Their choice of a text influences how well their students learn and, therefore, how successful the professors are in teaching the course.

Considering students first, we examined research as well as feedback on previous editions of *Marketing* from our students and others. For the professors, we looked at where our book had been used and we sought the views of adopters and nonadopters. In brief, here's what we learned and what served as the guiding principles as we prepared this edition:

- Students tell us they definitely want a book that is readable—one that explains concepts clearly, holds their interest, and is up-to-date and relevant. They desire a book that helps them learn and also makes studying for tests efficient and effective. Most would also like a book to be as concise as possible. Finally, they want a text that is affordable.

- Professors want the same things, and more. They recognize this will be the only marketing course that many students take but that it will be the foundation for a marketing major and possibly a marketing career for other students. Thus, instructors want a full array of marketing topics covered so that both types of students can appreciate the role of marketing. In addition, they want the organization of the topics in the text and the support materials to contribute to efficient and effective teaching.

We also obtained perspectives from the business world, both directly through conversations with executives and indirectly by examining periodicals and trade journals. From these sources, we identified the people, organizations, and topics that are having the greatest impact on business and marketing today as well as those predicted to play a major role in the near future. What we discerned can be placed into four categories: technology, internationalization, the physical environment, and ethical and socially responsible behavior. As you will see as you read the book, these topics take many forms in marketing. A brief preview will indicate some of the ways we incorporated these topics in the 14th edition of *Marketing*.

Technological advances affect business in many ways, such as how people and organizations communicate. The rise, and now prevalence, of cellular phones, communication satellites, and the Internet have had dramatic impacts on business. In fact, they have even given new meaning to existing words such as *spam, cookies,* and *files* and have added new words to our vocabulary such as *instant messaging, googgling, bloggers,* and *podcasting.*

Another very significant ongoing trend is the internationalization of business. Increasingly, corporations are thinking and acting globally in selecting suppliers and seeking customers. Looking to the future, Western firms are jockeying for position

in China and India, while China looks for markets in the west, and Indian firms benefit from outsourcing by many Western firms. (Of course, many more countries than China and India are key parties to the internationalization trend.) Trading alliances such as the European Union look for expansion opportunities even as the members try to settle their differences.

Then there are two areas that are gaining greater prominence. The physical environment, reflected in topics such as global warming, air and water quality, and waste disposal, influence marketing with regards to the use of natural resources, the proliferation of products, and the efficiency of how products are distributed. There also is greater interest in ethical and socially responsible behavior. Concerns in this area include health and nutrition, product safety, advertising claims, brand protection, and understandable pricing. Reports of unethical conduct, success stories of firms that make ethical choices, and the increasing use of codes of conduct indicate the growing sensitivity to fostering an ethical and socially responsible dimension in decisions.

Finally, but certainly not last in our content considerations for this edition, we recognized that ample coverage should be given to the fundamental concepts, strategies, and techniques that serve as the cornerstones of marketing programs. As you read this book, you will learn how and why organizations serve only a portion of a market, how they select the groups they choose to serve, where the information comes from for making these decisions, and the approaches to strategic decision making.

It is our belief that marketing can and should be applied to every exchange situation. As a result, it is relevant to everyone, regardless of whether a person plans on a career in business, in the government, or in a nonprofit organization. Our response to this belief and the inputs provided by students, professors, and the business community was to develop a package that will help prepare students for a challenging, dynamic, and exciting future. The features that make this possible are described next.

