

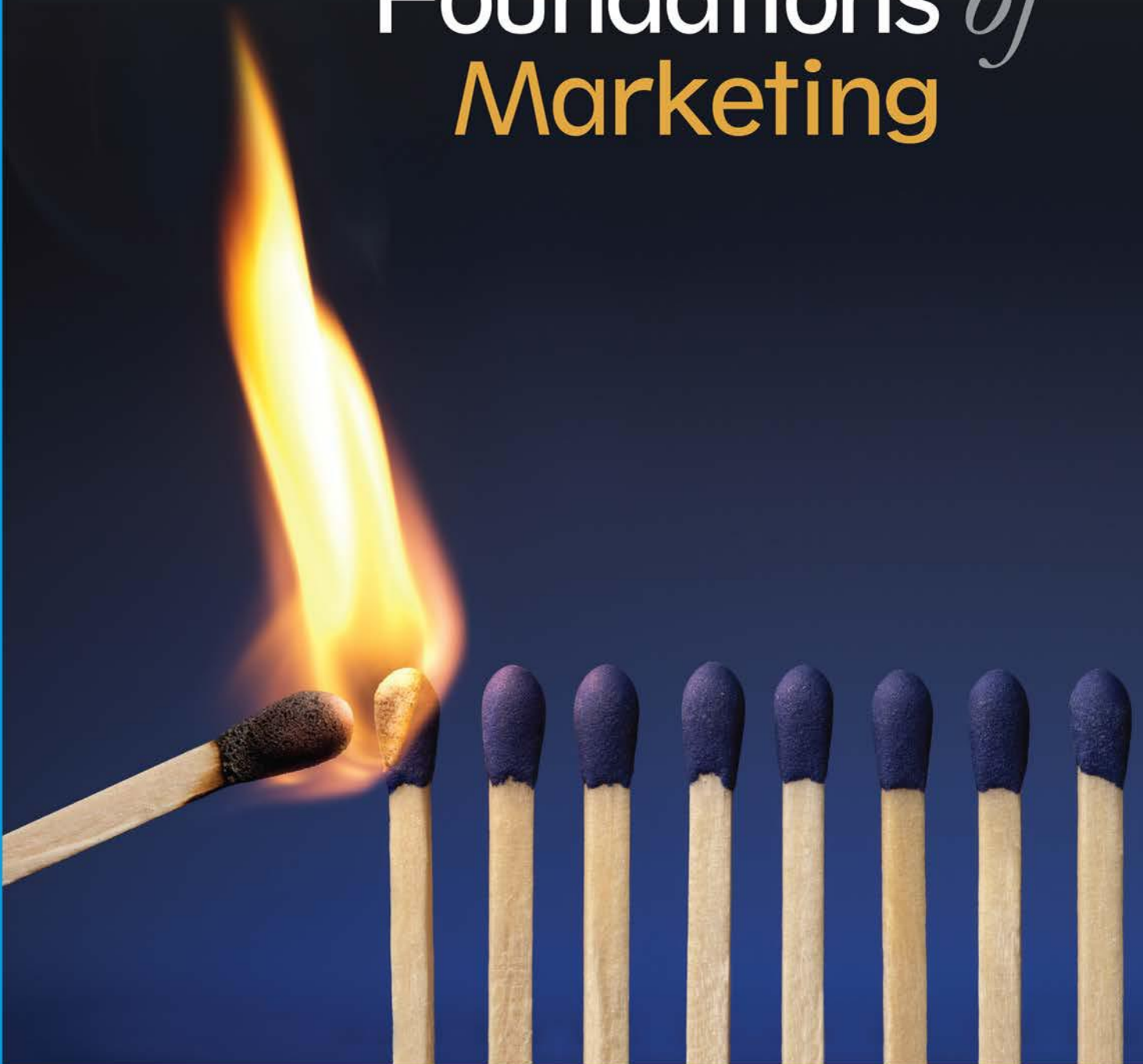


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# Foundations *of* Marketing



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# Foundations *of* Marketing

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To Nancy, Allen, Carmen, Gracie, Mike, Ashley, Charlie, J.R., and Anderson Pride  
To James Collins Ferrell and George Collins Ferrell

# brief contents

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## **Part 1: Strategic Marketing and Its Environment 1**

- 1 Customer-Driven Strategic Marketing 2
- 2 Planning, Implementing, and Evaluating Marketing Strategies 24
- 3 The Marketing Environment, Social Responsibility, and Ethics 48

## **Part 2: Marketing Research and Target Markets 79**

- 4 Marketing Research and Information Systems 80
- 5 Target Markets: Segmentation and Evaluation 106

## **Part 3: Customer Behavior and E-Marketing 131**

- 6 Consumer Buying Behavior 132
- 7 Business Markets and Buying Behavior 160
- 8 Reaching Global Markets 184
- 9 Digital Marketing and Social Networking 212

## **Part 4: Product and Price Decisions 239**

- 10 Product, Branding, and Packaging Concepts 240
- 11 Developing and Managing Goods and Services 270
- 12 Pricing Concepts and Management 300

## **Part 5: Distribution Decisions 329**

- 13 Marketing Channels and Supply-Chain Management 330
- 14 Retailing, Direct Marketing, and Wholesaling 362

## **Part 6: Promotion Decisions 391**

- 15 Integrated Marketing Communications 392
- 16 Advertising and Public Relations 418
- 17 Personal Selling and Sales Promotion 444

Endnotes 472

Glossary 511

Name Index 522

Company Index 527

Subject Index 531

### **AVAILABLE ONLY ONLINE:**

Appendix A: Financial Analysis in Marketing

Appendix B: Sample Marketing Plan

Appendix C: Careers in Marketing

# contents

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## PART 1 STRATEGIC MARKETING AND ITS ENVIRONMENT 1

### Chapter 1: Customer-Driven Strategic Marketing 2

#### Marketing Insights: Airbnb: Home Sweet Home 3

##### 1-1 Defining Marketing 4

1-1a Marketing Focuses on Customers 4

##### 1-2 Marketing Deals with Products, Price, Distribution, and Promotion 5

1-2a Product 6

1-2b Price 7

1-2c Distribution 8

1-2d Promotion 8

##### 1-3 Marketing Creates Value 9

1-3a Marketing Builds Relationships with Customers and Other Stakeholders 10

##### 1-4 Marketing Occurs in a Dynamic Environment 12

##### 1-5 Understanding the Marketing Concept 12

1-5a Evolution of the Marketing Concept 13

#### Entrepreneurship in Marketing: Blue Bottle Coffee: Not Your Typical Daily Grind 14

1-5b Implementing the Marketing Concept 15

##### 1-6 Customer Relationship Management 16

##### 1-7 The Importance of Marketing in Our Global Economy 17

1-7a Marketing Costs Consume a Sizable Portion of Buyers' Dollars 17

1-7b Marketing Is Used in Nonprofit Organizations 17

1-7c Marketing Is Important to Businesses and the Economy 17

1-7d Marketing Fuels Our Global Economy 18

1-7e Marketing Knowledge Enhances Consumer Awareness 18

1-7f Marketing Connects People through Technology 19

1-7g Socially Responsible Marketing: Promoting the Welfare of Customers and Stakeholders 19

1-7h Marketing Offers Many Exciting Career Prospects 20

#### Going Green: Walmart's Environmental Initiative: It's Not Easy Being Green 20

Chapter Review 21

Developing Your Marketing Plan 22

Key Concepts 22

Issues for Discussion and Review 22

**Video Case 1** *Cruising to Success: The Tale of New Belgium Brewing* 23

### Chapter 2: Planning, Implementing, and Evaluating Marketing Strategies 24

#### Marketing Insights: Blue Apron's Strategic Recipe 25

##### 2-1 The Strategic Planning Process 26

##### 2-2 Establishing Organizational Mission, Goals, and Strategies 27

2-2a Developing Organizational Mission and Goals 27

2-2b Developing Corporate and Business-Unit Strategies 27

**Going Green:** Can Cleaners Be Greener? 29

##### 2-3 Assessing Organizational Resources and Opportunities 31

2-3a SWOT Analysis 32

2-3b First-Mover and Late-Mover Advantage 33

##### 2-4 Developing Marketing Objectives and Marketing Strategies 34

2-4a Selecting the Target Market 35

2-4b Creating Marketing Mixes 36

##### 2-5 Managing Marketing Implementation 36

2-5a Organizing the Marketing Unit 37

2-5b Coordinating and Communicating 37

2-5c Establishing a Timetable for Implementation 38

##### 2-6 Evaluating Marketing Strategies 38

2-6a Establishing Performance Standards 38

2-6b Analyzing Actual Performance 39

#### Entrepreneurship in Marketing: Want to Avoid Student Debt? Scholly Can Help 40

2-6c Comparing Actual Performance with Performance Standards and Making Changes, If Needed 41

##### 2-7 Creating the Marketing Plan 42

Chapter Review 44

Developing Your Marketing Plan 45

Key Concepts 45

Issues for Discussion and Review 46

**Video Case 2** *Mi Ola Rides the Marketing Wave* 46

## Chapter 3: The Marketing Environment, Social Responsibility, and Ethics 48

**Marketing Insights: TOMS: Taking Big Steps to Change Lives 49**

### 3-1 The Marketing Environment 50

3-1a Responding to the Marketing Environment 51

### 3-2 Competitive Forces 51

### 3-3 Economic Forces 54

3-3a Buying Power and Willingness to Spend 54

3-3b Economic Conditions 56

### 3-4 Political Forces 57

### 3-5 Legal and Regulatory Forces 58

3-5a Regulatory Agencies 59

3-5b Self-Regulation 61

### 3-6 Technological Forces 62

### 3-7 Sociocultural Forces 63

**Emerging Trends in Marketing:** The Fair Trade Movement Explodes 65

### 3-8 Social Responsibility and Ethics in Marketing 65

3-8a Economic Dimension 66

3-8b Legal Dimension 66

3-8c Ethical Dimension 67

3-8d Philanthropic Dimension 69

**Going Green:** No Harm, No Foul: Harmless Harvest Connects with Stakeholders 71

### 3-9 Incorporating Social Responsibility and Ethics into Strategic Planning 72

*Chapter Review 74*

*Developing Your Marketing Plan 75*

*Key Concepts 76*

*Issues for Discussion and Review 76*

**Video Case 3** Apple vs. Samsung: Gloves Are Off 76

## PART 2 MARKETING RESEARCH AND TARGET MARKETS 79

## Chapter 4: Marketing Research and Information Systems 80

**Marketing Insights: IKEA Keeps Its Eyes on the Consumer 81**

### 4-1 The Importance of Marketing Research 82

### 4-2 Types of Research 83

4-2a Exploratory Research 83

4-2b Conclusive Research 85

### 4-3 The Marketing Research Process 85

4-3a Locating and Defining Problems or Issues 86

4-3b Designing the Research Project 86

4-3c Collecting Data 87

**Digital Marketing:** Digital Marketing Research

Leads to Behavioral Advertising 93

4-3d Interpreting Research Findings 95

4-3e Reporting Research Findings 95

### 4-4 Using Technology to Improve Marketing Information Gathering and Analysis 96

4-4a Marketing Information Systems 96

4-4b Databases 97

**Emerging Trends in Marketing:** Making Meaning Out of Big Data: Marketing Analytics 97

4-4c Big Data 98

4-4d Marketing Analytics 99

### 4-5 Issues in Marketing Research 101

4-5a The Importance of Ethical Marketing Research 101

4-5b International Issues in Marketing Research 102

*Chapter Review 103*

*Developing Your Marketing Plan 104*

*Key Concepts 104*

*Issues for Discussion and Review 104*

**Video Case 4** Marketing Research Reveals Marketing Opportunities in the Baby Boomer Generation 105

## Chapter 5: Target Markets: Segmentation and Evaluation 106

**Marketing Insights: The Many Market Segments of Marriott 107**

### 5-1 What Are Markets? 108

### 5-2 Target Market Selection Process 109

### 5-3 Step 1: Identify the Appropriate Targeting Strategy 110

5-3a Undifferentiated Targeting Strategy 110

5-3b Concentrated Targeting Strategy through Market Segmentation 110

5-3c Differentiated Targeting Strategy through Market Segmentation 112

### 5-4 Step 2: Determine Which Segmentation Variables to Use 113

5-4a Variables for Segmenting Consumer Markets 114

**Emerging Trends in Marketing:** Geofencing: Fenced In and Don't Know It? 118

**Digital Marketing:** ReplyYes for Vinyl Collectors and Graphic Novel Fans 120

5-4b Variables for Segmenting Business Markets 120

### 5-5 Step 3: Develop Market Segment Profiles 122

### 5-6 Step 4: Evaluate Relevant Market Segments 122

5-6a Sales Estimates 122

5-6b Competitive Assessment 123

5-6c Cost Estimates 123

### 5-7 Step 5: Select Specific Target Markets 124

### 5-8 Developing Sales Forecasts 124

5-8a Executive Judgment 124

5-8b Surveys 125

5-8c Time Series Analysis 125

5-8d Regression Analysis 126

5-8e Market Tests 126

5-8f Using Multiple Forecasting Methods 126



Chapter Review 127  
 Developing Your Marketing Plan 128  
 Key Concepts 128

Issues for Discussion and Review 129  
**Video Case 5** Mike Boyle Wants Customers Who  
 Want to Train 129

## PART 3 CUSTOMER BEHAVIOR AND E-MARKETING 131

### Chapter 6: Consumer Buying Behavior 132

**Marketing Insights: Frito-Lay Measures Consumer Response to Its Traditional and New Snack Products 133**

#### 6-1 Consumer Buying Decision Process 134

- 6-1a Problem Recognition 135
- 6-1b Information Search 135
- 6-1c Evaluation of Alternatives 136
- 6-1d Purchase 136
- 6-1e Postpurchase Evaluation 137

#### 6-2 Types of Consumer Decision Making and Level of Involvement 137

- 6-2a Types of Consumer Decision Making 137
- 6-2b Consumer Level of Involvement 138

#### 6-3 Situational Influences on the Buying Decision Process 139

#### 6-4 Psychological Influences on the Buying Decision Process 141

- 6-4a Perception 141
- 6-4b Motives 142

**Going Green: Green Eileen Recycles by Resale or Reuse 144**

- 6-4c Learning 144
- 6-4d Attitudes 145
- 6-4e Personality and Self-Concept 147
- 6-4f Lifestyles 147

#### 6-5 Social Influences on the Buying Decision Process 148

- 6-5a Roles 148
- 6-5b Family Influences 148
- 6-5c Reference Groups 149
- 6-5d Digital Influences 150

**Digital Marketing: CoverGirl Signs Social Media Influencers 151**

- 6-5e Opinion Leaders 151
- 6-5f Social Classes 152
- 6-5g Culture and Subcultures 152

#### 6-6 Consumer Misbehavior 155

Chapter Review 156

Developing Your Marketing Plan 157

Key Concepts 157

Issues for Discussion and Review 158

**Video Case 6** How Ford Drives Future Innovation 158

### Chapter 7: Business Markets and Buying Behavior 160

**Marketing Insights: Facebook Targets Businesses 161**

#### 7-1 Business Markets 162

- 7-1a Producer Markets 162

- 7-1b Reseller Markets 163

- 7-1c Government Markets 164

**Entrepreneurship in Marketing: Picky Pyykkonen and the One Milk to Rule Them All 164**

- 7-1d Institutional Markets 165

#### 7-2 Industrial Classification Systems 166

#### 7-3 Dimensions of Business Customers and Business Transactions 167

- 7-3a Characteristics of Transactions with Business Customers 168
- 7-3b Attributes of Business Customers 168
- 7-3c Primary Concerns of Business Customers 169

**Going Green: Reduce, Reuse, Recycle, Repeat 171**

- 7-3d Methods of Business Buying 171
- 7-3e Types of Business Purchases 172
- 7-3f Demand for Business Products 172

