

# MARKETING <sup>3e</sup> MANAGEMENT

GREG W. MARSHALL | MARK W. JOHNSTON



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# Marketing Management

Third Edition

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ROLLINS COLLEGE

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## MARKETING MANAGEMENT, THIRD EDITION

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To Patti and Justin.

**-Greg**

To Susan, my love, and Grace, my joy, thank you

**-Mark**

# ABOUT THE AUTHORS

## Greg W. Marshall

Greg W. Marshall is the Charles Harwood Professor of Marketing and Strategy in the Roy E. Crummer Graduate School of Business at Rollins College in Winter Park, Florida, and is also the academic director of the Executive DBA program there.



For three years he served as vice president for strategic marketing for Rollins. He earned his Ph.D. from Oklahoma State University and holds a BSBA and an MBA from the University of Tulsa. Before joining Rollins, Greg was on the faculty at the University of South Florida, Texas Christian University, and Oklahoma State University. He currently also holds an appointment as professor of marketing and strategy at Aston Business School in Birmingham, United Kingdom.

Prior to returning to school for his doctorate, Greg worked in the consumer packaged goods and retailing industries with companies such as Warner-Lambert, Mennen, and Target. He also has considerable experience as a consultant and trainer for a variety of organizations and has been heavily involved in teaching marketing management at multiple universities to both MBA and advanced undergraduate students.

Greg is editor-in-chief of the *European Journal of Marketing* and is former editor of the *Journal of Marketing Theory and Practice* and the *Journal of Personal Selling & Sales Management*. His published research focuses on the areas of decision making by marketing managers, intraorganizational relationships, and sales force performance. He is a member of the board of directors of the American Marketing Association and is past president of the AMA Academic Council. He is a distinguished fellow and past president of the Academy of Marketing Science and is a distinguished fellow, past president, and member of the board of governors of the Society for Marketing Advances. Greg also serves as a fellow and member of the academic advisory council of the Direct Selling Education Foundation.

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Mark W. Johnston is the Alan and Sandra Gerry Professor of Marketing and Ethics in the Roy E. Crummer Graduate School of Business at Rollins College in Winter Park, Florida. He earned his Ph.D. from Texas A&M University and holds a BBA and an MB from Western Illinois University. Before joining Rollins, Mark was on the faculty at Louisiana State University. Prior to his academic career, he worked in industry as a sales representative for a leading distributor of photographic equipment. His research has been published in a number of professional journals including the *Journal of Marketing Research*, *Journal of Applied Psychology*, *Journal of Business Ethics*, *Journal of Marketing Education*, *Journal of Personal Selling & Sales Management*, and many others.

Mark has been retained as a consultant for firms in a number of industries including personal health care, chemical, transportation, hospitality, and telecommunications. He has consulted on a wide range of issues involving strategic business development, sales force structure and performance, international market opportunities, and ethical decision making. Mark also works with MBA students on consulting projects around the world for companies such as Tupperware, Disney, and Johnson & Johnson. He has conducted seminars globally on a range of topics including the strategic role of selling in the organization, developing an ethical framework for decision making, improving business unit performance, and structuring an effective international marketing department.

For more than two decades Mark has taught marketing management, working with thousands of students. His hands-on, real-world approach has earned him a number of teaching awards.

# PREFACE

## INTRODUCTION

No doubt about it, marketing is *really changing*. Marketing today is:

- Very strategic—customer-centricity is now a core organizational value.
- Practiced virtually, digitally, and socially to a greater degree than ever before imagined.
- Enabled and informed by analytics and new technologies.
- Accountable to top management through diligent attention to metrics and measurement.
- Oriented toward service as driver of product.
- “Owned” by everybody in the firm to one degree or another.

Given the dramatic changes in the field of marketing, it is a sure bet that the job of leading and managing marketing’s contributions to the organization and its customers, clients, partners, and society at large has changed at a similar level. Yet the typical marketing management book on the market today does not effectively capture and communicate to students how marketing management is really practiced in the 21st-century world of business. We hear it from colleagues all the time—the complaint that the book they are using in their marketing management course “reads like marketing was practiced a decade ago,” or that it “doesn’t say what I believe the students need to hear,” or that it “doesn’t match what my working students actually do on the job,” or that it “reads like an encyclopedia of marketing,” or that it “has too much about everything and not enough focus on anything.” These remarks come from instructors who teach the MBA basic marketing course and those who teach advanced or capstone undergraduate marketing management courses; each of these courses is appropriate for a marketing management book. Clearly many instructors are looking for a marketing management book that is:

- Written for today’s students in an interesting and lively, yet professional, style.
- Up-to-date in all relevant aspects of how marketing is done today.
- A step up from the norm in terms of support materials for the instructor and students.

Marshall/Johnston’s *Marketing Management 3e* continues its very successful tradition of taking great effort to represent marketing management the way it is actually practiced in successful organizations today. In our view, leading and managing the aspects of marketing in order to improve individual, unit, and organizational performance—**marketing management**—is a *core business activity*. Its relevance is not limited just to marketing departments or marketing majors. The ability to do great marketing management is relevant to, and an important knowledge and skill for, *everyone in a firm* and *all business majors*.