## Overview of this Edition

In every new edition of *Marketing*, we make changes to produce a structure we believe is effective as well as student- and instructor-friendly. We seek to do that by:

- Organizing the topics around seven themes that logically build from fundamental concepts, strategies, and techniques through the major tasks associated with marketing to the strategic role of marketing in an organization.
- Bringing attention to the global nature of marketing by dedicating Chapter 3 to this important topic, integrating global examples throughout the book, and providing "A Global Perspective" box in almost every chapter.
- Emphasizing the similarities as well as the differences between consumer and business marketing by means of back-to-back coverage in Chapters 4 and 5.
- Combining demand forecasting with its logical antecedents—segmentation, targeting, and positioning—in Chapter 6.
- Covering marketing research in Chapter 7, after students have been exposed to consumer and business markets and segmentation.
- Making Services Marketing, Chapter 11, part of the product section of the book.
- Combining wholesaling and physical distribution in one chapter.
- Integrating planning, implementation, and evaluation in Chapters 20 and 21 to provide a broad strategic context after students have a grasp of what marketing entails.
- Carrying four themes throughout the book—global marketing, ethical challenges, the marketer as decision maker, and the impact of technology on marketing—with separate boxes interspersed throughout the chapters. These

vignettes are intended to both inform students about noteworthy topics and issues and stimulate critical thinking on their part.

- Concluding the book with a chapter that examines the growing role that technology has—and surely will continue to have—in marketing.

## Other Noteworthy Features

The changes in the 14th edition and previous editions have a singular purpose, namely to make the book an even better learning tool for students. Among the noteworthy changes are:

- Over time, the text has been shortened without reducing the number of topics covered.
- The Internet's role is properly reflected throughout the book with examples, Web addresses, and boxes.
- The chapter-opening and part-ending cases, within-chapter boxes, and Interactive Marketing Exercises at the end of each chapter are useful instruments for stimulating active learning through projects, classroom discussions, and debates.
- Two appendices, which can be found on the website for the text (www.mhhe. com/etzel07), deal with marketing math and career planning and job search. These appendices contain practical material that can be integrated into the course by instructors or used independently by students.

## Chapter-Related Cases

Each chapter begins with a contemporary case that sets the stage for the upcoming material. At the conclusion of the chapter, the case is revisited and more specific information is presented about marketing-related activities associated with the organization or product that is the subject of the case. By addressing the questions following the "More about . . ." part of the case at the end of the chapter, students discover how they can apply what they have learned in the chapter to an actual marketing situation.

Some of the organizations and products that are highlighted in the cases are highly recognizable, whereas others are relatively unknown or somewhat unusual. However, we have made a special effort to select cases that students will not only find interesting but also can learn from. We have been asked, "Aren't you concerned that some of the facts in a case may become dated or firms or products may be gone by the time the case is covered in class?" Our answer is an emphatic "No." Students should be encouraged to do some research on any case they examine and focus on the concepts, strategies, and techniques highlighted in the case. Students can learn from failures as well as successes.

Chapter-opening cases involving relatively well-known organizations and products that have significant marketing opportunities and challenges include:

- Trader Joe's
- Song Airlines
- Boeing
- Dunkin' Donuts
- Cadillac
- IKEA
- Nike
- Starbucks
- Walgreens

Another group of cases address situations in which technology, including the Internet, is an important issue. This group of cases includes:

- iTunes
- Kodak
- Toys "R" Us
- NetFlix
- Amazon
- Priceline.com

Still others deal with less familiar products and situations that have substantial marketing implications. Among these cases are:

- W. W. Grainger
- ZipCar
- Imaginatik
- USDA Food Pyramid
- CDW Corporation
- Zara
- Bose

Most of the chapter-opening cases are new to this edition. Any cases carried over from the 13th edition have been thoroughly updated.

