

MARKETING MANAGEMENT 5ED

STRATEGY AND CASES



DOUGLAS J. DALRYMPLE

LEONARD J. PARSONS



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MARKETING MANAGEMENT STRATEGY AND CASES

FIFTH EDITION

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Indiana University

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WILEY

JOHN WILEY & SONS

New York / Chichester / Brisbane / Toronto / Singapore

COVER: PAINTING BY EDWARD A. BURKE

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Library of Congress Cataloging in Publication Data:

Dalrymple, Douglas J.

Marketing management: strategy and cases/Douglas J. Dalrymple,
Leonard J. Parsons.—5th ed.

p. cm.—(Wiley series in management)

Includes bibliographical references.

ISBN 0-471-60165-9

1. Marketing—Management. 2. Marketing—Management—Case studies.
I. Parsons, Leonard J. II. Title. III. Series..

HF5415.13.D32 1990
658.8—dc20

89-22676
CIP

Printed in the United States of America

10 9 8 7 6 5 4 3

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PREFACE

The first law of marketing is that you must learn to adapt to an everchanging environment. With this in mind we have added two new chapters to this edition to broaden our coverage. These new chapters highlight developments in services and international marketing. In addition, we have increased our emphasis on “the customer” and have moved this material closer to the front of the book. Also, forecasting is now more concerned with measuring market opportunities. The most important changes in the new edition are the following:

1. Two new chapters on services and international marketing.
2. Twenty-five new cases.
3. Increased customer emphasis.
4. More cases and longer cases.

The U.S. consumer now buys more services than merchandise, and our new chapter on services marketing (Chapter 8) is designed to introduce readers to the special problems and opportunities in this area. International trade is essential for economic prosperity, and we discuss a variety of international marketing strategies in a new chapter on this subject (Chapter 13).

New cases have been added to each chapter to expand coverage and to provide a change of pace. A total of forty-six cases have been included in this edition so that all chapters now have three cases for discussion. The new cases are longer than those in the fourth edition to give students more data for analysis. Twenty-one of the most popular cases from the fourth edition have been retained.

The layout of the book is not drastically changed, and we start in Chapter 1 by defining marketing and explaining the role of marketing managers and the marketing concept. Chapter 2 discusses marketing strategy and the competitive environment. Satisfied customers are essential for organizational success, and Chapter 3 focuses on identifying customers, their locations, and why they buy. Chapter 4 introduces the concepts of segmentation/differentiation and explains why organizations market to special groups of customers. Chapter 5 is concerned with measuring the size of markets and forecasting future sales levels.

The traditional marketing-mix coverage starts in Chapter 6 with product development. In Chapter 7, we focus on marketing programs for products after they

have been introduced. Our emphasis is on managing products across their life cycles and rescuing products in decline. Chapter 8 introduces the reader to the unique strategies associated with selling intangible services. Chapter 9 details a variety of pricing methods to provide the reader with background for making decisions in this area. Chapter 10 talks about selecting distribution channels that maximize sales and minimize costs. In Chapter 11, we are concerned with the size of advertising budgets and the allocation of funds among different promotional activities and media. Chapter 12 deals with the problems of organizing and evaluating field sales personnel. Chapter 13 explains the benefits of international trade and the various marketing strategies used to sell in foreign markets. Chapter 14 focuses on the development and implementation of marketing plans. Finally, Chapter 15 adds social and ethical dimensions 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 forty-six cases selected for the fifth edition cover a wide range of products and organizations. Twenty-five cases deal with consumer products, twenty-one are concerned with business markets, and five cases deal with the marketing of services. Twenty-five of the cases are set in foreign countries to add an important global dimension to the book. One of the cases is built around a data bank that encourages the use of the computer for analysis, and another employs a computer simulation. Six cases have been set up for use with the Lotus 1-2-3 electronic spread sheet program. Templates for the spread sheet analysis, the data bank, and the simulation program are available at no charge on 5¼ or 3½-inch diskettes.

To enhance readability of the new edition, we have moved the footnotes to the end of the chapters. In the process, we have surpressed some of the citations that appeared in earlier editions. Our objective was to simplify the presentation and not to claim the ideas of our colleagues as our own. Readers looking for source material are encouraged to seek out earlier editions of our book.