The table of contents for the third edition of the book reflects the major trends in the managerial practice of marketing, and the pedagogy is crafted around learning and teaching preferences in today’s classroom. Above all, it is written in a style that is appealing for both students and instructors so that students will actually enjoy reading the material and instructors will be proud to teach from it and confident that they will feel good about presenting its up-to-date, professional approach to their classes.

The book contains 14 chapters, which we find is perfect for most course timetables. It has a fully developed array of application activities both in end-of-chapter materials and for student engagement on McGraw-Hill Connect. For instructors who craft their course around a marketing plan project, the book is ideal as these exercises clearly build on creating the elements of a marketing plan.

# STRUCTURE OF THE THIRD EDITION

Marshall/Johnston's *Marketing Management 3e* has five major parts, reflective of the logical sequence of building blocks for the course.

- **Part One: Discover Marketing Management.** In this part, students gain an understanding of the dynamics of the field. Significant attention is paid to framing the importance of studying marketing to future success as a manager. In particular, doing marketing in a global, ethical, and sustainable way is highlighted. To kick off the marketing planning theme early in the course, Part One includes comprehensive coverage of strategy and planning along with an example marketing plan.
- **Part Two: Use Information to Drive Marketing Decisions.** It has often been said that information is the fuel that fires the engine of marketing management decision making. With this in mind, Part Two focuses on effective management of information to better understand customers, both in the consumer and business marketplaces. Market research elements, Customer Relationship Management (CRM), Big Data, marketing analytics, and marketing dashboards receive thorough coverage. Effective segmentation, target marketing, and positioning are at the core of successful marketing, and this part provides a modern managerial treatment of these critical topics along with other relevant competencies and capabilities of successful marketers.
- **Part Three: Develop the Value Offering—The Product Experience.** This part presents a clear and comprehensive drill-down into today's world of product strategy, branding, and new product development. Reflective of the rise of the concept of service-dominant logic in marketing and the notion that service is a key driver of product success, we devote a separate chapter to making important links between service and the overall value offering.
- **Part Four: Price and Deliver the Value Offering.** Part Four begins with a fresh, managerially relevant treatment of pricing decision making, followed by an integrative approach to the multitude of modes at a marketing manager's disposal today by which an offering can be made available to customers through channels and points of customer interface.
- **Part Five: Communicate the Value Offering.** With the rise of digital and social media marketing and the concurrent dramatic shifts in how marketing managers and their customers communicate, this part has been extensively revised for Marshall/Johnston's *Marketing Management 3e*. A key to successful marketing management today is the capability of marketing managers to create and execute the mix of digital, social media, and legacy promotional approaches most desired and preferred by customers.

## KEY FEATURES

### Management Decision Cases

At the end of each chapter is a case drawn from the business headlines. Students are engaged by the currency of the problem and asked to develop solutions using chapter material. The cases are just the right size for today's classroom use—not too short, but not too long!

### Marketing Plan Exercises

Each chapter connects that chapter's key content to a semester-long marketing plan project activity. Marshall/Johnston's *Marketing Management 3e* is the only marketing management book to effectively thread a marketing planning focus throughout the textbook itself. Whether or not a semester marketing plan project is used by the instructor, the marketing

plan exercise feature does a great job of tying together important planning concepts for students in a methodical, stepwise manner.

## Glossary of Terms

A complete glossary of key terms and definitions is provided at the end of the book. The glossary serves as an important reference as well as a handy study aid for students preparing for exams.

## Other Features in Each Chapter

- *Learning Objectives:* These set the stage at the beginning of the chapter for what students will achieve by reading and studying the chapter. Each objective reappears in the margin at the relevant point in the chapter so students can track their progress.
- *Summary:* At the end of each chapter, a summary reminds students of the highlighted topics.
- *Key Terms:* Terms are bolded throughout the chapter and connected with definitions in the Glossary.
- *Application Questions:* These engaging questions at the end of each chapter are designed to direct students' thinking about the topics to the next level of application. Throughout the book all of these questions have been specially designed to simulate managerial decision making.

## NEW AND UPDATED CONTENT IN THE THIRD EDITION

Throughout this book, we've provided hundreds of new examples from a wide variety of practicing marketers and firms. Each chapter contains a brand-new Management Decision Case, and there are new and updated Application Questions at the end of each chapter. In addition, hundreds of new or replacement references have been added to the chapter end notes. Here are some highlights of specific changes, by chapter:

### **Chapter 1: Marketing in Today's Business Milieu**

- Emphasis on the impact of the current "official" definition of marketing.
- New content around the major challenges facing marketing today.
- Coverage of the American Marketing Association's 7 Big Problems in Marketing.

### **Chapter 2: Marketing Foundations: Global, Ethical, Sustainable**

- Updated discussion and examples of global marketing trends.
- Focus on the importance of ethical decision making in marketing and the marketing mix.
- In-depth coverage of sustainability and the "triple bottom line" in marketing.

### **Chapter 3: Elements of Marketing Strategy, Planning, and Competition**

- Impact of marketing planning at the strategic business unit (SBU) level.
- Updated the JetBlue threaded marketing planning example.
- Updated the chapter appendix, which is an abbreviated example marketing plan.