## Part-Ending Cases

Each of the seven parts of the text ends with two cases. All of these cases involve real organizations and products. Rather than being comprehensive, we have focused each case on the subject matter covered in that particular part of the text in order to avoid overwhelming students with the complexity of many business problems. Included among the part-ending cases are:

- Google
- Dell
- Target
- The Gap
- Hummer
- McDonald's
- Walt Disney Co.
- Southwest Airlines
- BlackBerry

Cases we have developed that focus on competitive rivalries have been well received by both students and instructors, so we have retained this feature. Part-ending cases that illustrate the competitive battles between or among companies are:

- Sirius versus XM
- UPS versus FedEx versus DHL
- Coca-Cola Co. versus PepsiCo
- Costco versus Sam's Club
- Nintendo versus Sony versus Microsoft

## Learning Aids

Given the accelerated pace of business today and the dynamic nature of marketing, we anticipate important developments related to the part-ending cases. Therefore, we will put news about major breaking developments related to the cases on the website for the 14th edition. This form of updating will keep the cases timely and interesting over the life of the edition. Students should go to the website to obtain this additional information about the organizations and products covered in the cases.

Students need to be informed about and, in turn, recognize the significance of the evolving context in which marketing is performed. We have selected three dimensions—globalization, information technology, and ethics—for special attention. Besides examples throughout the book, we have prepared boxes titled "A Global Perspective," "Marketing in the Information Economy," and "An Ethical Dilemma?" to help students understand how these important dimensions affect marketing and, more broadly, business and society.

To place students in a more active role as they learn about marketing, we have incorporated "You Make the Decision" boxes throughout the text. After actual situations faced by marketers are described briefly, students are asked how they would deal with the particular challenge or opportunity.

Each chapter concludes with three learning aids in addition to the "More about . . ." part of the chapter-opening case:

- A list of Key Terms and Concepts that reinforces important vocabulary from the chapter.

- A set of Questions and Problems that stresses the application of the text material rather than memorizing or defining terms.

- Several Interactive Marketing Exercises that require students to interact with customers and/or marketers outside the classroom. In carrying out these assignments, students will observe marketing situations, gather information firsthand, and/or utilize valuable secondary sources. The objective of these exercises is to give students a better sense of how marketing is actually carried out.

## Teaching and Learning Supplements

In addition to the *Marketing* text, which serves as the primary learning instrument, several supplements facilitate the teaching and learning process. These supplements include:

- An *Instructor's Resource CD-ROM* that contains all the resources for classroom support. The CD-ROM includes the *Instructor's Manual* with additional lecture material, commentaries on the chapter-opening and part-ending cases, suggested answers to the chapter-ending Questions and Problems, and discussion material for two categories of boxes—"An Ethical Dilemma?" and "You Make the Decision." We've also prepared a *Test Bank* of over 2,500 objective questions, coded to indicate the type (definition, concept, application) and text location. Instructors will also find a complete set of *PowerPoint*® slides for each chapter.

- A *Video Program* featuring cases of real-world companies, incorporating concepts, strategies, and techniques from every chapter.

- Our *Online Learning Center* allows instructors to access the *Instructor's Manual* and PowerPoint materials as well as part-ending case commentaries, video segment notes, and links to professional resources. A link to McGraw-Hill's PageOut enables professors to create a course-specific website. For students, the two appendices—"Marketing Math" and "Careers and Marketing"—can be found at this website in addition to helpful study tools such as self-assessing quizzes and flashcards.

- A *Student CD-ROM* features an interactive online business case from Smart-Sims. The case focuses on a hypothetical company, Music2Go. This interactive simulation provides students with the opportunity and the incentive to develop strategies and make decisions related to marketing and production in a realistic, interesting business setting.

## Acknowledgments

# Guided Tour

*Marketing, 14th edition* by Etzel, Walker, and Stanton continues to be a popular softcover text for introductory marketing courses. This 14th edition has been thoroughly revised and completely updated. Current marketing issues, including customer relationship management (CRM), database management, global marketing, marketing research, supply-chain management, and integrated marketing communications are all explored in this edition of the text.

The numerous in-text and boxed examples highlight global issues, technology, ethics, and applied decision making. The chapter-opening and part-ending cases offer crucial real world applications to key concepts. These features, combined with some of the finest supplements available in this course area, provide you with everything you need for a solid introduction to the successful world of marketing in a modern business environment.