#### 7-4 Business Buying Decisions 174

- 7-4a The Buying Center 174
- 7-4b Stages of the Business Buying Decision Process 175
- 7-4c Influences on the Business Buying Decision Process 177

#### 7-5 Reliance on the Internet and other Technology 178

Chapter Review 180

Developing Your Marketing Plan 181

Key Concepts 181

Issues for Discussion and Review 182

**Video Case 7** Will Apple Pay Pay Off for Retailers? 182

### Chapter 8: Reaching Global Markets 184

**Marketing Insights: Netflix Stream Becomes a Global River 185**

#### 8-1 The Nature of Global Marketing Strategy 186

#### 8-2 Environmental Forces in Global Markets 187

- 8-2a Sociocultural Forces 187
- 8-2b Economic Forces 188
- 8-2c Political, Legal, and Regulatory Forces 190
- 8-2d Ethical and Social Responsibility Forces 192

**Going Green: Greenhouse Gas Emissions: China Takes its Foot Off the Pedal 193**

- 8-2e Competitive Forces 194
- 8-2f Technological Forces 195

#### 8-3 Regional Trade Alliances, Markets, and Agreements 196

- 8-3a The North American Free Trade Agreement (NAFTA) 196
- 8-3b The European Union (EU) 197

<b>Emerging Trends in Marketing: IKEA: "African IKEA" Is Knocking on Your Door!</b>	198
8-3c The Southern Common Market (MERCOSUR)	198
8-3d The Asia-Pacific Economic Cooperation (APEC)	199
8-3e Association of Southeast Asian Nations (ASEAN)	200
8-3f The World Trade Organization (WTO)	200
<b>8-4 Modes of Entry into International Markets</b>	<b>201</b>
8-4a Importing and Exporting	201
8-4b Licensing and Franchising	202
8-4c Contract Manufacturing	203
8-4d Joint Ventures	204
8-4e Direct Ownership	204
<b>8-5 Customization Versus Globalization of International Marketing Mixes</b>	<b>205</b>
Chapter Review	207
Developing Your Marketing Plan	208
Key Concepts	209
Issues for Discussion and Review	209
<b>Video Case 8</b> Alibaba and Global e-Commerce: Should Amazon Be Afraid?	209

## Chapter 9: Digital Marketing and Social Networking 212

<b>Marketing Insights: ippy Has Beauty "Bagged"</b>	213
<b>9-1 Defining Digital Marketing</b>	214
<b>9-2 Growth and Benefits of Digital Marketing</b>	215

## 9-3 Types of Consumer-Generated Marketing and Digital Media 216

9-3a Social Media Marketing	217
9-3b Blogs and Wikis	220
<b>Emerging Trends in Marketing: Social Media Challenges: Fraudsters and Fake News</b>	221
9-3c Media-Sharing Sites	221
9-3d Mobile Devices	223
9-3e Applications and Widgets	224

## Entrepreneurship in Marketing: The Virtual Grocery Cart: Instacart 226

## 9-4 Monitoring Digital Media Behaviors of Consumers 226

9-4a Online Monitoring and Analytics	226
--------------------------------------	-----

## 9-5 E-Marketing Strategy 228

9-5a Product Considerations	229
9-5b Pricing Considerations	229
9-5c Distribution Considerations	230
9-5d Promotion Considerations	230

## 9-6 Ethical and Legal Issues 231

9-6a Privacy	232
9-6b Online Fraud	233
9-6c Intellectual Property and Illegal Activity	234

## Chapter Review 235

## Developing Your Marketing Plan 236

## Key Concepts 236

## Issues for Discussion and Review 237

## Video Case 9 Zappos Drives Sales through Relationship Building on Social Media 237

# PART 4 PRODUCT AND PRICE DECISIONS 239

## Chapter 10: Product, Branding, and Packaging Concepts 240

## Marketing Insights: What Are Technics and Shinola? Old and New Retro Brands 241

## 10-1 What Is a Product? 242

## Emerging Trends in Marketing: Hello, Siri, Alexa, Cortana, and Google 243

## 10-2 Classifying Products 244

10-2a Consumer Products	244
10-2b Business Products	247

## 10-3 Product Line and Product Mix 248

## 10-4 Product Life Cycles and Marketing Strategies 249

10-4a Introduction	249
10-4b Growth	250
10-4c Maturity	251
10-4d Decline	252

## 10-5 Product Adoption Process 253

## 10-6 Branding 254

10-6a Value of Branding	255
10-6b Brand Equity	256
10-6c Types of Brands	257
10-6d Selecting a Brand Name	258
10-6e Protecting a Brand	259
10-6f Branding Policies	260

## 10-6g Brand Extensions 261

## 10-6h Co-Branding 261

## 10-6i Brand Licensing 262

## 10-7 Packaging 263

## 10-7a Packaging Functions 263

## Digital Marketing: Inside Unboxing Videos 263

10-7b Major Packaging Considerations	264
10-7c Packaging and Marketing Strategy	264
10-7d Altering the Package	264

## 10-8 Labeling 265

## Chapter Review 266

## Developing Your Marketing Plan 268

## Key Concepts 268

## Issues for Discussion and Review 268

## Video Case 10 GaGa: Not Just a Lady 269

## Chapter 11 Developing and Managing Goods and Services 270

## Marketing Insights: Different Cars, Different Product Positioning at Hyundai 271

## 11-1 Managing Existing Products 272

11-1a Line Extensions	272
11-1b Product Modifications	273

## 11-2 Developing New Products 274

11-2a Idea Generation 275	12-1 Development of Pricing Objectives 302
11-2b Screening 276	12-1a Survival 303
11-2c Concept Testing 276	12-1b Profit 303
11-2d Business Analysis 277	12-1c Return on Investment 303
11-2e Product Development 277	12-1d Market Share 303
11-2f Test Marketing 278	12-1e Cash Flow 304
11-2g Commercialization 279	12-1f Status Quo 304
<b>Entrepreneurship in Marketing:</b> How Safe Is Your Phone? Maybe Leather, Linen, and Wood Can Help 280	12-1g Product Quality 304
<b>11-3 Product Differentiation through Quality, Design, and Support Services 281</b>	<b>12-2 Assessment of the Target Market's Evaluation of Price 305</b>
11-3a Product Quality 281	<b>12-3 Analysis of Demand 305</b>
11-3b Product Design and Features 282	12-3a Demand Curves 305
11-3c Product Support Services 283	<b>Entrepreneurship in Marketing:</b> Growing Gwynnie Bee 306
<b>Digital Marketing:</b> Starbucks Brews Up Mobile Order-and-Pay 283	12-3b Demand Fluctuations 306
<b>11-4 Product Positioning and Repositioning 284</b>	12-3c Assessing Price Elasticity of Demand 307
11-4a Perceptual Mapping 284	<b>12-4 Demand, Cost, and Profit Relationships 308</b>
11-4b Bases for Positioning 285	12-4a Marginal Analysis 309
11-4c Repositioning 285	12-4b Break-Even Analysis 312
<b>11-5 Product Deletion 286</b>	<b>12-5 Evaluation of Competitors' Prices 313</b>
<b>11-6 Managing Services 287</b>	<b>12-6 Selection of a Basis for Pricing 313</b>
11-6a Nature and Importance of Services 287	12-6a Cost-Based Pricing 314
11-6b Characteristics of Services 288	12-6b Demand-Based Pricing 315
11-6c Developing and Managing Marketing Mixes for Services 291	12-6c Competition-Based Pricing 315
11-6d Development of Services 292	<b>12-7 Selection of a Pricing Strategy 316</b>
11-6e Pricing of Services 293	12-7a New-Product Pricing 316
11-6f Distribution of Services 294	12-7b Differential Pricing 317
11-6g Promotion of Services 295	12-7c Psychological Pricing 318
<b>11-7 Organizing to Develop and Manage Products 296</b>	12-7d Product-Line Pricing 319
Chapter Review 297	12-7e Promotional Pricing 320
Developing Your Marketing Plan 298	<b>12-8 Determination of a Specific Price 321</b>
Key Concepts 298	<b>Emerging Trends:</b> How Much Should a Life-Saving Product Cost? 321
Issues for Discussion and Review 298	<b>12-9 Pricing for Business Markets 322</b>
<b>Video Case 11</b> How Sriracha Became a Hot Product 299	12-9a Geographic Pricing 322
<b>Chapter 12: Pricing Concepts and Management 300</b>	12-9b Transfer Pricing 322
<b>Marketing Insights:</b> At Disney, Prices are in Tiers, Guests are Not 301	12-9c Discounting 322
	Chapter Review 323
	Developing Your Marketing Plan 325
	Key Concepts 326
	Issues for Discussion and Review 326
	<b>Video Case 12</b> Warby Parker Puts Affordable Eyewear in Focus 326

## PART 5 DISTRIBUTION DECISIONS 329

### Chapter 13: Marketing Channels and Supply-Chain Management 330

**Marketing Insights:** Seizing the Moment:  
Marketing Channels for Championship Gear 331

#### 13-1 Foundations of the Supply Chain 332

#### 13-2 The Role of Marketing Channels in Supply Chains 333

13-2a The Significance of Marketing Channels 334

13-2b Types of Marketing Channels 336

**Digital Marketing:** REI Urges Customers to  
#OptOutside 337

13-2c Selecting Marketing Channels 340

#### 13-3 Intensity of Market Coverage 342

13-3a Intensive Distribution 342

13-3b Selective Distribution 343

13-3c Exclusive Distribution 343

**Entrepreneurship in Marketing:** Meet Kemar Newell,  
Founder of Flip 344

### 13-4 Strategic Issues in Marketing Channels 344

- 13-4a Competitive Priorities in Marketing Channels 344
- 13-4b Channel Leadership, Cooperation, and Conflict 345
- 13-4c Channel Integration 347

### 13-5 Physical Distribution in Supply-Chain Management 348

- 13-5a Order Processing 350
- 13-5b Inventory Management 351
- 13-5c Materials Handling 352
- 13-5d Warehousing 352
- 13-5e Transportation 354

### 13-6 Legal Issues in Channel Management 356

- 13-6a Restricted Sales Territories 356
- 13-6b Tying Agreements 356
- 13-6c Exclusive Dealing 357
- 13-6d Refusal to Deal 357

*Chapter Review* 357

*Developing Your Marketing Plan* 359

*Key Concepts* 360

*Issues for Discussion and Review* 360

**Video Case 13** Taza Cultivates Channel Relationships with Chocolate 361

## Chapter 14: Retailing, Direct Marketing, and Wholesaling 362

**Marketing Insights:** Target Puts Its Bulls-Eye on College Campuses and on Urban Areas 363

### 14-1 Retailing 364

### 14-2 Major Types of Retail Stores 365

- 14-2a General-Merchandise Retailers 365

### Emerging Trends: Stores Inside Stores 367

- 14-2b Specialty Retailers 369

### 14-3 Strategic Issues in Retailing 371

- 14-3a Location of Retail Stores 371
- 14-3b Retail Technology 373

### Digital Marketing: Domino's AnyWare for Ordering Anywhere 374

- 14-3c Retail Positioning 375
- 14-3d Store Image 375
- 14-3e Category Management 376

### 14-4 Direct Marketing, Direct Selling, and Vending 376

- 14-4a Direct Marketing 376
- 14-4b Direct Selling 378
- 14-4c Automatic Vending 379

### 14-5 Franchising 380

### 14-6 Wholesaling 381

- 14-6a Services Provided by Wholesalers 382
- 14-6b Types of Wholesalers 382

*Chapter Review* 386

*Developing Your Marketing Plan* 388

*Key Concepts* 388

*Issues for Discussion and Review* 389

**Video Case 14** Sephora: Brick or Click or App 389

## PART 6 PROMOTION DECISIONS 391

### Chapter 15: Integrated Marketing Communications 392

**Marketing Insights:** Toyota Camry Finds the Key to Integrated Marketing 393

### 15-1 The Nature of Integrated Marketing Communications 394

### 15-2 The Communication Process 395

### 15-3 The Role and Objectives of Promotion 398

- 15-3a Create Awareness 399
- 15-3b Stimulate Demand 400
- 15-3c Encourage Product Trial 400
- 15-3d Identify Prospects 401
- 15-3e Retain Loyal Customers 401
- 15-3f Facilitate Reseller Support 402
- 15-3g Combat Competitive Promotional Efforts 402
- 15-3h Reduce Sales Fluctuations 402

### 15-4 The Promotion Mix 403

- 15-4a Advertising 403
- 15-4b Personal Selling 404
- 15-4c Public Relations 405
- 15-4d Sales Promotion 406

### 15-5 Selecting Promotion Mix Elements 407

- 15-5a Promotional Resources, Objectives, and Policies 407

- 15-5b Characteristics of the Target Market 407

### Entrepreneurship in Marketing: Dollar Shave Club's Razor-Sharp Marketing 408

- 15-5c Characteristics of the Product 408

- 15-5d Costs and Availability of Promotional Methods 409

- 15-5e Push and Pull Channel Policies 409

### 15-6 The Growing Importance of Word-of-Mouth Communications 410

### Emerging Trends in Marketing: Picture This: The Success of Product Placement 412

### 15-7 Product Placement 413

### 15-8 Criticisms and Defenses of Promotion 414

*Chapter Review* 414

*Developing Your Marketing Plan* 416

*Key Concepts* 416

*Issues for Discussion and Review* 416

**Video Case 15** Frank Pepe's Pizzeria Napoletana Uses Positive Word of Mouth to Remain a Premiere Pizzeria 417



## Chapter 16: Advertising and Public Relations 418

**Marketing Insights: Beloved Spokescharacters Imbue Brands with Personalities 419**

### 16-1 The Nature and Types of Advertising 420

**Emerging Trends in Marketing: The Rise of Native Advertising 422**

### 16-2 Developing an Advertising Campaign 423

16-2a Identifying and Analyzing the Target Audience 423

16-2b Defining the Advertising Objectives 424

16-2c Creating the Advertising Platform 425

16-2d Determining the Advertising Appropriation 426

16-2e Developing the Media Plan 427

16-2f Creating the Advertising Message 430

16-2g Executing the Campaign 433

16-2h Evaluating Advertising Effectiveness 433

### 16-3 Who Develops the Advertising Campaign? 434

### 16-4 Public Relations Tools 435

16-4a Public Relations Tools 436

**Going Green: Patagonia Advertising: Don't Buy This Jacket 437**

### 16-5 Evaluating Public Relations Effectiveness 438

*Chapter Review 439*

*Developing Your Marketing Plan 440*

*Key Concepts 440*

*Issues for Discussion and Review 441*

**Video Case 16** *Scripps Networks Interactive: An Expert at Connecting Advertisers with Programming 441*

## Chapter 17: Personal Selling and Sales Promotion 444

**Marketing Insights: Salesforce.com Sold on Stakeholder Satisfaction 445**

### 17-1 The Nature of Personal Selling 446

### 17-2 Steps of the Personal Selling Process 447

17-2a Prospecting 448

17-2b Preapproach 448

17-2c Approach 449

17-2d Making the Presentation 449

17-2e Overcoming Objections 450

17-2f Closing the Sale 450

17-2g Following Up 450

**Endnotes 472**

**Glossary 511**

**Name Index 522**

**Company Index 527**

**Subject Index 531**

### AVAILABLE ONLY ONLINE:

Appendix A: Financial Analysis in Marketing

Appendix B: Sample Marketing Plan

Appendix C: Careers in Marketing

### 17-3 Types of Salespeople 450

17-3a Sales Structure 450

17-3b Support Personnel 451

**Entrepreneurship in Marketing: Tastefully Simple: Taking a Bigger Bite into Family Meal Planning 451**

### 17-4 Team and Relationship Selling 452

17-4a Team Selling 452

17-4b Relationship Selling 453

### 17-5 Managing the Sales Force 453

17-5a Establishing Sales-Force Objectives 454

17-5b Determining Sales-Force Size 454

17-5c Recruiting and Selecting Salespeople 455

**Going Green: Virtual Savings: The Growth of Digital Coupons 455**

17-5d Training Sales Personnel 456

17-5e Compensating Salespeople 457

17-5f Motivating Salespeople 458

17-5g Managing Sales Territories 460

17-5h Controlling and Evaluating Sales-Force Performance 461

### 17-6 The Nature of Sales Promotion 461

### 17-7 Consumer-Sales-Promotion Methods 462

17-7a Coupons and Cents-Off Offers 462

17-7b Money Refunds and Rebates 464

17-7c Shopper Loyalty and Frequent-User Incentives 464

17-7d Point-of-Purchase Materials and Demonstrations 465

17-7e Free Samples and Premiums 465

17-7f Consumer Contests, Consumer Games, and Sweepstakes 466

### 17-8 Trade-Sales-Promotion Methods 466

17-8a Trade Allowances 467

17-8b Cooperative Advertising and Dealer Listings 467

17-8c Free Merchandise and Gifts 468

17-8d Premium Money 468

17-8e Sales Contest 468

*Chapter Review 468*

*Developing Your Marketing Plan 469*

*Key Concepts 470*

*Issues for Discussion and Review 470*

**Video Case 17** *Niederlander Organization Rewards the Audience 470*



# preface

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## THE IMPORTANCE OF MARKETING TO BUSINESS

The environment of marketing has significantly changed over the last few years. While this revision reflects these changes, the foundational concepts of marketing continue to be important. All business students need to understand how marketing activities and functions are necessary for success. The 8th edition of *Foundations of Marketing* has been revised to provide a complete understanding of marketing by engaging students in decision making. We use active learning through the use of examples, exercises, cases, and MindTap. MindTap is an online personalized teaching experience with relevant assignments that guide students to analyze, apply, and improve thinking, allowing skills and outcomes to be measured with ease.