### **Chapter 4: Market Research Essentials**

- Updated coverage of new research methodologies with examples.
- Updated treatment of the marketing research industry.
- New content on data collection technologies.

### **Chapter 5: CRM, Big Data, and Marketing Analytics**

- Updated discussion of the modern perils of potential customer information abuse and data security.



- Major new section on sources and types of Big Data.
- Major new section on marketing analytics as supported by Big Data.

#### **Chapter 6: Understand Consumer and Business Markets**

- Revised commentary on new trends in consumer and business markets.
- New and updated examples.
- Updated discussion of the consumer decision-making process.

#### **Chapter 7: Segmentation, Target Marketing, and Positioning**

- Updated census information for geographic segmentation.
- Extra emphasis on the millennial customer.
- Basics of CRM content moved from this chapter to earlier position in Chapter 5.

#### **Chapter 8: Product Strategy and New Product Development**

- New and updated content on product classifications.
- Revised and updated content to reflect changes in product strategy and new product development.
- Updated discussion on the product life cycle.

#### **Chapter 9: Build the Brand**

- Updated content about the most valuable brands today.
- Revised and updated content on brand definitions and concepts.
- Updated content around contemporary package designs.

#### **Chapter 10: Service as the Core Offering**

- New content on the service dominant logic.
- New content around the use of technologies to improve the customer service experience.
- Revised content to reflect changes in services strategy.

#### **Chapter 11: Manage Pricing Decisions**

- Revised table on price lining.
- Discussion of innovative pricing strategies.
- Discussion of pricing's role within the marketing strategy decision process.

#### **Chapter 12: Manage Marketing Channels, Logistics, and Supply Chain**

- Emphasis on the phenomenal growth of e-retailing.
- Attention to omnichannel retailing as firms deploy a number of channels in a customer's shopping experience.
- Enhanced treatment of customer communities.

#### **Chapter 13: Promotion Essentials: Digital and Social Media Marketing**

- New major section with full coverage of the role of digital marketing in communicating value.
- Clear delineation of types and approaches to digital marketing, including best practice tips and cautions for their use.
- New major section on managing social media marketing and engaging customers directly in the dialogue about a firm and its offerings.

#### **Chapter 14: Promotion Essentials: Legacy Approaches**

- Thoroughly revised discussion of legacy advertising tools to reflect changes in promotional strategy.
- Updated content on leading advertisers and the promotion industry.
- Updated and new content on crisis management.

# ACKNOWLEDGMENTS

The task of writing a textbook requires the talents of many dedicated people. First and foremost, we want to thank the McGraw-Hill team for sharing the vision of this project with us from the very beginning. Particularly given the dynamic nature of marketing management both as a professional field and as a course of study, it was critically important that throughout the development process the entire team remain steadfast in believing in the vision of the project.

In particular, we want to recognize and thank the following individuals at McGraw-Hill who played a significant part in the successful development of *Marketing Management 3e*. Meredith Fossell, Executive Portfolio Manager, has been a visionary and strategic editorial leader throughout the project and we owe her a debt of gratitude for putting the project onto a great track. Lynn Haddon and Alyssa Lincoln, Product Developers, were instrumental in working with us daily to achieve this end result. Melissa Leick and Danielle Clement, Project Managers, were invaluable in keeping all elements of our product moving through production. And Nicole Young, Senior Marketing Manager, deserves high kudos for her excellence in communicating the value of our new edition to the marketplace. All of these great professionals made our job much more enjoyable. We have been McGraw-Hill authors for over 15 years and consider their team to be family.

Phillip Wiseman at the C. T. Bauer College of Business at the University of Houston provided able guidance and superior content in helping build the substantive revisions of Chapters 5 and 13. Phillip also led the process of developing new and updated interactive Connect exercises. His contributions to the third edition are exemplary. George Allen at the Howard Dayton School of Business at Asbury University and Andrew Thoeni at the Coggin College of Business at the University of North Florida did a masterful job in creating the new set of Management Decision Cases that add so much value to this new edition. Likewise, Jill Solomon at the University of South Florida developed the accompanying PowerPoints—she is truly an outstanding instructor of marketing management herself and that talent comes through in the materials she has created. In addition, we want to recognize the contributions of several members of the Rollins College Crummer Graduate School of Business team. Each of the following folks contributed to the plethora of great current business examples featured in this edition: Brandon Duncan, Richard Ross, Amy Crawford Weschler, and Courtney Wood. Courtney, along with Hannah Coyman from Crummer, also worked with Phillip Wiseman on the Connect interactives. We deeply appreciate the exceptional contributions of each of these individuals!