## Chapter Opening Cases

Each chapter is introduced with a contemporary case highlighting the key concepts, strategies, and tactics covered in the chapter.

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## Chapter 2

**PART 1**



iTunes Music Store 99¢ a song

THE FLAMING L[I]

*"Apple's main motivation for launching the online music service was to stimulate sales of its iPod."*

### The Dynamic Marketing Environment

#### Is **iTunes** Playing Your Song?

Just as it revolutionized the consumer market for desktop computers in the 1980s, Apple Computer Inc. is again transforming another burgeoning business. Apple's entrant in the digital-music business, the iTunes Music Store, was launched in 2003. In seeking sustained success in the competition among online music services, Apple faces several obstacles. Among them are illegal file-sharing services, many new legitimate competitors, technological challenges, and a reluctant music industry.

Like several other Internet-based enterprises, the music file-sharing industry began in a dorm room. Shawn Fanning, a student at Northwestern University, created Napster in 1999. Napster allowed individuals to exchange MP3 music files over the Internet and to download them onto their computers. Music companies such as BMG and Warner were distressed by this new peer-to-peer (PTP) model for file sharing. Believing that it infringed upon their copyrights, the companies sued to put Napster out of business. In July 2001, Napster was shut down, but by then, a number of imitators had sprung up and were offering free PTP music-sharing services. Millions of songs were being downloaded illegally. There were few legitimate alternatives because the music companies were wary of licensing their collections for Internet consumption.

Apple's iTunes Music Store was the first online service to reach an agreement with all five of the major music companies (as well as several independents). iTunes charges $.99 for each song a customer downloads.

However, because it pays $.65 to $.79 per song to the record companies, Apple earns little profit from iTunes. Apple's main motivation for launching the online music service was to stimulate sales of its iPod MP3 music player.

Apple's technology for iTunes allows customers to purchase a song, play it on up to three computers, and also copy or "burn" that song onto an iPod (but no other MP3 player) or multiple compact discs. An "album," a playlist of 10 songs, can be purchased for $9.99. Both songs and albums are encrypted to prevent them from being transferred onto free peer-to-peer sites.

iTunes' main competitors were Napster, MusicMatch, RealPlayer, and yes, even Wal-Mart. In addition to selling individual songs for $.99 each, Napster and MusicMatch also offer subscriptions that allow users to pay a monthly fee in order to "stream," which means they can listen to as many songs as they want on their computer. Rob Glaser, chief executive officer of RealNetworks (which owns RealPlayer), stated that only 13% of RealPlayer's customers were paying $.99 to download singles, whereas 72% were simply listening to music on their computer. Steve Jobs of Apple rejected that approach, saying, "The subscription services are not working. People want to own their music, not rent it."

Apple developed a slick advertising campaign that featured U2's Bono promoting both iTunes and the iPod. By September 2004, iTunes had sold more than 100 million songs and had 70% of the legal online digital-music business. Despite 60 competitors, iTunes was selling more than four times as many songs each week as its closest competitor, the legal version of Napster.[1]

What marketing considerations will be important for Apple as it tries to make iTunes a long-lasting success, especially in the face of competition from Microsoft and other online music services?

www.itunes.com

## A GLOBAL PERSPECTIVE

*How important are the conditions faced by consumers in determining their behavior?*

Procter & Gamble (P&G) invested 4 years and $10 million developing a water-purifying product suitable for Third World consumers. The product, called Pur, comes in small packets for household use. It can transform 2.5 gallons of contaminated water into drinkable water in 20 minutes. Many, including P&G's top management, consider it revolutionary. However, the company has been unable to make the product commercially successful. Why? Consumers have to carefully follow directions regarding the proper amount of water to use and the 20-minute waiting period in order for the powder to work. Second, it is priced at 10 cents a packet. A villager in the Sri Lanka tsunami region without clean water said he wouldn't pay more than the equivalent of one-half of one cent per packet. P&G has donated millions of packets to relief agencies in disaster areas, but it still hopes the product can eventually cover its costs. What is the lesson to be learned here? Regardless of how well a product meets a need, marketers must also consider the circumstances of the buyer.