Pride and Ferrell *Foundations of Marketing* facilitates students in mastering essential concepts. Therefore, evolving marketing areas such as digital marketing and social networking, marketing ethics and social responsibility, as well as major decision variables related to product, price, distribution, and promotion have received complete revision based on available research and marketing best practices. Examples and boxes have been replaced to be as up-to-date as possible.

We also provide numerous ancillary materials to aid in student comprehension of marketing concepts as well as for increasing instructor resources for teaching this important material. The MindTap materials include building a Marketing Plan, concept check quizzes in the reading, self-assessments, homework assignments, PowerPoint presentations, videos of real companies, role play and group project assignments, flashcards, and more! Additionally, on the instructor companion site, YouTube videos are available for each chapter with worksheets to engage students in applying concepts. Our marketing video case series enables students to learn about how real-world companies address marketing challenges. Our Marketing Plan activities and video program provide students with practical knowledge of the challenges and the planning process of launching a new product. Together these revisions and additional materials will assist students in gaining a full understanding of pertinent marketing practices.

The decline of established ways of shopping is changing the retailing landscape, promotion, and consumer engagement. As consumers change the way they purchase products, department stores such as Macy's are closing stores. About two-thirds of books, music, films, and office supplies are now purchased online. It is not just that consumers are shopping and obtaining product information online, but also that consumer behavior is changing. We have addressed these changes and recognize that it is not just shopping from home. Consumers are increasingly focused on trust, value, and convenience. They are more aware of the best place to obtain products they want.



JamesBrey/Getty Images

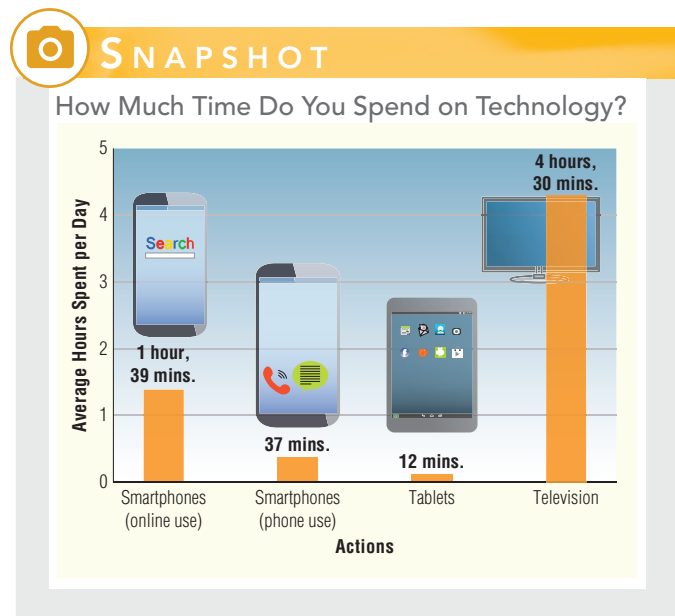
Specific details of this extensive revision are available in the transition guide in the *Instructor's Resource Manual*. We have also made efforts to improve all teaching ancillaries and student learning tools. PowerPoint presentations continue to be a very popular teaching device, and a special effort has been made to upgrade the PowerPoint program to enhance classroom teaching. The *Instructor's Manual* continues to be a valuable tool updated with engaging in-class activities and projects. The authors and publisher have worked together to provide a comprehensive teaching package and ancillaries that are unsurpassed in the marketplace.

The authors have maintained a hands-on approach to teaching this material and revising the text and its ancillaries. This results in an integrated teaching package and approach that is accurate, sound, and successful in reaching students. The outcome of this involvement fosters trust and confidence in the teaching package and in student learning outcomes. Student feedback regarding this textbook is highly favorable.

## WHAT'S NEW TO THIS EDITION?

Our goal is to provide the most up-to-date content possible, including concepts, examples, cases, exercises, and data. Therefore, in this revision there are significant changes that make learning more engaging and interesting to the students. The following information highlights the types of changes that were made in this revision.

- **Foundational content.** Each chapter has been updated with the latest knowledge available related to frameworks, concepts, and academic research. These additions have been seamlessly integrated into the text. Many examples are new and a review of footnotes at the end of the chapters reveals where new content has been added. Most of the other examples have been updated.
- **Opening vignettes: *Marketing Insights*.** All of the chapter-opening vignettes are new. They are written to introduce the general content of each chapter by focusing on actual entrepreneurial companies and how they deal with real-world situations.
- **Boxed features.** Each chapter includes new or updated boxed features that highlight green marketing, marketing entrepreneurs, emerging trends in marketing, or controversial issues in marketing. The majority of the boxed features are new to this edition.
- **New Snapshot features.** All of the Snapshot features are new and engage students by highlighting interesting, up-to-date statistics that link marketing theory to the real world.



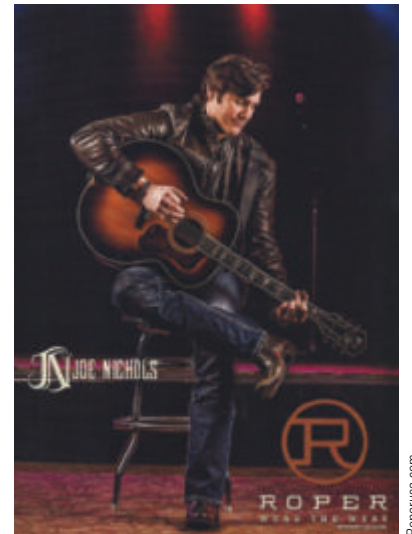


- **New research.** Throughout the text we have updated content with the most recent research that supports the frameworks and best practices for marketing.
- **New illustrations and examples.** New advertisements from well-known firms are employed to illustrate chapter topics. Experiences of real-world companies are used to exemplify marketing concepts and strategies throughout the text. Most examples are new or updated to include digital marketing concepts as well as several new sustainable marketing illustrations.
- **End-of-chapter video cases.** Each chapter contains one video case, profiling firms to illustrate concrete application of marketing concepts and strategies. Some of our video cases are new and others have been revised.
- **YouTube videos.** Each chapter has a YouTube video related to a concept. Student worksheets are available for application. These are all available on the instructor companion site.

## FEATURES OF THE BOOK

As with previous editions, this edition of the text provides a comprehensive and practical introduction to marketing that is both easy to teach and to learn. *Foundations of Marketing* continues to be one of the most widely adopted introductory marketing textbooks in the world. We appreciate the confidence that adopters have placed in our textbooks and continue to work hard to make sure that, as in previous editions, this edition keeps pace with changes. The entire text is structured to excite students about the subject and to help them learn completely and efficiently.

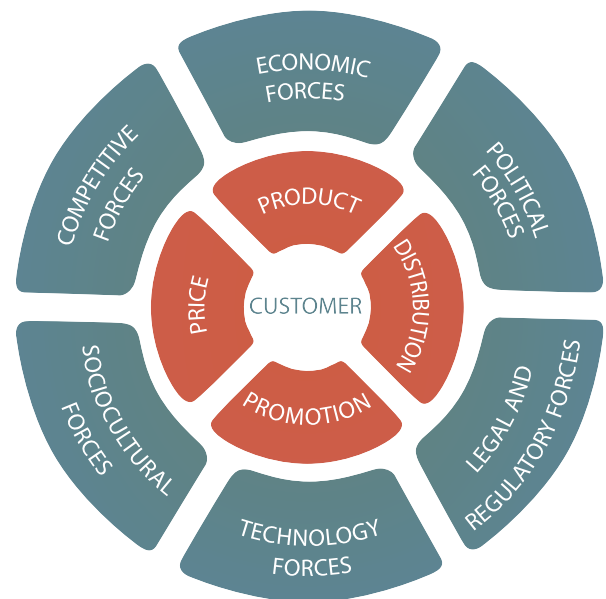
- An *organizational model* at the beginning of each part provides a “road map” of the text and a visual tool for understanding the connections among various components.
- *Objectives* at the start of each chapter present concrete expectations about what students are to learn as they read the chapter.
- Every chapter begins with an *opening vignette*. This feature provides an example of the real world of marketing that relates to the topic covered in the chapter. After reading the vignette, the student should be motivated to want to learn more about concepts and strategies that relate to the varying topics. Students will be introduced to such companies as TOMS, Blue Apron, Netflix, Airbnb, and Hyundai.
- The *Emerging Trends* boxes cover such marketing phenomena as the Fair Trade movement, product placement, stores within department stores, and native advertising. Featured companies include Apple, Amazon, and EpiPen.



Roperusa.com

### Promotion

Roper uses country music artist Joe Nichols to promote its western wear.



### EMERGING TRENDS IN MARKETING

#### The Fair Trade Movement Explodes

**F**air Trade-certified organizations require factories to meet different conditions. They must pay their workers a minimum wage in the country in which they are employed, with the intention of working toward a “livable wage.” A livable wage allows workers to afford basic necessities. Additionally, brands must pay a premium to factory workers. These premiums are placed in a collective bank account and are used for bonuses or to address community needs.

Traditionally, Fair Trade gained attention with commodities like coffee and cocoa. The Fair Trade trend is gaining traction among fashion and home furnishings. Many apparel and home furnishing brands have made a commitment to improve factory conditions. Consumers are embracing Fair Trade

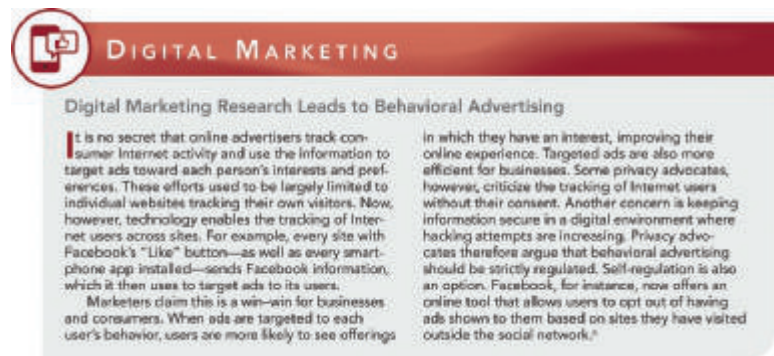
apparel and home goods as well. For instance, during the back-to-school shopping season, Bed, Bath & Beyond quickly sold out of back-to-school supplies labeled as Fair Trade certified. This demonstrates consumers’ increased concern for how goods are manufactured.

In particular, Fair Trade certification focuses on improving the labor conditions of factory workers. Although Fair Trade certification costs brands 1 to 5 percent of what companies pay to factories, it is clear that demand is on the rise. Fair Trade apparel and home furnishings have increased fivefold in the past few years, spurring more factories to work toward achieving certification. Marketers monitoring the environment are finding the costs of Fair Trade well worth the benefits.\*



- The *Going Green* boxes introduce students to such topics as digital coupons, profiting from recycling, and green energy. Featured companies include Green Eileen, Walmart, Patagonia, and Procter & Gamble.

- The *Digital Marketing* features illustrate how organizations use social media and online marketing. Examples of organizations discussed include Facebook, Starbucks, Domino's, CoverGirl, and ReplyYes.



- The *Entrepreneurship in Marketing* feature focuses on the role of entrepreneurship and the need for creativity in developing successful marketing strategies by featuring successful entrepreneurial companies like Blue Bottle Coffee, Instacart, Pad & Quill, Dollar Shave Club, and Tastefully Simple.

- *Key term definitions* appear in the margins to help students build their marketing vocabulary.
- Figures, tables, photographs, advertisements, and Snapshot features increase comprehension and stimulate interest.
- A complete *chapter review* covers the major topics discussed and is organized based upon the chapter objectives.
- The list of key concepts provides another end-of-chapter study aid to expand students' marketing vocabulary.
- *Issues for discussion and review* at the end of each chapter encourage further study and exploration of chapter content
- The Marketing Applications are designed to facilitate students' comprehension of important topics and to enhance their critical thinking skills. Additional application questions have been included to help students quantify and apply marketing strategies. These questions have been developed based on a higher-level of thinking as related to Bloom's taxonomy. The primary purpose of these questions is to guide students from a basic knowledge of marketing concepts to application, analysis, and synthesis of marketing activities. The Marketing Applications appear online.

- The *Developing Your Marketing Plan* feature allows students to explore each chapter topic in relation to developing and implementing a marketing plan.
- Each chapter has an end-of-chapter video case to help students understand the application of chapter concepts. Some examples of companies highlighted in the cases are Ford, Apple Pay, Sephora, Alibaba, and Scripps Networks.
- *Appendices* discuss marketing career opportunities, explore financial analysis in marketing, and present a sample marketing plan. All of these appendices appear online on the instructor and student companion sites and in MindTap.
- A comprehensive *glossary* defines more than 600 important marketing terms.

## TEXT ORGANIZATION

We have organized the six parts of *Foundations of Marketing* to give students a theoretical and practical understanding of marketing decision making.

### Part 1 Strategic Marketing and Its Environment

In **Chapter 1**, we define marketing and explore several key concepts: customers and target markets, the marketing mix, relationship marketing, the marketing concept, and value-driven marketing. In **Chapter 2**, we look at an overview of strategic marketing topics, such as the strategic planning process; corporate, business-unit, and marketing strategies; the implementation of marketing strategies; performance evaluation of marketing strategies; and the components of the marketing plan. We examine competitive, economic, political, legal and regulatory, technological, and sociocultural forces as well as social responsibility and ethical issues in marketing decisions that can have profound effects on marketing strategies in **Chapter 3**.

### Part 2 Marketing Research and Target Markets

In **Chapter 4**, we provide a foundation for analyzing buyers with a look at marketing information systems and the basic steps in the marketing research process. We look at elements that affect buying decisions to better analyze customers' needs and evaluate how specific marketing strategies can satisfy those needs. In **Chapter 5**, we deal with how to select and analyze target markets—one of the major steps in marketing strategy development.

### Part 3 Customer Behavior and E-Marketing

We examine consumer buying decision processes and factors that influence buying decisions in **Chapter 6**. In **Chapter 7**, we explore business markets, business customers, the buying center, and the business buying decision process. **Chapter 8** focuses on the actions, involvement, and strategies of marketers that serve international customers. In **Chapter 9**, we discuss digital marketing, social media, and social networking.