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Greg W. Marshall, ROLLINS COLLEGE

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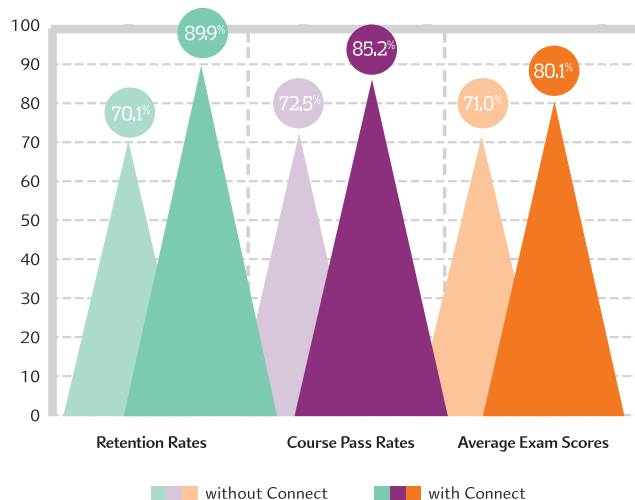
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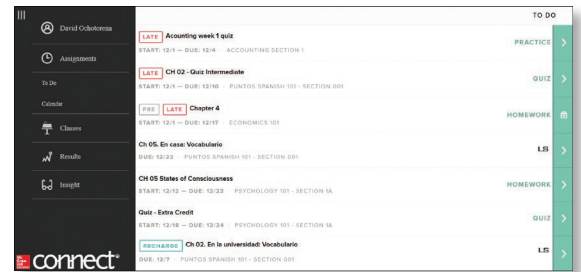
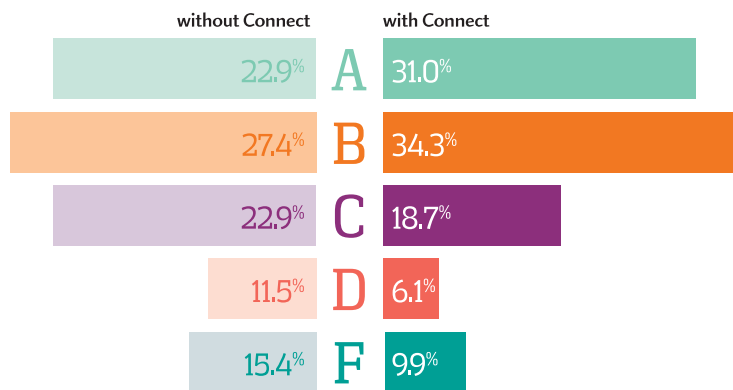
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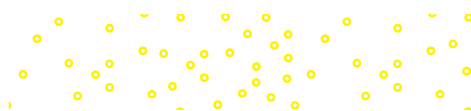
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# PART ONE

# Discover Marketing Management

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## CHAPTER 1

Marketing in Today's Business Milieu

## CHAPTER 2

Marketing Foundations: Global, Ethical,  
Sustainable

## CHAPTER 3

Elements of Marketing Strategy, Planning,  
and Competition





# CHAPTER 1

## Marketing in Today's Business Milieu

---

### LEARNING OBJECTIVES

- LO 1-1** Identify typical misconceptions about marketing, why they persist, and the resulting challenges for marketing management.
- LO 1-2** Define what marketing and marketing management really are and how they contribute to a firm's success.
- LO 1-3** Appreciate how marketing has evolved from its early roots to be practiced as it is today.
- LO 1-4** Recognize the impact of key change drivers on the future of marketing.

# WELCOME TO MARKETING MANAGEMENT

Welcome to the world of marketing management! Now is a great time to be studying about marketing. In fact, marketing as a field of study has much to offer everyone, regardless of whether or not the word “marketing” appears in their job title. Whether your interest and training are in engineering, accounting, finance, information technology, or fields outside business, marketing is relevant to you. You can be confident that, when finished with this course about marketing management, you will emerge with a set of knowledge and skills that will not only enhance your personal effectiveness as a leader and manager regardless of your area of responsibility or job title, but will also positively impact the performance of your work group and firm. Mastering great marketing is useful for anyone!

Despite the strong case for the value of learning about marketing, marketing is often misunderstood for a variety of reasons. So before we go any further, let’s start by clearing the air. Before you learn about great marketing and how to successfully manage it, it is important to address some misconceptions and stereotypes about marketing. Getting these out in the open will give you the opportunity to challenge your own perceptions of the field. After this section, attention will quickly turn from marketing misconceptions to *marketing realities* in today’s business milieu.

## MARKETING MISCONCEPTIONS

When you think of *marketing*, what sorts of ideas and images initially come to mind? Close your eyes and think about the essence of the word. What images flow in? The images will vary depending on your age, your professional background, and whether you have worked in some aspect of the marketing field. Here is a short list of perceptions commonly conjured up about marketing:

- Catchy and entertaining advertisements—or perhaps the opposite, incessant and boring advertisements.
- Pushy salespeople trying to persuade someone to *buy it right now*.
- Incessant spam in your e-mail inbox and unwelcome solicitations on your smartphone.
- Obtrusive tracking and recording of your every click and browsing activity online.
- Famous brands and their celebrity spokespeople, such as Nike’s athlete endorsers.
- Product claims that turn out to be overstated or just plain false, causing doubt about the trustworthiness of a company.
- Marketing departments “own” an organization’s marketing initiative.

Exhibit 1.1 expands on the common stereotypes and misconceptions about marketing.

### LO 1-1

Identify typical misconceptions about marketing, why they persist, and the resulting challenges for marketing management.

## Behind the Misconceptions

Several important factors have contributed to the development of these misconceptions, including marketing’s inherent visibility and its tendency toward buzzwords and “spin.”