We believe that the new edition 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. First we would like to thank our editor, John Woods, for his guidance and support. Next we want to thank Craig Andrews of Marquette University, Robert P. Brody of the University of New Haven, Bruce Macnab of California State University Hayward, Daryl McKee of LSU, William E. Rice of California State University Fresno, and Julie F. Toner of Central Missouri State University for reviewing the manuscript and providing many help-

ful suggestions. We would also like to express our appreciation to those who made case materials available for the new edition. We especially thank Reinhard Anglemar and Christian Pinson of INSEAD and Jean-Pierre Jeannet of Babson College for their generous contributions of cases and notes. In addition, we thank our secretaries, Brenda, Linda, and Margaret for typing countless drafts and revisions. Finally, we thank our wives, Nancy and Julie, for their help and encouragement.

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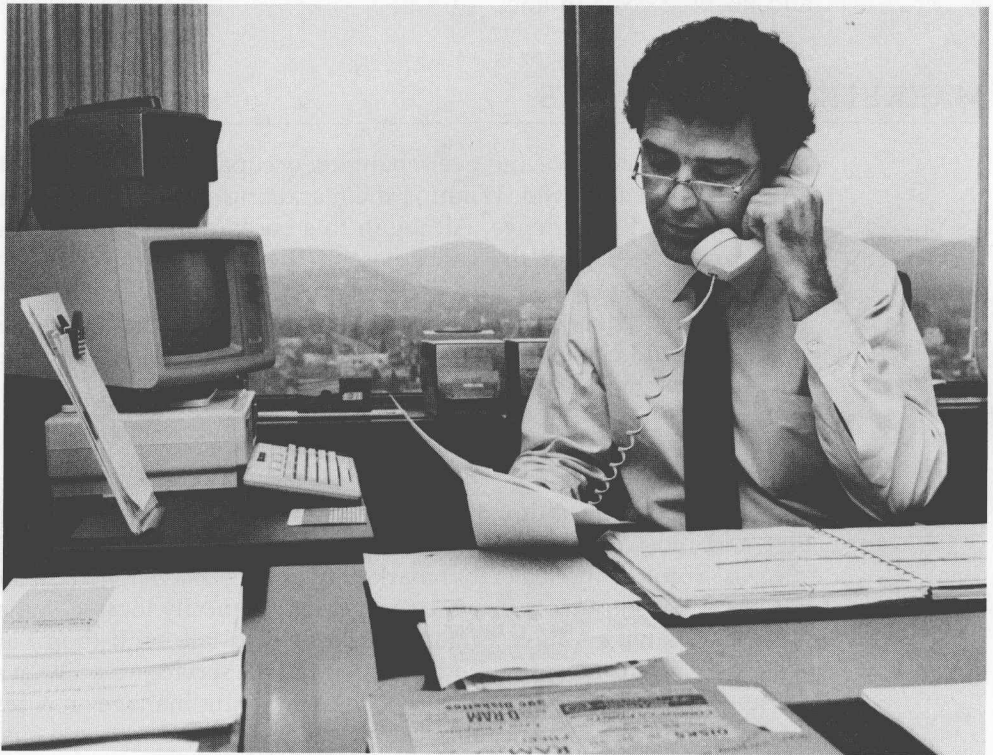
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1

The business enterprise has only two basic functions—marketing and innovation.

PETER DRUCKER

WHY MARKETING IS IMPORTANT



This book is about making marketing decisions for business and nonprofit organizations. We begin by explaining the nature of these decisions and why you must be concerned about them.

Marketing is one of the most powerful tools employed by organizations in their never-ending struggle for survival and growth. Marketing can be defined 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.¹

This definition points out that the objective of marketing is to *satisfy* customer needs. Thus, the first challenge is to find a set of customers and identify their needs so that appropriate goods and services can be developed. Once organizations have a product, marketing personnel design pricing, promotion, and distribution plans to make these items leap into the hands of the customer.

Success in marketing decision making is most often judged in terms of sales revenue, market shares, and contribution margins. Marketing managers have the delicate task of maximizing profits while meeting customers' quality expectations and keeping costs in line.

MARKETING CHALLENGES

Marketing is a creative and ever-changing occupation. You will find marketing has few rules to be followed. Winning the marketing game requires imagination, good judgment, and experience. Although this book cannot supply these attributes, it can provide you with the concepts and the background needed to create good marketing decisions.

We have chosen to highlight three factors that make marketing jobs both interesting and challenging: customer contact, external services, and internal coordination.