### Part 4 Product and Price Decisions

In **Chapter 10**, we introduce basic concepts and relationships that must be understood to make effective product decisions as well as branding, packaging, and labeling. We analyze a variety of dimensions regarding product management in **Chapter 11**, including line extensions and product modification, new-product development, product deletions, and the nature, importance, and characteristics of services. In **Chapter 12**, we initially discuss price and non-price competition. Then we analyze the eight stages of the process marketers use to establish prices. We explore a variety of pricing topics such as demand, elasticity, marginal analysis, break-even analysis, the basis for pricing, and pricing strategies.

### Part 5 Distribution Decisions

In **Chapter 13**, we look at supply-chain management, marketing channels, and the decisions and activities associated with the physical distribution of products, such

as order processing, materials handling, warehousing, inventory management, and transportation. **Chapter 14** explores retailing and wholesaling, including types of retailers and wholesalers, direct marketing and selling, and strategic retailing issues.

### Part 6 Promotion Decisions

We discuss integrated marketing communications in **Chapter 15**. The communication process and major promotional methods that can be included in promotion mixes are described. In **Chapter 16**, we analyze the major steps in developing an advertising campaign. We also define public relations and how it can be used. **Chapter 17** deals with personal selling and the role it can play in a firm's promotional efforts. We also explore the general characteristics of sales promotion and describe sales-promotion techniques.

## A COMPREHENSIVE INSTRUCTIONAL RESOURCE PACKAGE

For instructors, this edition of *Foundations of Marketing* includes an exceptionally comprehensive package of teaching materials.

### Instructor's Manual

The *Instructor's Manual* has been revamped to meet the needs of an engaging classroom environment. It has been updated with diverse and dynamic discussion starters, classroom activities, and group exercises. It includes such tools as:

- Quick Reference Guide to see the available key terms, overview of the learning objectives, and major topics in each chapter
- What's New in Each Chapter?
- Purpose Statement
- Integrated Lecture Outline
- Discussion Starter recommendations that encourage active exploration of the in-text examples
- Class Exercises, Semester Project Activities, and Chapter Quizzes
- Suggested Answers to end-of-chapter exercises, cases, and strategic cases

### Test Bank

The test bank provides more than 3,000 test items including true/false, multiple-choice, and essay questions. Each objective test item is accompanied by the correct answer, appropriate Learning Objective, level of difficulty, Bloom's level of thinking, Interdisciplinary Learning Outcomes, and Marketing Disciplinary Learning Outcomes. Cengage Learning Testing Powered by Cognero is a flexible, online system that allows you to:

- Author, edit, and manage test bank content from multiple Cengage Learning solutions
- Create multiple test versions in an instant
- Deliver tests from your LMS, your classroom, or wherever you want

## American Marketing Association Professional Certified Marketer®

The American Marketing Association has recently started offering marketing graduates the opportunity of adding the AMA PCM® credentials to their undergraduate or MBA degree, which can serve as a symbol of professional excellence that affirms mastery of marketing knowledge and commitment to quality in the practice of marketing. Certification, which is



voluntary, requires passing a rigorous and comprehensive exam and then maintaining your certification through continuing education. Earning your AMA PCM® certification demonstrates to employers, peers, and clients that you:

- Have mastered essential marketing knowledge and practices
- Go the extra mile to stay current in the marketing field
- Follow the highest professional standards

The AMA recommends Pride and Ferrell *Foundations of Marketing* as a suggested resource for AMA PCM® students to utilize as they prepare for taking the AMA PCM® Certification exam, and the text was used as a source to design the course and as a source for suitable examination questions. Now, more than ever, you need to stand out in the marketplace. AMA's Professional Certified Marketer (PCM®) program is the perfect way to showcase your expertise and set yourself apart.

To learn more about the American Marketing Association and the AMA PCM® exam, visit <https://www.ama.org/events-training/Certification/Pages/digital-marketing-certification.aspx>.

## PowerPoint Slides

PowerPoint continues to be a very popular teaching device, and a special effort has been made to upgrade the PowerPoint program to enhance classroom teaching. Premium lecture slides, containing such content as advertisements, Web links, and unique graphs and data, have been created to provide instructors with up-to-date, unique content to increase student application and interest.

## MindTap for Marketing

MindTap is a personalized teaching experience with relevant assignments that guide students to analyze, apply, and improve thinking, allowing them to measure skills and outcomes with ease.

- Personalized Teaching: Becomes yours with a learning path that is built with key student objectives. Control what students see and when they see it. Use it as-is or match to your syllabus exactly—hide, rearrange, add, and create your own content.
- Guide Students: A unique learning path of relevant readings, multimedia, and activities that move students up the learning taxonomy from basic knowledge and comprehension to analysis and application.
- Promote Better Outcomes: Empower instructors and motivate students with analytics and reports that provide a snapshot of class progress, time in course, and engagement and completion rates.





## Marketing Video Case Series

This series contains videos specifically tied to the video cases found at the end of the book. The videos include information about exciting companies, such as New Belgium Brewing, Sephora, Huy Fong, and Warby Parker.

## Authors' Website

The authors also maintain a website at <http://prideferrell.net> to provide video resources that can be used as supplements and class exercises. The videos have been developed as marketing labs with worksheets for students to use on observing the videos. Some of the videos are accessible through links, and there is also information on where some of the videos can be obtained.

## Building a Marketing Plan

New to MindTap in this edition, the marketing plan has been expanded into six parts that walk students through the steps of building a marketing plan as they finish relevant content in the book. These flexible, modular assignments allow you to assign a complete marketing plan in stages—or pick only specific sections to assign. Featuring fill-in-the-blank response fields for quick review of student-provided information and corresponding templates for students to complete and upload, these assignments present a flexible, course-integrated way to give students experience thinking through and building out a marketing plan.

## SUPPLEMENTS TO MEET STUDENT NEEDS

The MindTap has been updated with key features to help address your students' needs and engage them in the material. It is the digital learning solution that powers students from memorization to mastery by challenging students to apply what they have learned instead of just recalling the information with activities such as You Make the Decision and Group Project and Role Play video activities. It gives you complete control of your course—to provide engaging content, to challenge every individual, and to build their confidence.

Other MindTap activities include:

- Self-Assessments
- Concept Checks
- Adaptive Test Prep
- Flashcards
- PowerPoint slides
- And more!

## YOUR COMMENTS AND SUGGESTIONS ARE VALUED

As authors, our major focus has been on teaching and preparing learning materials for introductory marketing students. We have traveled extensively to work with students and to understand the needs of professors of introductory marketing courses. We both teach introductory marketing courses on a regular basis and test the materials included in this book, test bank, and other ancillary materials to make sure they are effective in the classroom. Bill Pride has recently developed an online principles of marketing course using our book at Texas A&M University.

Through the years, professors and students have sent us many helpful suggestions for improving the text and ancillary components. We invite your comments, questions, and criticisms. We want to do our best to provide materials that enhance the teaching and learning of marketing concepts and strategies. Your suggestions will be sincerely appreciated. Please write us, or e-mail us at **w-pride@tamu.edu** or **ocf0003@auburn.edu**, or call 979-845-5857 (Bill Pride).





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- Bert Rosenbloom  
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*Broome Community College*
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William M. Pride  
O. C. Ferrell

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He is past president of the Academic Council of the American Marketing Association and chaired the American Marketing Association Ethics Committee. Under his leadership, the committee developed the AMA Code of Ethics and the AMA Code of Ethics for Marketing on the Internet. In addition, he is a former member of the Academy of Marketing Science Board of Governors and is a Society of Marketing Advances and Southwestern Marketing Association Fellow and an Academy of Marketing Science Distinguished Fellow. He was the vice president of publications and is president-elect of the Academy of Marketing Science. He was the first recipient of the Marketing Education Innovation Award from the Marketing Management Association. He received a Lifetime Achievement Award from the Macromarketing Society and a special award for service to doctoral students from the Southeast Doctoral Consortium. He received the Harold Berkman Lifetime Service Award from the Academy of Marketing Science and more recently the Cutco/Vector Distinguished Marketing Educator Award.

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# Part 1

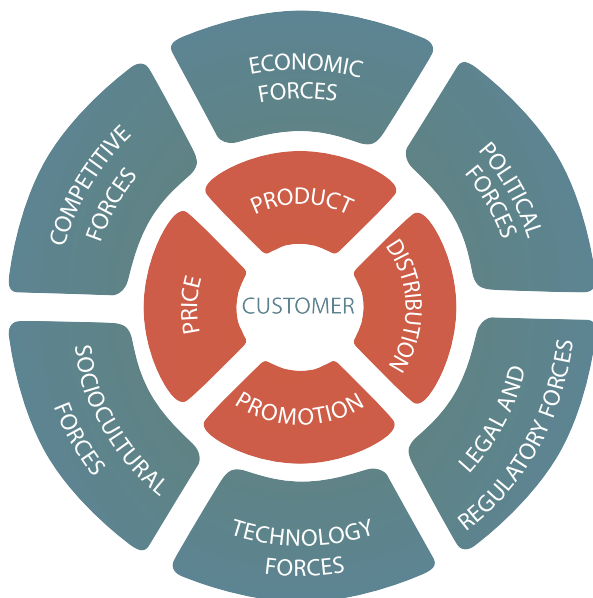
- 1: Customer-Driven Strategic Marketing
- 2: Planning, Implementing, and Evaluating Marketing Strategies
- 3: The Marketing Environment, Social Responsibility, and Ethics



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## Strategic Marketing and Its Environment

**PART 1** introduces the field of marketing and offers a broad perspective from which to explore and analyze various components of the marketing discipline. **CHAPTER 1** defines *marketing* and explores some key concepts, including customers and target markets, the marketing mix, relationship marketing, the marketing concept, and value. **CHAPTER 2** provides an overview of strategic marketing issues such as the effect of organizational resources and opportunities on the planning process; the role of the mission statement; corporate, business-unit, and marketing strategies; and the creation of the marketing plan. These issues are profoundly affected by competitive, economic, political, legal and regulatory, technological, and sociocultural forces in the marketing environment. **CHAPTER 3** deals with these environmental forces, and with the role of social responsibility and ethics in marketing decisions.



# chapter 1

## Customer-Driven Strategic Marketing



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### LEARNING OBJECTIVES

- |   |   |
|---|---|
| 1-1 Define marketing.                                     | 1-5 Summarize the marketing concept.                            |
| 1-2 Explain the different variables of the marketing mix. | 1-6 Identify the importance of building customer relationships. |
| 1-3 Describe how marketing creates value.                 | 1-7 Explain why marketing is important to our global economy.   |
| 1-4 Briefly describe the marketing environment.           |   |



# MARKETING INSIGHTS

## Airbnb: Home Sweet Home

**A**irbnb has come far in the 10 years it has been in business. The company started when founders Brian Chesky and Joe Gebbia turned their apartment into a bed and breakfast so they could afford to pay rent. The founders had identified an unmet customer need: the desire to stay in less expensive but homier lodgings. They launched the Airbnb website in 2007 to connect travelers to people in the area willing to rent out their couch or extra room.

Like Uber, the car-sharing service, Airbnb embraces the sharing economy concept that promotes the renting of underutilized human and physical resources. Airbnb does not own the rooms like Marriott or Hyatt but provides access to the owner's rooms.

The target market was initially conference attendees but soon expanded to all types of travelers. Today, Airbnb connects travelers to lodgings in 34,000 cities across 191 countries. Those who wish to rent an extra room or house can set their own prices,

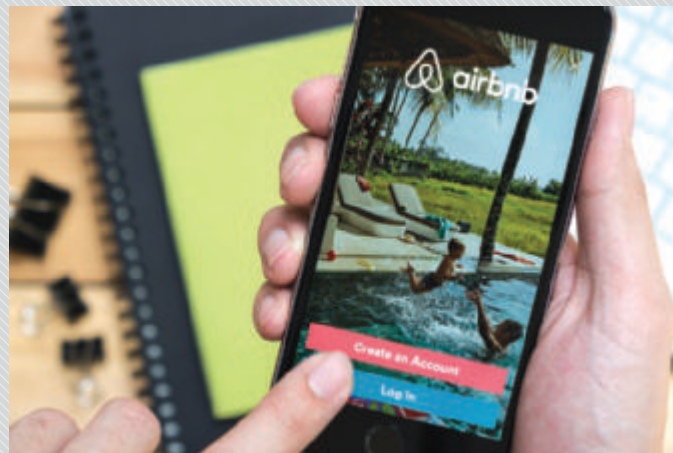
and Airbnb takes 3 percent of the booking price when the property is rented out. Therefore, Airbnb is facilitating an exchange between a buyer and a seller.

Despite its immense success, Airbnb believes it can create more value for more customers. It began to offer Business Travel on Airbnb to concentrate on corporate clients. Airbnb has signed up hundreds of businesses, including Google and Salesforce.com.

It is especially popular among new employees who are being put up by an employer until they find a more permanent location.

Not all stakeholders are happy about Airbnb, however. Some cities and regulators believe Airbnb encourages owners of multiple properties to rent them in the short-term rather than

turning them into long-term residences—thus causing a disruption in urban housing. However, Airbnb contends that creating customer value in the form of less expensive lodging for travelers and additional income for renters is a valuable service.<sup>1</sup>



ArthurStock/Shutterstock.com

Airbnb provides access to lodging that is provided by owners of the property. The company facilitates an exchange transaction between the owner of the property and consumers who want to get lodging at a good price and a property often more unique than a traditional hotel. Airbnb creates the relationship that involves pricing and communication as well reducing risks of the transaction to the consumer and owner. However, it is faced with competitors such as VRBO, which provides a lodging access service. Like all organizations, Airbnb must make marketing decisions and create a satisfying exchange relationship.

This chapter introduces the strategic marketing concepts and decisions covered throughout the text. First, we develop a definition of *marketing* and explore each element of the definition in detail. Next, we explore the importance of value-driven marketing. We also introduce the marketing concept and consider several issues associated with its implementation. Additionally, we take a look at the management of customer relationships and relationship marketing. Finally, we examine the importance of marketing in global society.

**marketing** The process of creating, pricing, distributing, and promoting goods, services, and ideas to facilitate satisfying exchange relationships with customers and to develop and maintain favorable relationships with stakeholders in a dynamic environment

**customers** The purchasers of organizations' products; the focal point of all marketing activities

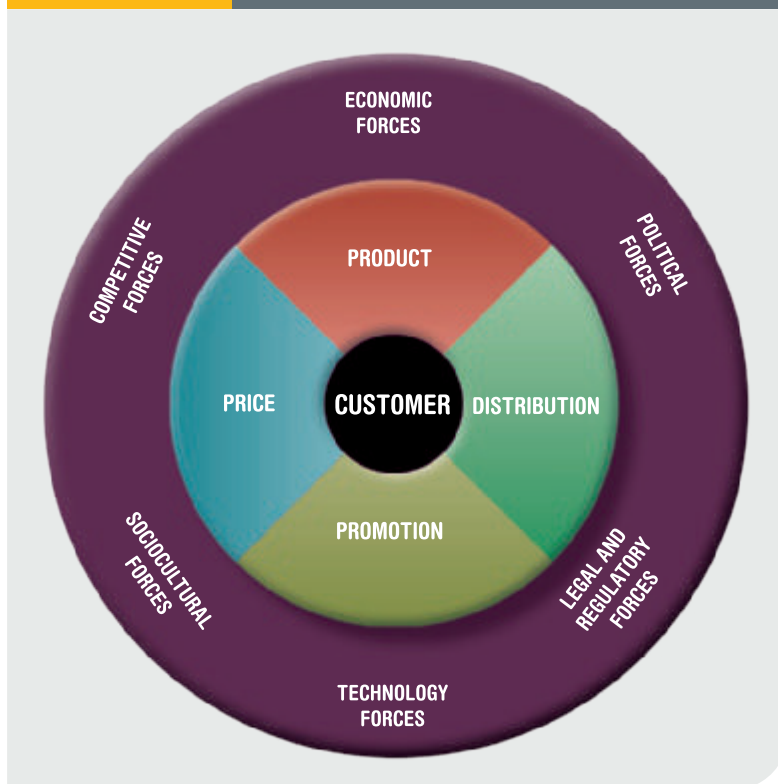
## 1-1 DEFINING MARKETING

### LO 1-1 Define marketing.

If you ask several people what *marketing* is, you are likely to hear a variety of descriptions. Although many people think marketing is advertising or selling, marketing is much more complex than most people realize. In this book we define **marketing** as the process of creating, pricing, distributing, and promoting goods, services, and ideas to facilitate satisfying exchange relationships with customers and to develop and maintain favorable relationships with stakeholders in a dynamic environment. Our definition is consistent with that of the American Marketing Association (AMA), which defines marketing as “the activity, set of institutions, and processes for creating, communicating, delivering, and exchanging offerings that have value for customers, clients, partners, and society at large.”<sup>2</sup>

Marketing-mix variables are often viewed as controllable because they can be modified. However, there are limits to how much marketing managers can alter them. Economic conditions, competitive structure, and government regulations may prevent a manager from adjusting the marketing mix frequently or significantly. Making changes in the size, shape, and design of most tangible goods is expensive; therefore, such product features are not altered very often. Services are easier to adjust and, as the Airbnb example illustrates, there could be an opportunity for the consumer to select a service. In addition, promotional campaigns and methods used to communicate with and persuade consumers ordinarily cannot be revised overnight. Changes in the way products are distributed are much easier than in the past due to e-commerce. Pricing may be the easiest marketing-mix variable to change.