**Marketing Is Highly Visible by Nature** Unlike most other key areas of business, marketing as a field is highly public and readily visible outside the confines of the internal business operation. Think of it this way: Most aspects of financial management, accounting, information technology, production, operations management, and human resource management take place behind the curtain of an organization, out of the general public’s sight. But marketing is very different. A good portion of marketing is very public. Marketing is seen through the web page that stimulates interest in seeking more product information, the (hopefully) good service received from the salesperson representing a firm’s products, the enjoyment and interest generated from a clever advertisement on Super Bowl Sunday, or the well-stocked shelves at the neighborhood Target store.

Of all the business fields, marketing is almost certainly the most visible to people outside the organization. While other fields also have negative stereotypical images (think accountants with green eyeshades or IT computer geeks), you’d be hard pressed to identify another business

**MISCONCEPTION NO. 1: Marketing is all about advertising.**

**THE REALITY:** Advertising is just one way that marketing is communicated to potential customers. Advertising is highly visible to the general public, so many people naturally think of advertising when they think of marketing. A famous axiom: *Good advertising makes a bad product fail faster.*

**MISCONCEPTION NO. 2: Marketing is all about selling.**

**THE REALITY:** The general public also experiences a lot of selling. Much of this day-to-day selling is in retail store environments. Selling, or more correctly “personal selling,” is simply another method of marketing communication. Marketers have to decide on a mix of marketing communication approaches that (in addition to advertising and personal selling) might also include public relations/publicity, sales promotion, and direct marketing. Later chapters discuss how and when each might be most effective in communicating the message.

**MISCONCEPTION NO. 3: Marketing is all fluff and no substance.**

**THE REALITY:** Yes, some aspects of marketing are inherently fun and glitzy. Hiring Kevin Durant as a celebrity spokesperson had to be a real thrill for everybody at Nike, not to mention the pleasure and fun it gave Nike fans. But marketing also has aspects that involve sophisticated research, detailed analysis, careful decision making, and thoughtful development of strategies and plans. For many organizations, marketing represents a major investment and firms are naturally reluctant to invest major resources without a reasonable level of assurance of a satisfactory payback.

**MISCONCEPTION NO. 4: Marketing is inherently unethical and harmful to society.**

**THE REALITY:** Marketing is no more inherently unethical than other business areas. The extreme corporate financial misdeeds that led to the Great Recession of the late 2000s show that to be true. However, when some element of marketing proves to be unethical (or even illegal), it tends to be visible to the general public. Untrue advertising claims, arm-twisting sales tactics, and nonenvironmentally friendly product packaging are a few very visible examples of marketing not behaving at its best.

**MISCONCEPTION NO. 5: Only marketers market.**

**THE REALITY:** Everybody does marketing. Everybody has a stake in the success of marketing. Regardless of your position in a firm or job title, learning how to do great marketing is a key professional asset. People with strong marketing skills achieve greater success—both on the job and off. If you’ve never thought of yourself in the context of being a “personal brand” that needs to be effectively communicated, just consider how useful such an approach could be in job seeking or positioning yourself for a promotion.

**MISCONCEPTION NO. 6: Marketing is just another cost center in a firm.**

**THE REALITY:** The mind-set that marketing is a cost, rather than an investment, is deadly in a firm because costs are inherently to be reduced or avoided. When management doesn’t view marketing as earning its keep—that is, marketing being able to pay back its investment over the long term—it becomes very easy for firms to suboptimize their success in the long run by avoiding investment in brand and product development in favor of cutting costs. This is the classic argument that successful firms must simultaneously monitor costs to ensure short-term financial performance while also investing in marketing to ensure long-term competitive strength.

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field about which nearly everyone has formed a deeply held set of images and opinions or about which nearly everybody thinks they know enough to confidently offer advice! Think about how many times casual conversation in a social setting turns to something marketing related. Have you ever had similar social exchanges about the ins and outs of financial management or the complexities of computerized production systems? Of course not, but it seems almost anybody is comfortable talking (and tweeting!) about elements of marketing—from the week’s advertised specials at the supermarket to this year’s fashion for kids heading back to school to the service received at a favorite vacation hotel—marketing is a topic everyone can discuss!

In fact, companies are increasingly utilizing corporate social media presence to generate conversation itself as a marketing tool. For example, fast-food restaurant chain Wendy’s gained over 1.5 million followers on Twitter as a result of its saucy social media strategy.<sup>1</sup> The company’s Twitter account gained fame by surprising customers with its bold, humorous responses to customer tweets about the company and its competitors. Wendy’s Twitter profile describes its strategy

this way: “We like our tweets the same way we like to make hamburgers: better than anyone expects from a fast food joint.”<sup>2</sup> With some Twitter users even requesting for Wendy’s to “roast” them on Twitter, the online conversations often strayed from explicit product advertising. Yet the social media buzz itself brought attention to the company and served as an invaluable advertising tool.