Customer Contact

Marketing people continually interact with customers. Customers should be your first and most enduring concern. Close attention to their needs is essential for success. Some of the ways that marketing managers relate to customers are shown in Figure 1-1. Because a firm's customers are typically located some distance from factories, managers have to go into the field to talk with them, and distribution systems have to be set up to make goods and services readily available for purchase. Figure 1-1 also indicates that the marketing manager has responsibility for directing promotional communications to dealers and ultimate customers and arranging for payment for purchases. In addition, marketing managers have responsibility for collecting information on customer satisfaction and future needs. Managing customer relations is a tremendous responsibility and can represent the difference between achieving the goals of the organization and failure.

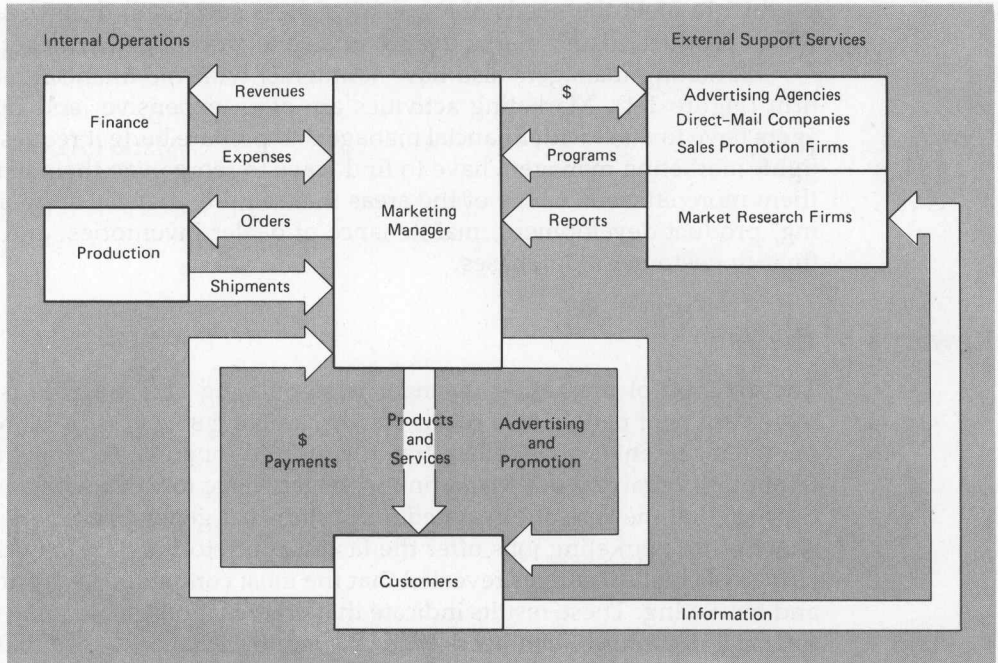


FIGURE 1-1 Operating Areas for Marketing Managers

External Services

One of the most interesting things about marketing is that much of the work is assigned to external suppliers (Figure 1-1). Most firms hire an agency to create their advertising and a separate firm to handle direct-mail campaigns. Contests and display materials are developed by special organizations, and market research data are gathered by still another organization. The reliance on outside suppliers means that in your job as marketing manager you become a buyer of these services. It also means that marketing managers spend a lot of time coordinating the activities of these separate groups and making sure the work is done on time. Victory in the marketplace often depends on your ability to hire the right suppliers and to evaluate their output.

Internal Coordination

A third challenge to marketing managers stems from their role as coordinator with other areas of the firm (Figure 1-1). Although marketing is responsible for maintaining good customer relations, as a manager you do not have formal control over the production of the goods and services that customers buy. Thus marketing has to work closely with the production department to make sure that orders are filled on time, at an affordable price, and meet customers' specifications. Sometimes this means that production and marketing personnel have to find ways to modify the

product to meet the needs of the market. Less successful firms are often those in which production and marketing are unable to work together to get this job done.

Marketing managers also have to interact with the financial managers of the firm (Figure 1-1). Marketing activities are often expensive, and marketing managers have to meet with financial managers to prepare budget requests. If funds are tight, marketing managers have to find ways to reorganize their activities to make them more efficient. Some of the areas that require financial support are advertising, product development, maintenance of dealer inventories, and credit lines to finance customer's purchases.