**FIGURE 1.1** COMPONENTS OF STRATEGIC MARKETING



### 1-1a Marketing Focuses on Customers

As the purchasers of the products that organizations develop, price, distribute, and promote, **customers** are the focal point of marketing activities (see Figure 1.1).

Companies define their products not as what they make or produce, but as what they do to satisfy customers. The Walt Disney Company is not in the business of establishing theme parks; it is in the business of entertainment and making people happy. At Disney World, customers are guests and employees are cast members providing a performance and entertainment experience.

The essence of marketing is to develop satisfying exchanges from which both customers and marketers benefit. The customer expects to gain a reward or benefit greater than the costs incurred in a marketing transaction. The marketer expects to gain something of value in return, generally the price charged for the product. Through buyer–seller interaction, a customer develops expectations about the seller’s future behavior. To fulfill these expectations, the marketer must deliver on promises made. Over time, this interaction results in relationships between the two parties. Fast-food restaurants such as Wendy’s and Subway depend on repeat purchases from satisfied customers—many often live or work a few miles from these restaurants—whereas customer expectations revolve around tasty food, value, and dependable service.

Organizations generally focus their marketing efforts on a specific group of customers, called a **target market**. Looking at the ad for Fresh Step, indoor cat owners who want high-quality products for their pets are their target market.

Marketing managers may define a target market as a vast number of people, or as a relatively small group. Often companies target multiple markets with different products, prices, distribution systems, and promotions for each one. Others focus on a smaller, niche market. For example, Shwood manufactures wooden eye glass frames, which are handcrafted in their Portland, Oregon, workshop. The goal is to allow the wood’s personality to come through and not to over-engineer the natural material honed into its frames.<sup>3</sup> Home Depot, on the other hand, targets multiple markets with thousands of product items.



#### Appealing to Target Markets

Responding to the public’s increasing interest in pets, Fresh Step provides a high-quality, effective cat pet litter with a 10-day guarantee.

## 1-2 MARKETING DEALS WITH PRODUCTS, PRICE, DISTRIBUTION, AND PROMOTION

### LO 1-2 Explain the different variables of the marketing mix.

Marketing involves developing and managing a product that will satisfy customer needs. It also requires promotion to help customers learn about the product and determine if it will satisfy their needs. It focuses on communicating availability in the right place and at the right price. Activities are planned, organized, implemented, and controlled to meet the needs of customers within the target market. Marketers refer to four variables—product, pricing, distribution, and promotion—as the **marketing mix**. Marketing creates value through the marketing mix. A primary goal of marketing managers is to create and maintain the right mix of these variables to satisfy customers’ needs for a general product type. They decide what type of each variable to use, and how to synchronize the variables. (Note in Figure 1.1 that the marketing mix is built around the customer.) Apple is well known for its implementation of the marketing mix. It constantly engages in research and development to create new or upgraded products. It promotes these products through traditional advertising, social media, and media events. Apple distributes its products through retail stores, AT&T and

**target market** A specific group of customers on whom an organization focuses its marketing efforts

**marketing mix** Four marketing variables—product, pricing, distribution, and promotion—that a firm controls to meet the needs of customers within its target market



other service providers, and through the Internet. It provides its products at a premium price to demonstrate their quality and effectiveness.

Marketing managers strive to develop a marketing mix that matches the needs of customers in the target market. For example, Chrome Industries was founded in Boulder, Colorado, to make unique, durable bags for bike messengers. This target market showed such affinity for the product that the company has since expanded with a variety of bags as well as clothing and shoes.<sup>4</sup> Marketing managers must constantly monitor the competition and adapt their product, pricing, distribution, and promotion decisions to create long-term success.

Before marketers can develop a marketing mix, they must collect in-depth, up-to-date information about customer needs. Such information might include data about the age, income, ethnicity, gender, and educational level of people in the target market, their preferences for product features, their attitudes toward competitors' products, and the frequency with which they use the product. Today, marketers have access to a large amount of data about their customers by tracking purchases using social media and other sources. Chrome Industries closely monitors trends to adjust its marketing mix to provide constant functional as well as style changes. Armed with market information, marketing managers are better able to develop a marketing mix that satisfies a specific target market.

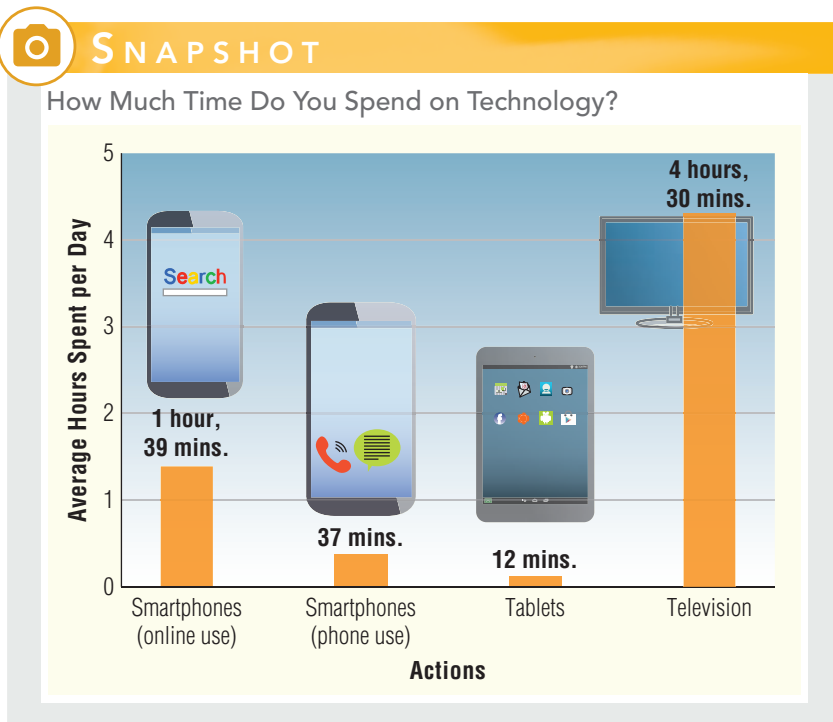
Let's look more closely at the decisions and activities related to each marketing-mix variable.

## 1-2a Product

**product** A good, a service, or an idea

Successful marketing efforts result in products that become part of everyday life. Consider the satisfaction customers have had over the years from Coca-Cola, Levi's jeans, Visa credit cards, Tylenol pain relievers, and the Microsoft Surface. The product variable of the marketing mix deals with researching customers' needs and wants and designing a product that satisfies them.

A **product** can be a good, a service, or an idea. A good is a physical entity you can touch. Oakley sunglasses, Nike running shoes, and Tesla automobiles are all examples of products. A service is the application of human and mechanical efforts to people or objects to provide intangible benefits to customers. Air travel, education, lodging, banking, medical care, and day care are examples of services. Ideas include concepts, philosophies, images, and issues. For instance, a personal trainer, for a fee, helps clients exercise and manage their health and wellness. Other marketers of ideas include political parties, churches, and animal protection groups. Products can also be designed for personal use – consumer product – or for use by businesses. In the advertisement, AT&T and DHL target business markets with their cybersecurity and shipping services.



A Nielsen study shows that Americans spend 10 hours and 39 minutes "consuming media" each day. This includes handheld devices to computers and entertainment in the form of television and radio.

Source: [www.denverpost.com/2016/06/29/media-use-america-11-hours/](http://www.denverpost.com/2016/06/29/media-use-america-11-hours/)



**Open Secure**

For more business proposals to manage the aftermath of a cyber attack, visit [atandt.com/cyber](http://atandt.com/cyber). 80% of businesses experience a cyber attack. And only 15% have a plan to respond. Get the AT&T Cyber Social Insights Report - The CEO's Guide to Cyber Security for your business. Download the AT&T Cyber Social Insights Report - The CEO's Guide to Cyber Security for your business. We understand your insights.

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**LIFE ON PLANET EARTH IS GETTING BETTER, THANKS TO GLOBAL TRADE.**

Big businesses and small are helping the world's economies to flourish. New found wealth brings better health (the average person lives one third longer than 50 years ago) and education (today 90% of kids in developing regions of the world go to primary school). This is the power of global trade. Of course there's still a long way to go, but one delivery at a time, the more we keep on trading the better it's going to get for everyone, everywhere. Read more online. [dhl.com/globaltrade](http://dhl.com/globaltrade)

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DHL

**Types of Products**  
AT&T and DHL are both examples of companies that target business markets.

The product variable also involves creating or modifying brand names and packaging, and it may include decisions regarding warranty and repair services. For example, Coca-Cola released a new global design for its products that features the traditional red as the main color. The “one brand” strategy is to create a unified global presence for its flagship soda.

Product variable decisions and related activities are important because they are directly involved with creating products that address customers’ needs and wants. Apple continues to upgrade its iPhone using different model numbers such as 5, 6, and 7 to signal new modifications. To maintain an assortment of products that helps an organization achieve its goals, marketers must develop new products, modify existing ones, and eliminate those that no longer satisfy enough buyers or that yield unacceptable profits.

## 1-2b Price

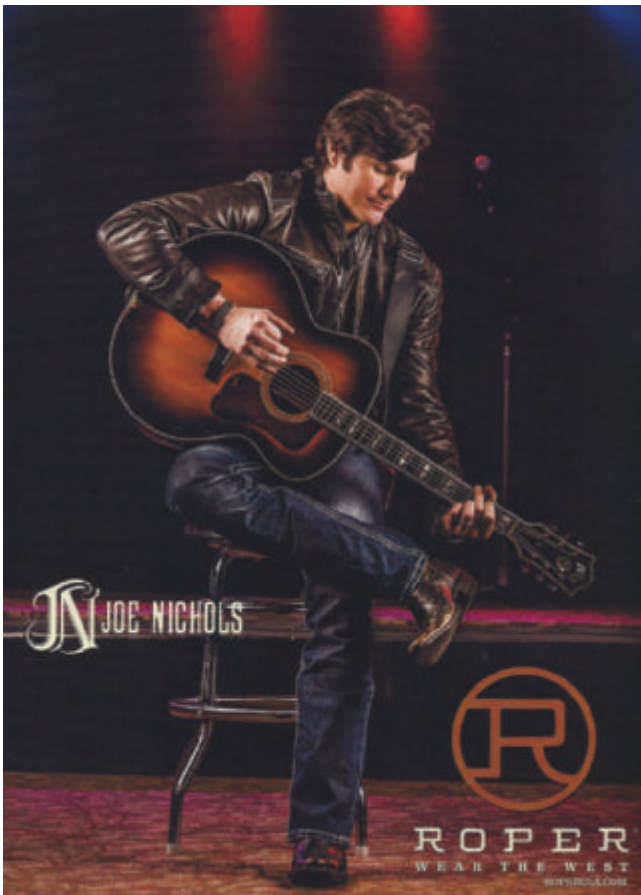
The price charged for a product helps establish its value. A company’s established pricing objectives and policies determine its products’ prices. Price is a critical component of the marketing mix because customers are concerned about benefits, roles, and costs. Price is an important competitive tool that provides an advantage. Higher prices can be used competitively to establish a product’s premium image. Seven For All Mankind jeans and J Brand, for example, have an image of high quality and high price that has given them significant status. Other companies are skilled at providing products at prices lower than their competitors’ (consider

Walmart's tagline "Save Money, Live Better"). Amazon uses its vast network of partnerships and cost efficiencies to provide products at low prices. Brick-and-mortar retailers have not been able to offer comparable products at such low prices, providing Amazon with a considerable competitive advantage. Pricing is the most flexible marketing-mix variable and can be changed very quickly. Also, price multiplied by quantity sold establishes revenue, which is the responsibility of the marketing function.

## 1-2c Distribution

To satisfy customers, products must be available at the right time and in appropriate locations. Subway, for example, locates not only in strip malls but also inside Walmart and Home Depot stores, laundromats, churches, and hospitals, as well as inside Goodwill stores, car dealerships, and appliance stores. There are approximately 45,000 Subways worldwide, surpassing McDonald's as the world's largest chain.

In dealing with the distribution variable, a marketing manager makes products available in the quantities desired to as many target market customers as possible, keeping total inventory, transportation, and storage costs as low as possible. A marketing manager also may select and motivate intermediaries (wholesalers and retailers), establish and maintain inventory control procedures, and develop and manage transportation and storage systems. All companies must depend on intermediaries to move their final products to the market. The advent of the Internet and electronic commerce also has dramatically influenced the distribution variable. Companies now can make their products available throughout the world without maintaining facilities in each country. For example, Netflix started in the United States with its DVD by mail service in 1998. Today, because of its Internet presence, Netflix is available in over 190 countries. We examine distribution issues in Chapters 13 and 14.



### Promotion

Roper uses country music artist Joe Nichols to promote its western wear.

## 1-2d Promotion

The promotion variable relates to activities used to inform and persuade to create a desired response. Promotion can increase public awareness of the organization and of new or existing products. It can help create a direct response such as accessing a website to order a product. GEICO uses television and radio advertising to encourage people to spend 15 minutes "to save 15% or more on car insurance." GEICO's tagline encourages consumers to call GEICO to save money.

Promotional activities also educate customers about product features. For example, in the western wear advertisement, Roper uses celebrities that appeal to its target market. Promotion can also urge people to take a particular stance on a political or social issue, such as voting, smoking, or drug abuse. For example, the Centers for Disease Control and Prevention (CDC) developed an advertising campaign to deter smoking. The ads were released on television, radio, and billboards. They featured disturbing testimonials from people who have suffered the effects of smoking. The CDC claims that advertisements such as these have had a major impact on convincing smokers to quit.<sup>5</sup>



Promotion can help to sustain interest in established products that have been available for decades, such as Jell-O or Tide detergent. Many companies use websites, apps, or social media to communicate information about themselves and their products. Betty Crocker and Kraft Foods maintain two of the most popular recipe websites.<sup>6</sup>

## 1-3 MARKETING CREATES VALUE

### LO 1-3 Describe how marketing creates value.

Value is an important element of managing long-term customer relationships and implementing the marketing concept. We view **value** as a customer's subjective assessment of benefits relative to costs in determining the worth of a product (customer value = customer benefits – customer costs). Consumers develop a concept of value through the integration of their perceptions of product quality and financial sacrifice.<sup>7</sup> From a company's perspective, there is a trade-off between maintaining the desired value and achieving profit objectives.<sup>8</sup>

Customer benefits include anything a buyer receives in an exchange. Hotels and motels, for example, basically provide a room with a bed and bathroom, but each brand provides a different level of service, amenities, and atmosphere to satisfy its guests. Ramada Inn offers the minimum services necessary to maintain a quality, efficient, low-price overnight accommodation. In contrast, the Ritz-Carlton provides every imaginable service a guest might desire. The hotel even allows its staff members to spend up to \$2,000 to settle customer complaints.<sup>9</sup> Airbnb competes with these traditional hotels and motels by providing almost no services other than access to a property at a price the consumer considers a good value. Customers judge which type of accommodation offers the best value according to the benefits they desire and their willingness and ability to pay for the costs associated with the benefits.