*Sources: Sarah Ellison and Eric Bellman, "Clean Water, No Profit," The Wall Street Journal, Feb. 23, 2005, p. B1+; Rick Carter, "For Tsunami Survivors and the World," Industrial Maintenance & Plant Operation, February 2005, p. 4.*

## YOU MAKE THE DECISION

*Should a company try to thwart counterfeit products?*

According to a "guesstimate" by the World Customs Organization, fake versions of branded products account for 5% to 7%, perhaps $500 billion, of global merchandise trade. Knockoffs can be found in virtually every category of goods, such as ink-jet cartridges, golf clubs, power tools, computer chips, and motorcycles. Occasionally, fake components are incorporated into authentic products (such as a phony battery in a Kyocera cell phone). Perhaps most frightening, the World Health Organization estimates that as much as 10% of medicines are not real. That is, they are not made by the company that owns the brand on the package and, in some cases, do not contain any or all of the vital ingredients.

Why and how do companies make phony products? The primary reason is the same motive as for the rest of commerce, namely profitable revenues. Professional, rather than amateur, methods such as the following are commonly used to make phony products:

- Counterfeiters employ high-tech devices, including three-dimension design software, to "reverse engineer" (that is, figure out how to copy) well-known products.
- Relying on digital technology, the pirating firms can produce packaging that is almost a replica of what is used by the authentic brand.
- The counterfeiting companies have figured out how to imitate security devices, such as holograms, that are intended to distinguish real from fake products.

The most popular location for counterfeiters is China, which accounts for about two-thirds of bogus goods. The U.S. government is very troubled by this situation. Seeking assistance in efforts to curb counterfeiting, the Commerce Secretary demanded that the Chinese government police the widespread violations vigorously. Now that China-based firms are knocking off popular Chinese brands, enforcement is expected to increase.

Counterfeiters can't be eliminated, but companies can take the following steps to battle knockoffs:

- Businesses need to watch carefully for counterfeit goods carrying one of their brands.
- Producers—particularly through their trade associations—can offer cash rewards for information about piracy.
- When knockoffs are detected, legal action should be taken against the violators.
- Companies can take preventative measures, such as using new radio-frequency ID tags (more about these in Chapter 16) to monitor the identity and location of an authentic product at all times.

Some companies persist in battling counterfeiters. In that vein, Lego, the Danish toy maker, won a judgment against a Chinese firm that was producing and selling an imitation of the famous building blocks. In a case involving the sale of counterfeit information-security software, Papa B Enterprises agreed to pay $3.2 million to Symantec Corp. and to stop producing and selling fake Symantec products.

Of course, discovering knockoffs is difficult and sometimes occurs almost by chance. Further, the preventative measures and legal battles to reduce the flow of counterfeit products can be very costly. Symantec has its own "director of corporate security and the brand protection task force." Most small companies cannot afford such specialists or the fees incurred in a costly legal battle that may yield a favorable but hollow judgment (i.e., the counterfeiting firm is outside U.S. legal jurisdiction and thus does not make restitution).

*Sources: Frederick Balfour, "Faked!" BusinessWeek, Feb. 7, 2005, pp. 54–58+; Dan Neel, "Symantec Settles Suit," CRN, June 28, 2004, p. 30; Geoffrey A. Fowler, "Copies 'R' Us," The Wall Street Journal, Jan. 31, 2003, p. B1; and Russell E. Brooks and Gila E. Gelman, "Combating Counterfeiting," Marketing Management, vol. 2, no. 3, 1993, pp. 49–51.*

## AN ETHICAL DILEMMA?

In exchange for shelf space in their stores, many supermarket chains require manufacturers to pay slotting fees (as discussed in the text). Part or all of the revenues a chain receives from this policy might be passed on to consumers in the form of lower prices. Or the chain can retain these revenues to cover added labor costs associated with shelving new products and/or to boost profits.