Rewards of the Job

The position of marketing manager is stimulating because you associate with a wide variety of people on a continuously changing set of tasks. Moreover, marketing management is an excellent training ground for advanced assignments in your or another organization. Marketing managers have to work with so many areas of the firm that they are often tapped for positions as general managers. Research has shown that marketing jobs offer the fastest route to the top. In addition, a recent survey of chief executives revealed that the most common background was in sales and marketing. These results indicate that organizations are turning away from the financial executives, engineers, and lawyers once favored for CEOs in the 1970s and are looking to marketing managers to provide leadership for the future. We believe that marketing is the path to glory!

WHO IS THE MARKETING MANAGER?

We use the term *marketing manager* to refer to anyone responsible for making significant marketing decisions. Except in the case of very small firms, no *single* person is accountable for all the decisions described in this book. The responsibility for marketing is diffused throughout the organization. Senior managers are continually making pricing and strategic marketing decisions. But engineers are also involved in marketing because they have to design products that meet customer needs, wants, and quality standards as are corporate treasurers who oversee the credit terms and credit availability that directly affect buying decisions.

Several managers in an organization specialize in marketing decision making. These include brand managers, who make the day-to-day decisions for individual items and prepare the annual marketing plan, and sales managers, who guide the activities of the field sales force. In addition, advertising and promotion managers control the preparation of print ads, TV commercials, direct-mail brochures, and contests that help to boost the sales of goods and services. Larger firms also have managers of product development and marketing information. Typical responsibilities of marketing managers are listed in Table 1-1. If you take a position in marketing, these are some of the work-related tasks you will be assigned. Marketing is much more than just a list of things to do—it is a natural sequence of events that leads to greater sales and profits.

TABLE 1-1
Typical Responsibilities of Marketing Managers

Advertising
Competitor analysis
Customer analysis
Deployment of the sales force
Distribution channel development
Preparation of marketing plans
Pricing
Product and service development
Promotion
Sales forecasting

THE MARKETING MANAGEMENT PROCESS

Marketing managers plan and implement a sequence of activities that help the firm to 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 flowchart in Figure 1-2. This diagram provides a basic framework for the book. First, managers need to adopt a marketing philosophy; Chapter 1 explains why organizations should be customer driven. Second in the management process is a concern with marketing strategy (Chapter 2): our emphasis is on achieving a sustainable competitive advantage for the organization. A problem-solving approach is used throughout the book, and the cases at the end of the chapters provide opportunities to apply what you have learned.

Customer Focus

Before sound marketing strategies can be created (Figure 1-2), you have to know who your potential and/or existing customers are and why they behave as they do (Chapter 3). In developing marketing strategies, the manager must select appropriate market segments to be targets of the marketing effort and must determine how the organization's offerings should be positioned against competitors (Chapter 4). Once the prospective customer is known, the marketing manager needs to estimate volume potentials and forecast sales (Chapter 5). Perhaps the most creative and challenging step in marketing is designing the right mix of marketing activities to tap the target segments. The *marketing mix* is the specific collection of actions employed by an organization to stimulate acceptance of its ideas, products, or services. The basic functions in the mix are product and service development, packaging, pricing, promotion, advertising, selection of channels, physical handling, and personal selling. For example, Northwest Airlines has developed a \$179 flight from Milwaukee to Florida and promotes it with local newspaper advertisements and a toll-free reservation number.