Customer costs include anything a buyer must give up to obtain the benefits the product provides. The most obvious cost is the monetary price of the product, but nonmonetary costs can be equally important in a customer's determination of value. Two nonmonetary costs are the time and effort customers expend to find and purchase desired products. To reduce time and effort, a company can increase product availability, thereby making it more convenient for buyers to purchase the firm's products. Another nonmonetary cost is risk, which can be reduced by offering good, basic warranties or extended warranties for an additional charge.<sup>10</sup> One risk-reduction strategy is the offer of a 100 percent satisfaction guarantee. This strategy is increasingly popular in today's catalog/telephone/Internet shopping environment. Zappos, which carries over 1,000 brands of shoes, has a 100 percent satisfaction guarantee, and shoes can be returned for free within 365 days.

The processes people use to determine the value of a product may differ widely. All of us tend to get a feel for the worth of products based on our own expectations and previous experience. We can, for example, compare the value of auto rental, airfare, and computers directly with the value of competing products. We evaluate movies, sporting events, and performances by entertainers on the more subjective basis of personal preferences and emotions. For most purchases, we do not consciously calculate the associated benefits and costs. It becomes an instinctive feeling that General Mills' Cheerios is a good value, or that McDonald's is a good place to take children for a quick lunch. The purchase of an automobile or a mountain bike may have emotional components, but more conscious decision making also may figure in the process of determining value. Consider the advertisement for Orville Redenbacher's popcorn. The ad shows that each bag contains three cups more of popcorn over the competitor brand, Pop Secret, increasing the overall value provided. Perceptions of value regarding more aesthetic products such as flowers are likely to vary greatly because different consumers have different tastes in what they view as aesthetically pleasing.

In developing marketing activities, it is important to recognize that customers receive benefits based on their experiences. For example, many appliance buyers consider services

**value** A customer's subjective assessment of benefits relative to costs in determining the worth of a product



#### Value-Driven Marketing

Orville Redenbacher's popcorn promotes its good value by providing more popcorn in each bag.

such as fast delivery, ease of installation, technical advice, and training assistance to be important elements of the product. Each marketing activity has its own benefits and costs and must be adapted for its contribution to value.<sup>11</sup> For example, Amazon found that one- and two-day delivery adds value, leading to the development of its Prime Shipping program. Customers also derive benefits from the act of shopping and selecting products. These benefits can be affected by the atmosphere or environment of a store, such as Red Lobster's nautical/seafood theme. Even the ease of navigating a website can have a tremendous impact on perceived value. When the download and streaming music service GhostTunes was developed, co-owner country singer Garth Brooks had to ensure that the site was user-friendly. The site had to make it easy for users to navigate and choose music to stream or download. Unlike iTunes, Brooks wants GhostTunes to allow copyright holders more freedom as to how their music should be sold on the site.<sup>12</sup> Different customers may view different songs or albums on the site as an exceptional value for their own personal satisfaction.

The marketing mix can enhance perceptions of value. A product that demonstrates value usually has a feature or an enhancement that provides benefits. Promotional activities can also create image and prestige characteristics that customers consider in their assessment of a product's value. In some cases, value may be perceived simply as the lowest price. Many customers may not care about the quality of the paper towels they buy; they simply want the cheapest ones for use in cleaning up spills because they plan to throw them in the trash anyway. On the other hand, people

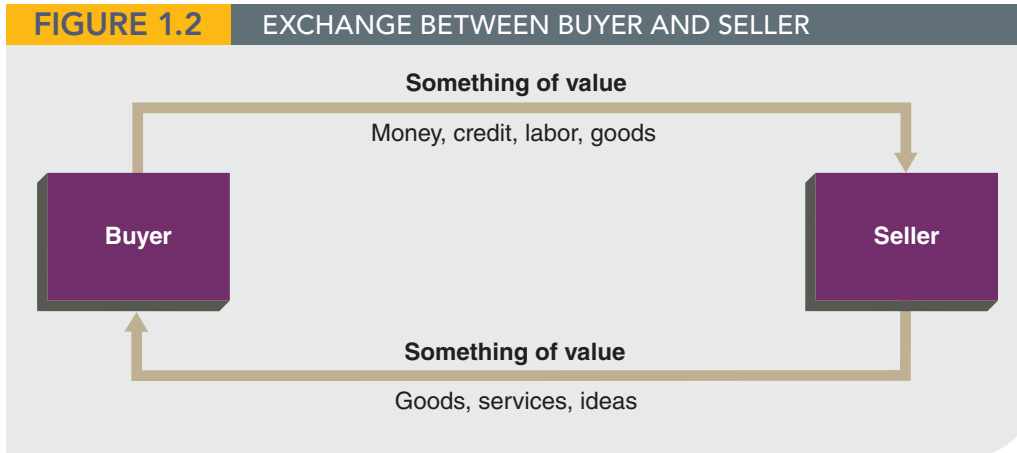
looking for the fastest, most convenient way to achieve a goal become insensitive to pricing. For example, many busy customers buy prepared meals in supermarkets to take home and serve quickly, even though these products cost considerably more than meals prepared from scratch. In such cases the products with the greatest convenience may be perceived as having the greatest value. The availability or distribution of products also can enhance their value. Taco Bell wants its Mexican fast food available at any time and any place people are thinking about consuming food. It therefore has introduced Taco Bell products into supermarkets, vending machines, college campuses, and other convenient locations. Thus, the development of an effective marketing strategy requires understanding the needs and desires of customers, designing a marketing mix to satisfy them, and providing the value they want.

### 1-3a Marketing Builds Relationships with Customers and Other Stakeholders

Marketing also creates value through the building of stakeholder relationships. Individuals and organizations engage in marketing to facilitate **exchanges**, the provision or transfer of goods, services, or ideas in return for something of value. Any product (good, service, or even idea) may be involved in a marketing exchange. We assume only that individuals and organizations expect to gain a reward in excess of the costs incurred.

For an exchange to take place, four conditions must exist. First, two or more individuals, groups, or organizations must participate, and each must possess something of value that the other party desires. Second, the exchange should provide a benefit or satisfaction to both parties involved in the transaction. Third, each party must have confidence in the promise

**exchanges** The provision or transfer of goods, services, or ideas in return for something of value



of the “something of value” held by the other. If you go to a Justin Timberlake or Rihanna concert, for example, you go with the expectation of a great performance. Finally, to build trust, the parties to the exchange must meet expectations.

Figure 1.2 depicts the exchange process. The arrows indicate that the parties communicate that each has something of value available to exchange. An exchange will not necessarily take place just because these conditions exist; marketing activities can occur even without an actual transaction or sale. You may see an ad for a Sub-Zero refrigerator, for instance, but you might never buy the luxury appliance. When an exchange occurs, products are traded for other products or for financial resources.

Marketing activities should attempt to create and maintain satisfying exchange relationships. To maintain an exchange relationship, buyers must be satisfied with the good, service, or idea obtained, and sellers must be satisfied with the financial reward or something else of value received. A dissatisfied customer who lacks trust in the relationship often searches for alternative organizations or products. The customer relationship often endures over an extended time period, and repeat purchases are critical for the firm.

Marketers are concerned with building and maintaining relationships not only with customers but also with relevant stakeholders. **Stakeholders** include those constituents who have a “stake,” or claim, in some aspect of a company’s products, operations, markets, industry, and outcomes; these include customers, employees, shareholders, suppliers, governments, communities, competitors, and many others. While engaging in marketing activities, the firm should be proactive and responsive to stakeholder concerns. This engagement has been found to increase financial performance.<sup>13</sup> Therefore, developing and maintaining favorable relations with stakeholders is crucial to the long-term growth of an organization and its products. For example, employees directly influence customer satisfaction, and suppliers are necessary to make quality products. Communities can be a positive contributor to the firm’s reputation and in turn they provide an opportunity to make a social and economic contribution. Customers and competitors are often considered to be core stakeholders in developing a marketing strategy.<sup>14</sup>

**stakeholders** Constituents who have a “stake,” or claim, in some aspect of a company’s products, operations, markets, industry, and outcomes



#### Satisfying Stakeholder Needs

This advertisement points out that Nellie’s free range eggs satisfy the needs of consumers who are concerned about animal rights and their overall health.

**marketing environment**

The competitive, economic, political, legal and regulatory, technological, and sociocultural forces that surround the customer and affect the marketing mix

## 1-4 MARKETING OCCURS IN A DYNAMIC ENVIRONMENT

### LO 1-4 Briefly describe the marketing environment.

Marketing activities do not take place in a vacuum. The **marketing environment**, which includes competitive, economic, political, legal and regulatory, technological, and socio-cultural forces, surrounds the customer and affects the marketing mix (see Figure 1.1). The effects of these forces on buyers and sellers can be dramatic and difficult to predict. Their impact on value can be extensive, as market changes can easily impact how stakeholders perceive certain products. They can create threats to marketers but also generate opportunities for new products and new methods of reaching customers. For example, popular brands such as Fiat Chrysler, Kellogg's, and Choice Hotels as well as others have found their ads on fake news sites. This resulted from computers placing the ads on a website based on user clicks. While technology facilitates online advertising, it is sometimes uncontrollable.<sup>15</sup>

The forces of the marketing environment affect a marketer's ability to facilitate value-driven marketing exchanges in three general ways. First, they influence customers by affecting their lifestyles, standards of living, and preferences and needs for products. Because a marketing manager tries to develop and adjust the marketing mix to satisfy customers, effects of environmental forces on customers also have an indirect impact on marketing-mix components. Second, marketing environment forces help to determine whether and how a marketing manager can perform certain marketing activities. Third, environmental forces may affect a marketing manager's decisions and actions by influencing buyers' reactions to the firm's marketing mix.

Marketing environment forces can fluctuate quickly and dramatically, which is one reason why marketing is so interesting and challenging. Because these forces are closely interrelated, changes in one may cause changes in others. For example, evidence linking children's consumption of soft drinks and fast foods to health issues has exposed marketers of such products to negative publicity and generated calls for legislation regulating the sale of soft drinks in public schools. Some companies have responded to these concerns by voluntarily reformulating products to make them healthier or by introducing new products. With the popularity of spicy foods, restaurants, including McDonald's, Taco Bell, Subway, Chick-fil-A, Wendy's, Burger King, and Applebee's, as well as others, have introduced Sriracha hot sauce items to their menu.

Changes in the marketing environment produce uncertainty for marketers and at times hurt marketing efforts, but they also create opportunities. For example, when oil prices increase, consumers shift to potential alternative sources of transportation including bikes, buses, light rail, trains, ride sharing, electric and hybrid vehicles, or telecommuting when possible. Marketers who are alert to changes in environmental forces not only can adjust to and influence these changes but can also capitalize on the opportunities such changes provide. Marketing-mix variables—product, price, distribution, and promotion—are factors over which an organization has control; the forces of the environment, however, are subject to far less control. Even though marketers know that they cannot predict changes in the marketing environment with certainty, they must nevertheless plan for them. Because these environmental forces have such a profound effect on marketing activities, we explore each of them in considerable depth in Chapter 3.

## 1-5 UNDERSTANDING THE MARKETING CONCEPT

### LO 1-5 Summarize the marketing concept.

Firms frequently fail to attract customers with what they have to offer because they define their business as “making a product” rather than as “helping potential customers satisfy



their needs and wants.” On the other hand, Horizon, with their preservative-free snack crackers, satisfies the needs of mothers who want healthy snacks for their children and kids who want snacks that taste good. The advertisement promoting Horizon’s snack crackers and cookies is cross promoting a Peanuts movie to enhance the appeal to children. Horizon focuses on promoting how its product can meet the needs of its target market.

According to the **marketing concept**, an organization should try to provide products that satisfy customers’ needs through a coordinated set of activities that also allows the organization to achieve its goals. Customer satisfaction is the major focus of the marketing concept. To implement the marketing concept, an organization strives to determine what buyers want and uses this information to develop satisfying products. It focuses on customer analysis, competitor analysis, and integration of the firm’s resources to provide customer value and satisfaction, as well as to generate long-term profits.<sup>16</sup> The firm also must continue to alter, adapt, and develop products to keep pace with customers’ changing desires and preferences. Howard Schultz, founder and former CEO of Starbucks, demonstrated the company’s grasp on the marketing concept by explaining that Starbucks is not a coffee business that serves people, but rather a “people business serving coffee.” Starbucks’ leadership sees the company as being “in the business of humanity,” emphasizing the fact that Starbucks is not only concerned about customers but society as well.<sup>17</sup> Thus, the marketing concept emphasizes that marketing begins and ends with customers. Research has found a positive association between customer satisfaction and shareholder value,<sup>18</sup> and high levels of customer satisfaction also tend to attract and retain high-quality employees and managers.<sup>19</sup>

The marketing concept is not a second definition of marketing. It is a management philosophy guiding an organization’s overall activities. This philosophy affects all organizational activities, not just marketing. Production, finance, accounting, human resources, and marketing departments must work together. For example, at Procter & Gamble the marketing function coordinates research and development, distribution, and resource deployment to focus on providing consumer products for households.

The marketing concept is a strategic approach to achieve objectives. A firm that adopts the marketing concept must satisfy not only its customers’ objectives but also its own, or it will not stay in business long. The overall objectives of a business might relate to increasing profits, market share, sales, or a combination of all three. The marketing concept stresses that an organization can best achieve these objectives by being customer oriented. Thus, implementing the marketing concept should benefit the organization as well as its customers.

It is important that marketers consider not only their current buyers’ needs, but also the long-term needs of society. Striving to satisfy customers’ desires by sacrificing society’s long-term welfare is unacceptable. For instance, there is significant demand for large SUVs and trucks. However, environmentalists and federal regulators are challenging automakers to produce more fuel-efficient vehicles with increased miles-per-gallon standards. The question that remains is whether or not Americans are willing to give up their spacious SUVs for the good of the environment.

## 1-5a Evolution of the Marketing Concept

There have always been companies that embraced the marketing concept and focused on the interests of consumers. However, while satisfying consumers is necessary for business



### Implementing the Marketing Concept

Horizon meets the needs of moms and kids with their preservative-free snack crackers.

**marketing concept** A managerial philosophy that an organization should try to satisfy customers’ needs through a coordinated set of activities that also allows the organization to achieve its goals

success, historically not all firms were successful in implementing this concept. The development of marketing has been divided into three time periods, including production, sales, and market orientation. Although this is an over-simplification, these frameworks help to understand marketing over time.

## The Production Orientation

During the second half of the 19th century, the Industrial Revolution was in full swing in the United States. Electricity, rail transportation, division of labor, assembly lines, and mass production made it possible to produce goods more efficiently. With new technology and new ways of using labor, products poured into the marketplace, where demand for manufactured goods was strong. Although mass markets were evolving, firms were developing the ability to produce more products, and competition was becoming more intense.

## The Sales Orientation

While sales have always been a prerequisite to making profits, during the first half of the 20th century competition increased, and businesses realized that they would have to focus more on selling products to many buyers. Businesses viewed sales as the major means of increasing profits, and this period came to have a sales orientation. Businesspeople believed that the most important marketing activities were personal selling, advertising, and distribution. Today, some businesses incorrectly equate marketing with a sales orientation, and are still guided by this approach.