Why is the notion that marketing is visible and accessible to nearly everyone so important to students of marketing management? The truth is, despite the fact that much of marketing is easily observable to just about anyone, marketing as a professional field worthy of serious study doesn’t always get the respect it deserves, maybe in part because of its overexposure. The business functions of financial management, operations, IT, and the rest seem to be viewed by many MBA and undergraduate students (and also, unfortunately, by managers in many firms) as the more “serious” parts of an enterprise—topics that are perceived as more concrete, more scientific, and more analytical than marketing, thus implying they are topics worthy of more substantial investment in time, money, and other resources.<sup>3</sup> In the past, marketing has had few useful metrics or measures to gauge the performance impact of a firm’s marketing investment, while other areas of the firm have historically been much more driven by measurement of results. The old adage “if it can’t be measured, it can’t be managed” has plagued marketing for years. This is changing, and today measurement of marketing’s performance and contribution is a focal point in many firms.<sup>4</sup> In fact, as you progress through this book you will notice a very strong emphasis on marketing analytics, marketing metrics, and the preeminence of digital and social media marketing as both a source and a beneficiary of customer data.

**Marketing Is More Than Buzzwords** Given the inherently transparent nature of marketing and the prior lack of ways to effectively measure its impact on a firm’s success, it should be no surprise that some managers consider marketing to be little more than a necessary evil—a *cost* they reluctantly have to incur.<sup>5</sup> They’re not sure *how* marketing works, or even *if* marketing really does work, but for competitive reasons—or maybe just because it’s always been done—they continue to invest large sums of money in its many facets including market research, brand development, advertising, salespeople, public relations, and so forth. With so much ambiguity historically surrounding the management and control of marketing, too often the field has been plagued by a coterie of consultants and authors looking to make a quick buck by selling their latest and greatest ideas complete with their own catchy buzzwords for the program.

Anyone who doubts the pervasiveness of quick-fix approaches to marketing should visit a bookstore or online bookseller. Go to the business section and look at the marketing titles. Among the buzzwords right in the book titles are such gems as *guerrilla marketing*, *permission marketing*, *holistic marketing*, *marketing warfare*, *marketing rainmaking*, *buzz marketing*, *integrated marketing* . . . the list goes on and on. Although these approaches may prove useful under certain circumstances, these quick-fix strategies contribute to the circus-like perception of marketing, which ultimately undermines the field’s reputation as a respectable business function.

## Beyond the Misconceptions and Toward the Reality of Modern Marketing

Of course, buzzwords are just window dressing, and most popular press prescription approaches to marketing don’t do much to improve the *long-term* performance of an organization. Effective marketing management isn’t about buzzwords or quick fixes. Nor is the essence of marketing really about the kinds of stereotypical viewpoints identified earlier in this section. In today’s business milieu, marketing is a central function and set of processes essential to any enterprise.<sup>6</sup> Moreover, leading and managing the facets of marketing to improve individual, unit, and organizational performance—**marketing management**—is a *core business activity*, worthy of any student’s study and mastery.

The chapters that follow lay the groundwork for developing the knowledge and skills around marketing that will allow you to build a more successful career as a leader and manager, regardless of your department, area of specialization, level in the organization, or job title. Is marketing relevant to *you*? You bet it is, because *everyone* in an organization does marketing in some way and must share ownership of its success or failure.

Learning about marketing management is not just about reading a book or taking a course, although dedication to these activities is a great starting point. Instead, great



marketing is a lifelong journey that requires dedication to continuous learning and improvement of your knowledge and skills as a leader and manager. It is in this spirit that we enthusiastically invite you to begin your journey into the field of marketing management!

## DEFINING MARKETING

### LO 1-2

Define what marketing and marketing management really are and how they contribute to a firm's success.

Over 60 years ago, the late management guru Peter Drucker, often referred to as the father of modern management, set the stage for defining contemporary marketing and conceiving of its potential power. Consider this quote from Drucker, circa 1954 (emphasis added):

If we want to know what a business is we have to start with its *purpose*. There is only one valid definition of business purpose: *to create a customer*. It is the customer who determines what a business is. For it is the customer, and he alone, who through being willing to pay for a good or service, converts economic resources into wealth, things into goods. What the business thinks it produces is not of first importance—especially not to the future of the business and its success. What the customer thinks he is buying, what he considers “value” is decisive. . . . Because it is the [purpose of a business] to create a customer, [the] business enterprise has two—and only two—business functions: *marketing* and *innovation*.<sup>7</sup>

Consider the power of these ideas: a business built around the customer with resources and processes aligned to maximize customer value. Within this context, Drucker is not talking just about “marketing departments,” but rather marketing in much broader terms. More on that distinction later. For now, consider this subsequent quote from Drucker circa 1973:

Marketing is so basic that it cannot be considered a separate function (i.e., a separate skill or work) within the business . . . it is, first, a central dimension of the entire business. It is the *whole business* . . . seen from the *customer's* point of view. Concern and responsibility for marketing must, therefore, permeate all areas of the enterprise.<sup>8</sup>

Clearly, Peter Drucker was a man whose business philosophy was way ahead of his time. Now fast forward to this decade. The American Marketing Association periodically reviews and updates its official definition of marketing. As of this book's publication, their definition is as follows:

Marketing is 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.

This definition is quite good because it

- Focuses on the more *strategic* aspects of marketing, which positions marketing as a core contributor to overall firm success.
- Recognizes marketing as an activity, set of institutions, and processes—that is, marketing is not just a “department” in an organization.
- Shifts the areas of central focus of marketing to *value*—creating, communicating, delivering, and exchanging offerings of value to various stakeholders.



Toyota's popular Scion line exemplifies the growing focus on stakeholders interested in green-friendly products.