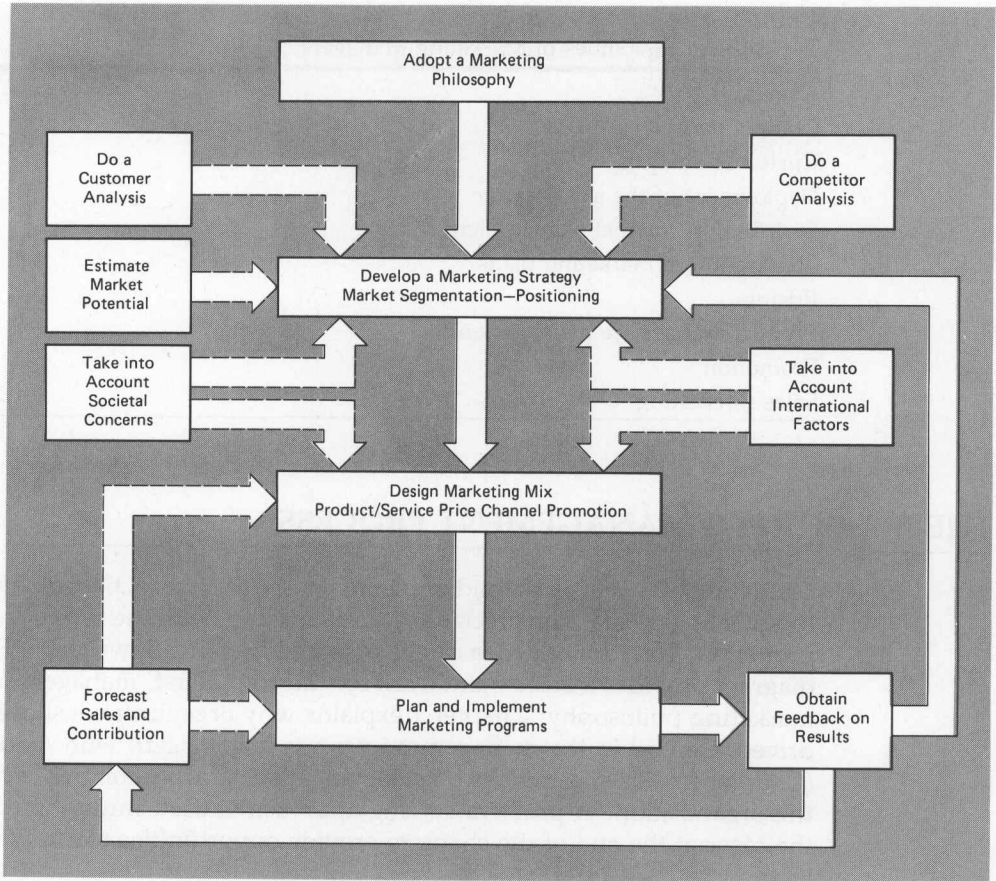


FIGURE 1-2 The Marketing Management Process

New Products

Product development activities focus on the conversion of customer wants into real products or services (Chapter 6). Since existing products and services lose their attractiveness over time, product development is essential to the survival of all organizations. Marketing managers are responsible for designing the systems needed to find, screen, and evaluate new ideas. Product policy (Chapter 7) emphasizes the management of a product over its life cycle. This involves reformulating old products and getting rid of some of them. Since we now spend more on services in the United States than we do on manufactured goods, Chapter 8 discusses the special marketing needs of intangible merchandise (Chapter 8).

A critical dimension of your job as marketing manager is making decisions on what prices to charge for goods and services to generate desired levels of sales (Chapter 9). Marketing also has the task of organizing brokers, wholesalers, and retailers into channels of distribution so that merchandise and services will be available where customers need and want them (Chapter 10). Advertising and

promotion (Chapter 11) are basic competitive tools, and organizations have to decide how much to spend on these activities and where to spend it. This means you not only have to choose among newspaper, radio, television, billboards, direct mail, and magazine media, but you must also determine budgets for displays, contests, and other promotional activities. Personal selling (Chapter 12) is required for many products and marketing managers have the job of hiring, training, and deploying the right number of salespeople to meet the needs of potential buyers.

Vital to developing marketing strategies and tactics today is the international dimension (Chapter 13); that is, the production and marketing of many goods are now on a global basis, which leads firms to consider the impact of such things as cultural differences and currency exchange rates on pricing and distribution plans.

Building the Plan

After an appropriate marketing mix has been selected, it is your job as marketing manager to prepare and implement a detailed marketing plan. Responsibility for implementing marketing programs (Chapter 14) rests with brand managers who continually monitor the results of marketing activities and recommend program improvements.

Although we have shown marketing management as a sequence of steps that follow the chapters of this book, you should realize that brand managers often work on several of these activities at the same time. Also, feedback in terms of results and customer reactions provides continuous inputs for strategy revisions and updated sales forecasts (Figure 1-2). Marketing management is a highly interactive process, and your success as a marketing professional will depend on your ability to coordinate and work through others.

Marketing management should be integrated with the goals of society (Chapter 15). Although you are charged with promoting the sale of goods and services, you must also learn to balance these objectives against the long-term needs of society for a safe and healthy environment. In addition, you need to know which marketing activities are ethical and which violate current business standards. This material has been placed at the end of the book for instructional purposes. In reality, ethical and social issues should be integrated with all elements of the marketing mix.

The marketing management process begins with the adoption of the marketing philosophy, and we will now focus on what makes a firm marketing driven.

MARKETING CONCEPT

Organizations must adapt to changing economic environments and meet competitive threats to prevent loss of market share, stagnation, perhaps even bankruptcy. Some companies take an operations orientation. They are primarily concerned with cost cutting and production. Others are technology driven. They want to do something new and exciting. Both may founder because they ignore their customers or their competition.