## The Market Orientation

Although marketing history reveals that some firms have always produced products that consumers desired, by the 1950s, both businesses and academics developed new philosophies and terminology to explain why this approach is necessary for organizational success. This perspective emphasized that marketers first need to determine what customers want and then produce those products, rather than making the products first and then trying to persuade customers that they need them. As more organizations realized the importance of satisfying customers' needs, U.S. businesses entered the marketing era and adopted a market orientation.



## ENTREPRENEURSHIP IN MARKETING

### Blue Bottle Coffee: Not Your Typical Daily Grind

**A**t John Freeman's Blue Bottle Coffee Company, headquartered in Oakland, California, coffee is more than a commodity. Blue Bottle embraces the third-wave movement, a movement that makes premium coffee into an exquisite experience of purity, flavor, and artisanship, similar to wine and cigars. To show that this experience is worth paying for, Blue Bottle has adopted a different marketing style than that of traditional coffee shops or even Starbucks.

For example, the stores of Blue Bottle emphasize the coffee experience above all else. Beverages only come in one size. With the exception of its

Palo Alto location, stores do not have Wi-Fi so as to prevent distraction. Beans for each order are freshly ground and brewed from scratch right in front of the customer. The price: between \$4.00 and \$7.00 per cup.

While this may seem expensive for the average coffee lover, Blue Bottle shows that its niche target market is those who experience the quality and experience of coffee. Apparently, this market is growing—Blue Bottle has 33 locations worldwide with ongoing expansion plans in the works.<sup>a</sup>

A **market orientation** requires the “organizationwide generation of market intelligence pertaining to current and future customer needs, dissemination of the intelligence across departments, and organizationwide responsiveness to it.”<sup>20</sup> Market orientation is linked to new-product innovation by developing a strategic focus to explore and develop new products to serve target markets.<sup>21</sup> For example, with an increasing “green attitude” in this country, consumers like environmentally responsible products offered at fair prices. To meet this demand, Method laundry detergent is eight times more concentrated and can clean 50 loads of laundry from a container the size of a small soft-drink bottle. Top management, marketing managers, nonmarketing managers (those in production, finance, human resources), and customers are all important in developing and carrying out a market orientation. Trust, openness, honoring promises, respect, collaboration, and recognizing the market as the *raison d’être* are six values required by organizations striving to become more market oriented.<sup>22</sup>

A market orientation should recognize the need to create specific types of value-creating capabilities that enhance organizational performance.<sup>23</sup> For example, a bank needs to use its resources to maximize the desired level of customer service. Also, unless marketing managers provide continuous, customer-focused leadership with minimal interdepartmental conflict, achieving a market orientation will be difficult. Nonmarketing managers must communicate with marketing managers to share information important to understanding the customer. Finally, a market orientation involves being responsive to ever-changing customer needs and wants. Keurig Green Mountain has released successful products such as coffee blends, brewing systems, and Keurig cups because it understands what consumers want. Trying to assess what customers want, which is difficult to begin with, is further complicated by the speed with which fashions and tastes can change. Today, businesses want to satisfy customers and build meaningful, long-term, buyer–seller relationships. Doing so helps a firm boost its financial value.<sup>24</sup>

**market orientation** An organizationwide commitment to researching and responding to customer needs

## 1-5b Implementing the Marketing Concept

To implement the marketing concept, a market-oriented organization must accept some general conditions, and recognize and deal with several problems. Consequently, the marketing concept has yet to be fully accepted by all businesses.

Management must first establish an information system to discover customers’ real needs, and then use the information to create satisfying products. Firms such as Apple Inc., Harley Davidson, and Amazon have excelled in listening to consumers and providing satisfying products. Listening and responding to consumers’ frustrations and recommendations is key to implementing the marketing concept.<sup>25</sup> An information system is usually expensive; management must commit money and time for its development and maintenance. Without an adequate information system, however, an organization cannot be market oriented.

To satisfy customers’ objectives as well as its own, a company must coordinate all of its activities. This may require restructuring its internal operations, including production, marketing, and other business functions. This requires the firm to adapt to a changing external environment, including changing customer expectations. Companies who monitor the external environment can often predict major changes and adapt successfully. General Mills is focused on removing artificial colors and flavors from its cereals and providing organic food products to adapt to changing consumer demand. With consumer preference rapidly evolving, General Mills is changing to satisfy a growing target market.<sup>26</sup> If marketing is not included in the organization’s top-level management, the company could fail to address actual customer needs and desires. Implementing the marketing concept demands the support not only of top management but also of managers and staff at all levels of the organization. At General Mills, CEO Ken Powell provides leadership for a marketing strategy to address a changing market focused on organic and healthful ingredients in foods.

### customer relationship management (CRM)

Using information about customers to create marketing strategies that develop and sustain desirable customer relationships

### relationship marketing

Establishing long-term, mutually satisfying buyer–seller relationships

## 1-6 CUSTOMER RELATIONSHIP MANAGEMENT

### LO 1-6 Identify the importance of building customer relationships.

**Customer relationship management (CRM)** focuses on using information about customers to create marketing strategies that develop and sustain desirable customer relationships. Achieving the full profit potential of each customer relationship should be the fundamental goal of every marketing strategy. Marketing relationships with customers are the lifeblood of all businesses. At the most basic level, profits can be obtained through relationships in the following ways: (1) by acquiring new customers, (2) by enhancing the profitability of existing customers, and (3) by extending the duration of customer relationships. In addition to retaining customers, companies also should focus on regaining and managing relationships with customers who have abandoned the firm.<sup>27</sup> Implementing the marketing concept means optimizing the exchange relationship, otherwise known as the relationship between a company's financial investment in customer relationships and the return generated by customer loyalty and retention. Firms use e-mail, blogs, phone calls, and consumer loyalty programs as well as social media to build relationships. It costs many times more to acquire a new customer, and a small increase in retention can significantly boost profits.

Maintaining positive relationships with customers is an important goal for marketers. The term **relationship marketing** refers to “long-term, mutually beneficial arrangements in which both the buyer and seller focus on value enhancement through the creation of more satisfying exchanges.”<sup>28</sup> Relationship marketing continually deepens the buyer's trust in the company. As the customer's confidence grows, this, in turn, increases the firm's understanding of the customer's needs. Buyers and marketers can thus enter into a close relationship in which both participate in the creation of value.<sup>29</sup> Successful marketers respond to customer needs and strive to increase value to buyers over time. Eventually, this interaction becomes a solid relationship that allows for cooperation and mutual dependency. Southwest Airlines has implemented relationship marketing with the view that customers are its most important stakeholder. The company's mission statement is “dedication to the highest quality Customer Service delivered with a sense of warmth, friendliness, individual pride, and Company Spirit.”<sup>30</sup>

Relationship marketing strives to build satisfying exchange relationships between buyers and sellers by gathering useful data at all customer contact points and analyzing that data to better understand customers' needs, desires, and habits. It focuses on building and using databases and leveraging technologies to identify strategies and methods that will maximize the lifetime value of each desirable customer to the company. It is imperative that marketers educate themselves about their customers' expectations if they are to satisfy their needs; customer dissatisfaction will only lead to defection.<sup>31</sup>

To build these long-term customer relationships, marketers are increasingly turning to marketing research and information technology. Organizations try to retain and increase long-term profitability through customer loyalty, which results from increasing customer value. The airline industry is a key player in CRM efforts with its frequent-flyer programs. Frequent-flyer programs enable airlines to track individual information about customers, using databases that can help airlines understand what different customers want and treat customers differently depending on their flying habits.<sup>32</sup> For example, Southwest Airlines' consumer loyalty program offers an opportunity for companions to fly free for frequent flyers. These customer reward programs have become popular in other industries as well, including coffee shops, fast-food restaurants, and movie theaters.

Through the use of Internet-based marketing strategies (e-marketing), companies can personalize customer relationships on a nearly one-on-one basis. The advertising for a wide range of products such as computers, jeans, golf clubs, cosmetics, and greeting cards can be tailored for specific customers. Customer relationship management provides a strategic bridge between information technology and marketing strategies aimed at long-term relationships. This involves finding and retaining customers by using information to improve customer



value and satisfaction. At the same time, ensuring customer satisfaction is not a one-way street. Customers contribute to the relationship by their purchase behaviors and their use of resources to maximize customer satisfaction. For example, customers can research and spend experience or examine the product before purchasing it.<sup>33</sup> Ride sharing companies such as Lyft offer \$50 to \$100 in credits as a promotion to get consumers to experience their service.

## 1-7 THE IMPORTANCE OF MARKETING IN OUR GLOBAL ECONOMY

**LO 1-7 Explain why marketing is important to our global economy.**

Our definition of marketing and discussion of marketing activities reveal some obvious reasons why the study of marketing is relevant in today's world. In this section, we look at how marketing affects us as individuals and its role in our increasingly global society.

### 1-7a Marketing Costs Consume a Sizable Portion of Buyers' Dollars

Many marketing activities are necessary to provide satisfying goods and services. Obviously, these activities cost money. About one-half of a buyer's dollar goes toward marketing costs. If you spend \$25 on a new Blu-ray disc, 50 to 60 percent goes toward marketing expenses, including promotion and distribution, as well as profit margins. The production (pressing) of the disc represents about \$1.00, or 4 percent of its price. A family with a monthly income of \$6,000 that allocates \$1,200 to taxes and savings spends about \$4,800 for goods and services. On average, \$2,400 goes toward marketing activities. If marketing expenses consume that much of your dollar, you should know how this money is being used.

### 1-7b Marketing Is Used in Nonprofit Organizations

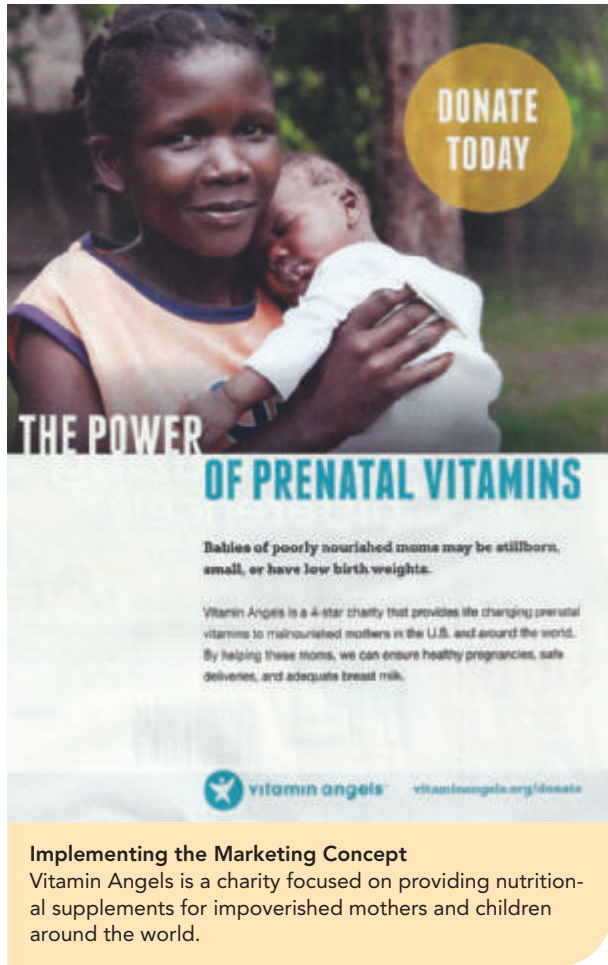
Although the term *marketing* may bring to mind advertising for Coca-Cola, Ford, and AT&T, marketing is also important in organizations working to achieve goals other than ordinary business objectives (such as profit). Government agencies at the federal, state, and local levels engage in marketing activities to fulfill their mission and goals. In addition, universities and colleges engage in marketing activities to recruit new students, as well as to obtain donations from alumni and businesses.

Like the private sector, nonprofit organizations also employ marketing activities to create, price, distribute, and promote programs that benefit particular segments of society. The Red Cross provides disaster relief throughout the world and offers promotional messages to encourage donations to support their efforts. Nonprofits operate just like businesses in that they serve a client base and must create revenue to meet their needs. Marketing activities are necessary to create effective exchange relationships with donors and those served by the nonprofit.

### 1-7c Marketing Is Important to Businesses and the Economy

Businesses must engage in marketing to survive and grow, and marketing activities are needed to reach customers and provide products. Marketing is the business function responsible for creating revenue to sustain the operations of the organization and provide financial returns to investors. Innovation in operations and products drive business success and customer loyalty. Without businesses creating jobs, making profits, paying taxes, and making donations, nonprofits would not exist.

Marketing activities help to produce the profits that are essential to the survival of individual businesses. Without profits, businesses would find it difficult, if not impossible, to buy rawer



**DONATE TODAY**

**THE POWER OF PRENATAL VITAMINS**

Babies of poorly nourished moms may be stillborn, small, or have low birth weights.

Vitamin Angels is a 4-star charity that provides life-changing prenatal vitamins to malnourished mothers in the U.S. and around the world. By helping these moms, we can ensure healthy pregnancies, safe deliveries, and adequate breast milk.

**Implementing the Marketing Concept**  
Vitamin Angels is a charity focused on providing nutritional supplements for impoverished mothers and children around the world.

Vitamin Angels

materials, hire more employees, attract more capital, and create additional products that, in turn, make more profits. Without profits, marketers cannot continue to provide jobs and contribute to social causes. Charitable foundations, such as Vitamin Angels, serve an important social need. Their focus on supporting the nutritional health of women who are pregnant and nursing produces a very worthwhile outcome through healthier pregnancies and babies. Companies support social causes through their donations and promotional activities. Therefore, marketing helps create a successful economy and contributes to the well-being of society.

## 1-7d Marketing Fuels Our Global Economy

Marketing is necessary to advance a global economy. Advances in technology, along with falling political and economic barriers and the universal desire for a higher standard of living, have made marketing across national borders commonplace while stimulating global economic growth. As a result of worldwide communications and increased international travel, many global brands have achieved widespread acceptance. Many U.S. firms such as Google, Facebook, and Microsoft have been born global with an international market from the beginning of their existence. At the same time, customers in the United States have greater choices among the products they buy because foreign brands such as Toyota (Japan), Bayer (Germany), and Nestlé (Switzerland) sell alongside U.S. brands such as General Motors, Microsoft, and McDonald's. People

around the world watch CNN and MTV on Samsung and Sony televisions they purchased at Walmart. Social media and the Internet now enable businesses of all sizes to reach buyers worldwide. We explore the international markets and opportunities for global marketing in Chapter 8.

## 1-7e Marketing Knowledge Enhances Consumer Awareness

Besides contributing to the well-being of our global economy, marketing activities help to improve the quality of our lives. In general, consumers have access to more accurate information about products—through websites, social media, and required disclosure—than at any other time in history. Consumers have the opportunity to shop, compare prices, and then return products that do not satisfy their needs. Americans returned products valued at \$26 billion out of a total of \$3.3 trillion sold in a recent year.<sup>34</sup> Many of these products are sold at retailer's outlet stores, and Amazon has a section on its website for "gently used" products. As you become more knowledgeable, it is possible to improve career options as well as purchasing decisions. Understanding marketing enables us to evaluate corrective measures (such as laws, regulations, and industry guidelines) that could stop unfair, damaging, or unethical marketing practices. Also, knowledge of marketing helps us evaluate public policy toward marketing that could potentially affect economic well-being. Thus, understanding how marketing activities work helps us to be better consumers and increases our ability to maximize value from our purchases.