Source: Toyota Motor Sales, U.S.A., Inc.

Just who are the relevant stakeholders of marketing? **Marketing's stakeholders** include any person or entity inside or outside a firm with whom marketing interacts, impacts, and is impacted by. For example, internal stakeholders—those inside a firm—include other organizational units that marketing interacts with in the course of business. Strong, productive relationships between marketing and finance, accounting, production, quality control, engineering, human resources,

and many other areas in a firm are necessary in order for a firm to do business successfully.<sup>9</sup> The range of external stakeholders—those outside a firm—is even broader and includes customers, vendors, governmental bodies, labor unions, and many others. One important challenge in marketing management is deciding how to prioritize these internal and external stakeholders in terms of their relevance and importance to the firm.<sup>10</sup> Most firms place the customer first, but a key question is: how do you decide which of the others deserve the most attention?

At the broadest conceptual level, members of society at large can be viewed as stakeholders for marketing, a concept called **societal marketing**. As one example, the concept of environmentally friendly marketing, or *green marketing*, has been a growing trend in socially responsible companies. Today the movement has evolved into a part of the philosophical and strategic core of many firms under the label **sustainability**, which refers to business practices that meet humanity's needs without harming future generations.<sup>11</sup> Sustainability practices have helped socially responsible organizations incorporate *doing well by doing good* into their overarching business models so that both the success of the firm and the success of society at large are sustained over the long term. For example, Unilever brands implemented the “Unilever Sustainable Living Plan” as an integral part of the company's business model. This plan seeks to: (1) “Help more than a billion people to improve their health and wellbeing,” (2) “Halve the environmental footprint of . . . products,” and (3) “Source 100% of [the company's] agricultural raw materials sustainably and enhance the livelihoods of people across [the company's] value chain.”<sup>12</sup> The company launched its “Brighter Future” marketing campaign to highlight how Unilever brands are creating a positive social impact and ensuring a brighter future through its commitment to sustainable living.<sup>13</sup>

“Purpose marketing,” or “prosocial marketing,” is growing as a marketing strategy. This growing popularity can be attributed to the increasing number of consumers who say that what a company stands for influences their purchasing decisions. Toms shoe company is renowned for its social entrepreneurship and socially conscious purpose marketing. Toms’ “One for One” mission assures customers that with every purchase, “Toms will help a person in need.”<sup>14</sup> An estimated 3.5 million people participated in Toms’ annual One Day Without Shoes initiative in 2016 alone.<sup>15</sup> Purpose marketing with sincerity has the potential to appeal to consumers on an emotional level and further drive customer loyalty. This trend moves marketing beyond push brand messaging and instead engages consumers in a much more meaningful way.<sup>16</sup>

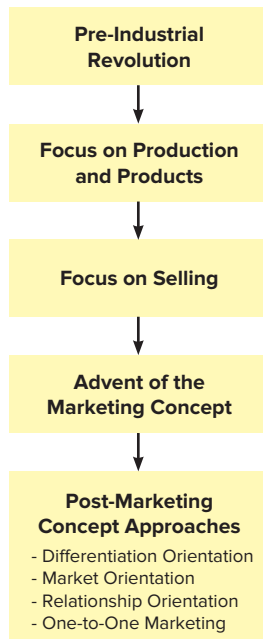
## Value and Exchange Are Core Marketing Concepts

Throughout the various topics encompassed within this book, the idea of value as a core concept in marketing will be a central theme. From a customer's perspective, we define **value** as a ratio of the bundle of benefits a customer receives from an offering compared to the costs incurred by the customer in acquiring that bundle of benefits.<sup>17</sup> Another central tenet of marketing is the concept of **exchange**, in which a person gives up something of value to them for something else they desire to have.<sup>18</sup> Usually an exchange is facilitated by money, but not always. Sometimes people trade or barter nonmonetary resources such as time, skill, expertise, intellectual capital, and other things of value for something else they want. For any exchange to take place, the following five conditions must be present:

1. There must be at least two parties.
2. Each party has something that might be of value to the other party.
3. Each party is capable of communication and delivery.
4. Each party is free to accept or reject the exchange offer.
5. Each party believes it is appropriate or desirable to deal with the other party.

Just because these conditions exist does not guarantee that an exchange will take place. The parties must come to an agreement that results in both being better off, hence the phrase in the AMA definition of marketing “. . . exchanging offerings that *have value* . . . (emphasis added).” Value implies that both parties win from the exchange.

## EXHIBIT 1.2 | Marketing Yesterday and Today



## A New Agenda for Marketing

We firmly believe that today is the best time ever to be engaged as a leader and manager in marketing. Recently, the American Marketing Association (AMA) announced their Intellectual Agenda 1.0, which seeks to serve as a “big tent” source of guidance and inspiration that includes both theoretical and applied knowledge, which will ultimately provide actionable insights, frameworks, tools, and resources for marketers around the world. Part and parcel to this Intellectual Agenda is the identification of AMA’s 7 Big Problems in Marketing in order to provide context for the critical challenges all marketing managers face. These 7 Big Problems provide common ground for ongoing conversation and ideation about the marketing field. In summary form, they are:

1. Effectively targeting high-value sources of growth.
2. The role of marketing in the firm and the C-suite.
3. The digital transformation of the modern corporation.
4. Generating and using insight to shape marketing practice.
5. Dealing with an omni-channel world.
6. Competing in dynamic, global markets.
7. Balancing incremental and radical innovation.<sup>19</sup>

Importantly, the AMA is deeply committed to the idea that the role of marketing in enhancing the greater good of society and the planet through economic, environmental, and social sustainability transcends these 7 Big Problems. That is, for each of the problems, the only viable and acceptable solutions must take into account the big picture of the greater good. You will read more about the societal impact of marketing in Chapter 2.