Critics claim that such charges stifle the introduction of new products, particularly those developed by small producers lacking the resources to pay the mandated fees. For instance, an entrepreneur who developed a novelty ice cream product was frozen out of supermarkets after being unable to afford slotting fees of $7,000 to $50,000.

Assume that you are a supermarket-chain vice president who is responsible for establishing policies regarding supply chain management. Is it ethical for your chain to demand slotting fees from manufacturers?

*Sources: Brendan I. Koerner, "Pass the Ketchup, B. Raspberry Sauce," The New York Times, Feb. 20, 2005, p. 2; and Paul N. Bloom, Gregory T. Gundlach, and Joseph P. Cannon, "Slotting Allowances and Fees: Schools of Thought and the Views of Practicing Managers," Journal of Marketing, April 2000, pp. 92–108.*

## MARKETING IN THE INFORMATION ECONOMY

*Passive observation is becoming a major data-gathering method.*

Passive observation, the ability to monitor the behavior of individuals electronically with no interaction, began with cookies placed on computers that tracked Internet users' online activity. It is now moving into many other aspects of data collection with and without the consumer's knowledge. Consider the following examples:

- Arbitron and Nielsen Media Research have a device that clips to a person's belt and monitors special signals in radio and television broadcasts, permitting more accurate measures of listenership and viewership that have been tracked up until now with paper-and-pencil diaries.
- Forrester Research has a nationwide panel of 10,000 consumers who permit the company to electronically track their credit card statements, checking account statements, phone bills, and Internet usage. As an example of how these data can be used, subscribing firms can determine for the first time consumers who visit their websites subsequently buy things in their stores.
- Mobiltrak has installed antennae at busy urban intersections that are able to identify which radio station passing vehicles are tuned to without the occupants' awareness. As a result, broadcasters and advertisers have the first-ever accurate measure of driving audiences.

*Sources: James McQuivey, "Technology Monitors People in New Ways," Marketing News, Sept. 15, 2004, pp. 20+; Lucas Conley, "At 1600 Pennsylvania Avenue of Course, It's Rush Limbaugh," Fast Company, February 2005, p. 29.*

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# Thematic Boxes

Intended to inform and stimulate your critical thinking, these boxed examples highlight the latest marketing issues and topics to keep you abreast of current marketing trends. Found throughout the text, these boxes emphasize four themes:

**A Global Perspective** boxes demonstrate the global nature of marketing to you. These examples emphasize the international dimensions of virtually all industries and career paths.

**You Make the Decision** boxes present synopses of actual situations faced by marketers. You are given the opportunity to respond to various marketing challenges. These examples move you from passive observer to active participant in the decision-making process.

**An Ethical Dilemma?** boxes will raise your awareness of the nature and frequency of ethical challenges in the field of marketing. They have been written to not only present ethical issues but also to help you formulate an ethical perspective.

**Marketing in the Information Economy** boxes illustrate to you the pervasive impact technology continues to have on marketing and emphasizes technology's importance as a component of business progress.

# Closing Case Commentaries

Companies featured in the opening chapter cases are revisited at the end of each chapter in the "More About" feature. By addressing questions posed at the end of these cases, you can apply what you've learned in the chapter to challenges you'll face in actual marketing situations.

## More about iTunes

As 2004 drew to a close, still more digital-music services were entering the competition. Perhaps the most interesting (and potentially formidable) newcomer was the company that set off the Apple verses PC operating-system war of the 1980s—Microsoft. Just as Apple launched iTunes to increase sales of its iPod MP3 player, Microsoft introduced MSN Music to spur sales of its Windows XP operating system and Windows Media Player as well as a number of other Microsoft products. The match-up mimicked the Apple versus Microsoft desktop computer wars of the 1980s.