## 1-7f Marketing Connects People through Technology

Technology, especially information technology, helps marketers understand and satisfy more customers than ever before. Access to the Internet has changed the daily lives of consumers. While mobile devices, e-mail, and office management systems are almost universally used, these tools are being supplemented by emerging technologies. Facebook, Twitter, and Google are changing the way consumers communicate, learn about products, make purchases, and share their opinions with others. The global spread of mobile devices has enabled marketers and consumers to forge new relationships that challenge how traditional marketing-mix variables are implemented. Evolving software makes it easy to create, store, share, and collaborate.<sup>35</sup>

Marketers have new methods to store, communicate, and share information through advanced platforms that access what has been termed as “big data.” We define big data as massive data files that can be obtained from both structured and unstructured databases. Companies such as Salesforce.com use big data to provide customer relationship management services. A new generation of consumers are using social networks and mobile messaging applications rather than word documents and e-mail.<sup>36</sup> Table 1.1 shows some of the most common cell phone activities.

The Internet allows companies to provide tremendous amounts of information about their products to consumers, and to interact with them through e-mail and websites. A consumer shopping for a new car, for example, can access automakers’ webpages, configure an ideal vehicle, and get instant feedback on its cost. Consumers can visit Autobytel, Edmund’s, and other websites to find professional reviews and obtain comparative pricing information on both new and used cars to help them find the best value. They can also visit a consumer opinion site such as Yelp to read other consumers’ reviews of the products. They can then purchase a vehicle online or at a dealership. Many companies employ social media to connect with their customers, using blogs and social networking sites such as Facebook and Twitter. We will discuss digital marketing in more detail in Chapter 9.

## 1-7g Socially Responsible Marketing: Promoting the Welfare of Customers and Stakeholders

The success of our economic system depends on marketers whose values promote trust and cooperative relationships in which customers and other stakeholders are proactively engaged, and have their concerns addressed through marketing activities. Social responsibility and ethical conduct are part of strategic planning and the implementation of marketing activities. Although some marketers’ irresponsible or unethical activities end up on the front pages of *USA Today* or

**TABLE 1.1** HOW CONSUMERS USE THEIR SMARTPHONES

Activity	Cell Phone Owners 18–29	Cell Phone Owners 30–49	Cell Phone Owners 50+
Get directions, recommendations, other info related to your location	95%	94%	82%
Listen to an online radio/music service	87	74	41
Buy a product online	73	67	44
Get sports scores or analysis	52	48	36
Participate in a video call or chat	66	49	27
Watch movies or TV through a paid subscription	52	36	13

Source: Pew Research Center survey conducted July 10–12, 2015. Trend data is from previous Pew Research Center surveys.

**green marketing** A strategic process involving stakeholder assessment to create meaningful, long-term relationships with customers while maintaining, supporting, and enhancing the natural environment

*The Wall Street Journal*, most take a responsible approach to developing long-term relationships with customers and other stakeholders. Firms recognize that trust is built on ethical conduct.

In the area of the natural environment, companies are increasingly embracing the notion of **green marketing**, which is a strategic process involving stakeholder assessment to create meaningful, long-term relationships with customers while maintaining, supporting, and enhancing the natural environment. Many firms are reducing energy consumption, developing environmentally friendly packaging, and creating easily recyclable products. *Newsweek* magazine ranks the top “green companies” each year. Recent highly-ranked companies include Hasbro Inc., Nike, Hershey Co., NVIDIA Corp., and Biogen Inc.<sup>37</sup> Such initiatives not only reduce the negative impact that businesses have on the environment but also serve to enhance their reputations as sustainability concerns continue to grow. By addressing concerns about the impact of marketing on society, a firm can contribute to society through socially responsible activities as well as increase its financial performance.

## 1-7h Marketing Offers Many Exciting Career Prospects

The marketing field offers a variety of interesting and challenging career opportunities throughout the world, such as product development, personal selling, social media management, distribution, pricing, advertising, marketing research, wholesaling, and retailing. All industries have marketing positions, including health care, sports, consumer products, nonprofits, government, as well as agriculture and the oil and gas industry. When unemployment is high, sales positions remain among the most attractive job opportunities. Marketing positions are among the most secure positions because of the need to manage customer relationships. In addition, many individuals working for nonbusiness organizations engage in marketing activities to promote political, educational, cultural, church, civic, and charitable activities. It is a mistake to believe that the only way to contribute to society is to work for a nonprofit. Without businesses, the economic system that supports jobs and contributes to a good standard of living would not exist. Consider that 5 percent of charitable contributions are corporate donations. Many large companies form foundations to serve their communities. Foundations donate 16 percent of all charitable contributions in the United States.<sup>38</sup> Successful businesses provide the resources necessary to sustain nonprofits and governments. Most charitable contributions are from individuals, the majority of whom earned their wealth as entrepreneurs or corporate managers. Therefore, marketing plays a key role in supporting philanthropy. Whether a person earns a living through marketing activities or performs them voluntarily for a nonprofit group, marketing knowledge and skills are valuable personal and professional assets.



## GOING GREEN

### Walmart's Environmental Initiative: It's Not Easy Being Green

**A**ccording to Walmart, people across the globe care about sustainability. It estimates that 55 percent of worldwide consumers are willing to pay more for green products. These changes in consumer values have prompted the company to focus on increasing the sustainability of its products and operations.

Walmart partnered with the Sustainability Consortium to develop a green index that measures the sustainability of products. Because it can be difficult for consumers to know if a product is sustainable, the green index increases trust between Walmart and customers by providing them with a way to judge how sustainable its products really are. Today, 1,300 Walmart suppliers use its index.

Sustainability improvements will also help Walmart save costs. It plans to reduce carbon emissions by 18 percent and be powered 50 percent by renewable energy by 2025, with the goal to increase this to 100 percent. This will result in millions of dollars of savings per year. This does not mean that a global sustainability strategy is easy. Different countries value different aspects of sustainability. For instance, in Africa consumers put more emphasis on detergents that do not need much water, while consumers in other countries prefer other green product attributes. Yet it is clear that despite differences, the world's population is placing greater value on sustainable products—and Walmart is ready to meet this demand.<sup>b</sup>



## Chapter Review

### 1-1 Define marketing.

Marketing is the process of creating, pricing, distributing, and promoting goods, services, and ideas to facilitate satisfying exchange relationships with customers and to develop and maintain favorable relationships with stakeholders in a dynamic environment. The essence of marketing is to develop satisfying exchanges from which both customers and marketers benefit. Organizations generally focus their marketing efforts on a specific group of customers called a target market. A target market is the group of customers toward which a company directs a set of marketing efforts.

### 1-2 Explain the different variables of the marketing mix.

Marketing involves developing and managing a product that will satisfy customer needs, making the product available at the right place and at a price acceptable to customers, and communicating information that helps customers determine if the product will satisfy their needs. These activities—product, price, distribution, and promotion—are known as the marketing mix because marketing managers decide what type of each variable to use and in what amounts. Marketing managers strive to develop a marketing mix that matches the needs of customers in the target market. Before marketers can develop a marketing mix, they must collect in-depth, up-to-date information about customer needs. The product variable of the marketing mix deals with researching customers' needs and wants, and designing a product that satisfies them. A product can be a good, a service, or an idea. The price variable involves decisions and actions associated with establishing pricing policies and determining product prices. In dealing with the distribution variable, a marketing manager tries to make products available in the quantities desired to as many customers as possible. The promotion variable relates to activities used to inform individuals or groups about the organization and its products. These marketing-mix variables are often viewed as controllable because they can be changed, but there are limits to how much they can be altered.

### 1-3 Describe how marketing creates value.

Individuals and organizations engage in marketing to facilitate exchanges—the provision or transfer of goods, services, and ideas in return for something of value. Four conditions must exist for an exchange to occur. First, two or more individuals, groups, or organizations must participate, and each must possess something of value that the other party desires. Second, the exchange should provide a benefit or satisfaction to both parties involved in the transaction.

Third, each party must have confidence in the promise of the “something of value” held by the other. Finally, to build trust, the parties to the exchange must meet expectations. Marketing activities should attempt to create and maintain satisfying exchange relationships.

### 1-4 Briefly describe the marketing environment.

The marketing environment, which includes competitive, economic, political, legal and regulatory, technological, and sociocultural forces, surrounds the customer and the marketing mix. These forces can create threats to marketers, but they also generate opportunities for new products and new methods of reaching customers. These forces can fluctuate quickly and dramatically.

### 1-5 Summarize the marketing concept.

According to the marketing concept, an organization should try to provide products that satisfy customers' needs through a coordinated set of activities that also allows the organization to achieve its goals. Customer satisfaction is the marketing concept's major objective. The philosophy of the marketing concept emerged in the United States during the 1950s, after the production and sales eras. Organizations that develop activities consistent with the marketing concept become market-oriented organizations. To implement the marketing concept, a market-oriented organization must establish an information system to discover customers' needs and use the information to create satisfying products. It must also coordinate all its activities and develop marketing mixes that create value for customers in order to satisfy their needs.

### 1-6 Identify the importance of building customer relationships.

Relationship marketing involves establishing long-term, mutually satisfying buyer–seller relationships. Customer relationship management (CRM) focuses on using information about customers to create marketing strategies that develop and sustain desirable customer relationships. Managing customer relationships requires identifying patterns of buying behavior and using that information to focus on the most promising and profitable customers. A customer's value over a lifetime represents an intangible asset to a marketer that can be augmented by addressing the customer's varying needs and preferences at different stages in his or her relationship with the firm. Customer lifetime value is a key measurement that forecasts a customer's lifetime economic contribution based on continued-relationship marketing efforts. Knowing a customer's potential lifetime value helps marketers determine how to best allocate resources to marketing strategies to sustain that customer over a lifetime.

### 1-7 Explain why marketing is important to our global economy.

Marketing is important to our economy in many ways. Marketing costs absorb about half of each buyer's dollar. Marketing activities are performed in both business and nonprofit organizations. Marketing activities help business organizations generate profits, and they help fuel the increasingly global economy. Knowledge of marketing

enhances consumer awareness. New technology improves marketers' ability to connect with customers. Socially responsible marketing can promote the welfare of customers and society. Green marketing is a strategic process involving stakeholder assessment to create meaningful, long-term relationships with customers while maintaining, supporting, and enhancing the natural environment. Finally, marketing offers many exciting career opportunities.



Go to [www.cengagebrain.com](http://www.cengagebrain.com) for resources to help you master the content in this chapter, as well as for materials that will expand your marketing knowledge!

## Developing Your Marketing Plan

Successful companies develop strategies for marketing their products. The strategic plan guides the marketer in making many of the detailed decisions about the attributes of the product, its pricing, distribution, and promotional activities. A clear understanding of the foundations of marketing is essential in formulating a strategy and in the development of a specific marketing plan. To guide you in relating the information in this chapter to the development of your marketing plan, consider the following:

1. Discuss how the marketing concept contributes to a company's long-term success.
2. Describe the level of market orientation that currently exists in your company. How will a market orientation contribute to the success of your new product?
3. What benefits will your product provide to the customer? How will these benefits play a role in determining the customer value of your product?

## Key Concepts

marketing	4	product	6	marketing environment		customer relationship	
customers	4	value	9	12		management (CRM)	16
target market	5	exchanges	10	marketing concept	13	relationship marketing	16
marketing mix	5	stakeholders	11	market orientation	15	green marketing	20

## Issues for Discussion and Review

1. What is *marketing*? How did you define the term before you read this chapter?
2. What is the focus of all marketing activities? Why?
3. What are the four variables of the marketing mix? Why are these elements known as variables?
4. What is value? How can marketers use the marketing mix to enhance the perception of value?
5. What conditions must exist before a marketing exchange can occur? Describe a recent exchange in which you participated.
6. What are the forces in the marketing environment? How much control does a marketing manager have over these forces?
7. Discuss the basic elements of the marketing concept. Which businesses in your area use this philosophy? Explain why.
8. How can an organization implement the marketing concept?
9. What is customer relationship management? Why is it so important to "manage" this relationship?
10. Why is marketing important in our society? Why should you study marketing?



## VIDEO CASE 1

### Cruising to Success: The Tale of New Belgium Brewing

In 1991, Jeff Lebesch and Kim Jordan began making Belgian-style ales in their basement. The impetus for the brewery occurred after Lebesch had spent time in Belgium riding throughout the country on his mountain bike. He believed he could manufacture high-quality Belgian beers in America. After spending time in the Colorado Rockies establishing the values and directions of their new company, the two launched New Belgium Brewing (NBB), with Kim Jordan as marketing director. The company's first beer was named Fat Tire in honor of Lebesch's Belgian mountain biking trek. Fat Tire remains one of NBB's most popular ales.

NBB has come far from its humble basement origins. Today, the Fort Collins-based brewery is the fourth-largest craft brewer in the country and eighth-largest brewery in the nation, with products available in 45 states, plus the District of Columbia and British Columbia. Kim Jordan helms the company as one of the few female CEOs of a large beer firm. "This entrepreneurial thing sneaks up on you," Jordan states. "And even after twenty years, I still have those 'pinch me' moments where I think, wow, this is what we've created here together." While total beer sales remain flat, the craft beer industry now maintains a 12 percent market share.

Creating such success required a corporate culture that stressed creativity and an authentic approach to treating all stakeholders with respect. While the New Belgium product is a quality craft beer, just as important to the company is how it treats its 685 employees, the community, and the environment. Each variable of the marketing mix was carefully considered. The company spends a significant amount of time researching and creating its beers, even collaborating with other craft brewers to co-create new products. This collaboration has led to products such as Ranger IPA and Biere de Garde. NBB's culture is focused on making a quality product and satisfying customers. It has even ventured into organic beer with its creation of Mothership Wit Organic Wheat Beer. The company has several product line varieties, including its more popular beers Fat Tire, 1554, Shift, and Sunshine Wheat; seasonal beers such as Pumpkick, Accumulation, and Tour de Fall; and its Lips of Faith line, a series of experimental beers produced in smaller batches, including La Folie and Chocolate Stout.

The distribution variable of the marketing mix was complex at the outset. In her initial role as marketing director, Jordan needed to convince distributors to carry their products. Often, new companies must work hard to convince distributors to carry their brands because distributors are fearful of alienating more established rivals. However, Jordan tirelessly got NBB beer onto store shelves, even

delivering beer in her Toyota station wagon. As a craft brewer, NBB uses a premium pricing strategy. Its products are priced higher than domestic brands such as Coors or Budweiser, and have higher profit margins. The popularity of NBB beers has prompted rivals to develop competitive products such as MillerCoors' Blue Moon Belgian White.

Perhaps the most notable dimension of NBB's marketing mix is promotion. From the beginning, the company based its brand on its core values, including practicing environmental stewardship and forming a participative environment in which all employees can exert their creativity. "For me brand is absolutely everything we are. It's the people here. It's how we interact with one another. And then there's the other piece of that creativity, obviously, which is designing beers," Kim Jordan said. NBB promotion has attempted to portray the company's creativity and its harmony with the natural environment. For instance, one NBB video features a tinkerer repairing a bicycle and riding down the road, while another features NBB "rangers" singing a hip-hop number to promote the company's Ranger IPA ale. The company has also heavily promoted its brand through Facebook and Twitter. This "indie" charm has served to position NBB as a company committed to having fun and being a socially responsible firm.

NBB also markets itself as a company committed to sustainability. Sustainability has been a core value at NBB from day one. The company was the first fully wind-powered brewery in the United States. NBB recycles cardboard boxes, keg caps, office materials, and amber glass. The brewery stores spent barley and hop grains in an on-premise silo and invites local farmers to pick up the grains, free of charge, to feed their pigs. The company also provides employees with a cruiser bicycle after one year of employment so they can bike to work instead of drive.

NBB's popularity allowed it to expand on the East Coast with a brewery in Asheville, North Carolina, that began brewing in 2016. The combination of a unique brand image, strong marketing mix, and an orientation that considers all stakeholders has turned NBB into a multimillion-dollar success.<sup>39</sup>

#### Questions for Discussion

1. How has New Belgium implemented the marketing concept?
2. What has Kim Jordan done to create success at New Belgium?
3. How does New Belgium's focus on sustainability as a core value contribute to its corporate culture and success?