Similar to earlier times when Apple refused to license its Macintosh operating platform, it has resisted allowing other companies to develop products or services that work with iPods and iTunes. In contrast, Microsoft is allowing other suppliers to develop devices and services that use its new Windows Media

The original digital-music master, Shawn Fanning, also launched a new online music service in late 2004. After selling the rights to the Napster name, Fanning decided to try to legitimize the peer-to-peer (PTP) digital-music model. He envisioned his new company, Snocap, as a clearinghouse to bring together music companies and PTP file-sharing networks. Up to this point, most PTP networks operated illegally, allowing users to trade copyrighted material without paying royalties to the rights-holding music company or artist. Fanning's goal was to allow users to continue to exchange files while paying for the privilege of doing so.

A number of illegal sites were still operating and offering free PTP file sharing and, in the case of Kazaa, an enormous collection of songs from which to choose. Utilizing a network of computers rather than one main server, Kazaa was proving to be much more difficult to shut down than Napster. Whereas 67% of people over the age of 25 were legally downloading music from the Internet in late 2004, almost 70% of those between 18 and 24 years old were using unlicensed services. But, as the adage says, you get

# Part-Ending Cases

These real world cases give you a glimpse into the world of marketing and offer you an opportunity to apply what you've learned to solve a problem, develop a plan, or address a marketing issue.

## Cases for Part 1

### CASE 1 — Google

#### Searching for Success On the Web

As the Internet began proliferating in the mid-1990s, researchers and companies alike scrambled to develop tools that would allow Web surfers to navigate its massive stores of data in order to find specific bits of information. But it was two young graduate students, Larry Page and Sergey Brin, whose efforts yielded today's most popular Internet search engine and a highly profitable Internet company called Google. Named after the mathematical term that represents the number 10 to the hundredth power, Google is such a dominant presence on the Web, that it is now being used as a verb. Have you ever "Googled" anyone? No? Well then, read on.

#### Moving Out of the Dorm Room and Into the Boardroom

When they met at Stanford University, Page and Brin already had the reputation of being technical whiz kids. (Page once made a computer printer built entirely out of Legos.) Together, they decided to try to develop a process for searching the Internet, but they agreed out of necessity to do it by using a network of inexpensive personal computers instead of large-scale servers. Short of resources, they borrowed PCs from around campus, set up the data center in Page's dorm room and, in 1997, produced their first iteration of a search engine they dubbed BackRub.

Although the people who saw BackRub were impressed, Page and Brin were unsuccessful in selling the technology to other Internet companies. Undeterred, they began looking for investors, and gladly accepted a check for $100,000 from Andy Bechtolsheim, a founder of Sun Microsystems. They eventually raised almost $1 million, and Google, Inc. was born.

The company officially opened in September of 1998, and despite the fact that Google.com was still being beta tested, it was named one of the "Top 100 Web Sites and Search Engines" by PC Magazine in 1998. By February 1999, it was handling half a million searches each day and growing by leaps and bounds. The company expanded by hiring a number of new employees and settled into spacious office

space, nicknamed the Googleplex, in Mountain View, California. Later that year, the beta test was concluded, and clients such as America Online began signing on to use Google's search technology on their own sites.

Google became the largest search engine in the world in 2000, conducting 18 million searches each day. That number exploded to 100 million searches each day in February 2001. In addition, the Googleplex acquired the reputation of being a creative, desirable place to work and began attracting top talent. Its open floor plan encouraged communication among its employees, and its founders hired a world-renowned chef, organized roller hockey games, and held meetings each Friday that included the entire company. This collaborative environment has spawned a slew of new innovations and rapid international expansion that succeeded in attracting additional big-name clients and advertisers. But the key to Google's success has always been its underlying technology—a unique formula originally developed by Page and Brin that allows users to conduct swift and accurate searches across the World Wide Web in a matter of seconds.

#### Setting Its "Sites" on More Accurate Results

With the inception of the Internet, a profusion of information became available to those who were patient enough and skilled enough to sort through it. Brin and Page were determined to help those who weren't. "The perfect search engine would understand exactly what you mean and give back exactly what you want," explained Page. Other search engines already existed, and they worked by scanning through the Web, summarizing information by creating an index, and then matching the original query with pages that contained the relevant word or phrase. However, the results were often inaccurate or too voluminous to be helpful.

Brin and Page solved this by creating an algorithm called PageRank that sorts results according to their perceived importance. The algorithm starts by

Google has also gotten involved in Web shopping by introducing Google Catalog Search, a service that allows users to peruse more than a thousand catalogs that were not previously available online. It also unveiled a feature called Froogle, which enables users to compare prices for the same product available at different e-tailers.

The second most popular search site on the Web is Yahoo!, and it has actively been upgrading its capabilities in order to compete with Google. Yahoo! has been doing so by introducing features that allow users to customize their searches by blocking certain sites and highlighting others, and by creating their own home pages. "Historically there's been 'search the Web,' now we're creating 'search my Web,'" explained Yahoo!'s senior vice president, Jeff Weiner.

Due to Google's ever-widening scope, Yahoo! isn't the only online company that worries about competing with the Google machine. eBay is concerned that Google's AdWords will lure advertisers away. Froogle is a threat to Amazon, and in response, Amazon has developed its own search engine called A9. So has Microsoft, but its MSN Search beta proved to be less accurate than Google in a test conducted by The Washington Post. In addition, the many companies that offer e-mail services are keeping an eye on the performance of GMail. "Google, Yahoo!, Amazon and eBay are on a collision course," stated Bill Gross, chairman of Idealab, an Internet think tank and venture capital firm. "They're all stepping into each other's territory, and it's going to lead to interesting battles."

To stay one step ahead of the competition, Google has developed a list of "ten things it has found to be true." Each tenet is discussed in detail on its website, but four of them seem to have particularly influenced its success. The eighth item declares that "the need for information crosses all borders." Early in its history, Google addressed the fact that it was indeed a "world wide web" by allowing users to conduct searches in English and ten other languages. By 2001, its search services were available in 40 different languages, and Google even provided automated translations. The company was operating in offices in

Paris, London, Tokyo, Hamburg, and Toronto and supported 88 languages by 2003. It even announced plans to open an office on the moon in early 2004.

Another corporate truth is Google's contention that "you can make money without doing evil." By not accepting payment in order to influence search results, by excluding irrelevant pop-up ads, and by clearly delineating advertisers as "sponsors," Google has been able to maintain its integrity without selling itself out. Google has also clearly demonstrated that "democracy on the web works." Its PageRank formula takes a sophisticated tally to determine what sites most closely match the queries posed by Google users, and it does so with a high degree of accuracy.

But the first item on the list of things Google has learned is to "focus on the user and all else will follow." Google's absolute devotion to its user base has resulted in it becoming one of the top five most-visited sites on the Web. In addition, USA Today published a survey in December 2004 in which consumers predicted Google would continue to be a big hit in 2005. In fact it was number three on the list of projected "winning" brand names.

Are you interested in the other six things that Google has learned? Just Google it!

#### Questions

1. Describe the three components of the marketing concept as they apply to Google. Which is likely to provide the greatest challenge to Google's success?

2. Describe how each factor in the external macroenvironment will influence Google's marketing activities.

3. Do you agree with Google's strategy of expanding its product mix to include services other than just search capabilities? Why or why not?

www.google.com

### CASE 2 — Sirius versus XM

#### Tuning into a New Market with Satellite Radio

A new entertainment product was launched, literally, in 2001 when XM Satellite Radio Holdings Inc. propelled its two satellites, nicknamed Rock and Roll, into outer space. Shortly thereafter, the new company began offering premium radio services to subscribers willing to pay $120 per year, plus the cost of the necessary hardware.

# Brief Contents