The AMA definition of marketing highlights marketing’s central role in creating (or developing), communicating, delivering, and exchanging offerings that have value. But marketing’s central focus hasn’t always been on value and customer relationships, and the truth is that even today some firms lag in these areas. The next section offers perspectives on marketing’s roots and evolution, and explains why some firms today are frozen in past approaches to marketing.

## MARKETING’S ROOTS AND EVOLUTION

In the spirit of the old adage that he who ignores history is doomed to repeat its mistakes, here’s a short marketing history lesson. Exhibit 1.2 illustrates the flow of marketing’s evolution as a field. It is important to note that there are still firms that are “stuck in the past” in the way they approach marketing. That is, not all organizations have “fully evolved”! But hopefully the majority of firms seek to approach marketing from a 21st-century perspective as we present throughout this book.

### Pre-Industrial Revolution

Before Henry Ford and his contemporaries created assembly lines and mass production, marketing was done very much on a one-to-one basis between firms and customers, although the word *marketing* wasn’t really used. Consider what happened when a person needed a new pair of shoes, pre-Industrial Revolution. One would likely go visit the village cobbler, who would take precise measurements and then send the customer away with instructions to return in a week or so to pick up the new shoes. Materials, styles, and colors would be limited, but customers likely would get a great fit since the cobbler created a customized pair of shoes for each person. And if they didn’t fit just right, the cobbler would adjust the shoes to a customer’s liking—right on the spot.

### LO 1-3

Appreciate how marketing has evolved from its early roots to be practiced as it is today.



## Focus on Production and Products

The Industrial Revolution changed nearly everything in business by shifting the focus from meeting demand one item at a time to mass production via assembly line. Maximizing production capacity utilization became a predominant concern. For the early part of the 20th century, the focus was on this **production orientation** of improving products and production efficiency without much regard for what was going on in the marketplace. In fact, consumers snapped up this new pipeline of reasonably priced goods, even if the products didn't give much choice in style or function. Having a Ford Model T was great, but as Henry Ford himself said, "People can have the Model T in any color—so long that it's black."<sup>20</sup>

A production orientation assumes that customers will beat a path to your door just because you have a great product that functions nicely; build a better mousetrap and they will come. You will learn throughout your study of marketing management that great products alone do not ensure success. Unfortunately, firms that are stuck in a production orientation mentality likely will have great difficulty competing successfully for customers.

## Focus on Selling

Around the end of World War I, production capacity utilization began to decline for several reasons. First, capacity had been increased greatly for the war. Second, a number of firms that had dominated their respective industries before the war now found themselves with stiff competition for sales because many new competitors had flooded into the marketplace. And third, financial markets were becoming more sophisticated and were placing more pressure on firms to continually increase sales volume and profits.

These factors resulted in the rise of many of the great sales organizations of today. A **sales orientation** suggests that, to increase sales and consequently production capacity utilization, professional salespeople need to "push" product into the hands of customers, both businesses and end users. For years, the most vivid image of a salesperson in the public eye was that of the peddler, the classic outside salesperson pushing product on customers with a smile, a promise, and a handshake. Gradually, customers of all kinds grew wary of high-pressure selling, sparking laws at all levels to protect consumers from unscrupulous salespeople. For many customers, the image of marketing became permanently frozen as that of the pushy salesperson. And just as with the production orientation, to this day some firms still practice mainly a sales-oriented approach to their business.

## Advent of the Marketing Concept

After World War II, business began to change in many long-lasting ways. Business historians point to a number of reasons for this shift, including:

- Pent-up demand for consumer goods and services after the war.
- Euphoric focus on family and a desperate need to regain a normalcy of day-to-day life after years of war (which produced the baby boomer generation).
- Opening up of production capacity dominated for years by war production.
- Advent of readily available mainframe computing capability, and especially the associated statistical analytic techniques that allowed for more sophisticated market research.



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Automatic De-Wrinkler "tumble-presses" properly tailored synthetic garments—even smooths out wrinkles from steaming.

Automatic Sprinkler dumps shirts, dresses, starched pieces...has them ready for easy-ironing in minutes.

This vintage GE ad from the late 1950s is a great example of how ads in that era were more "informative" and less "sexy" than much of today's advertising.

©The Advertising Archives/Alamy Stock Photo



In the 1950s, these forces, combined with growing frustration with high-pressure selling, sparked a shift in the focus of American business. The resulting business philosophy has been labeled the **marketing concept**, which is an organization-wide customer orientation with the objective of achieving long-run profits.<sup>21</sup> General Electric's *1952 Annual Report* is often cited as the first time the marketing concept was articulated in writing by a major corporation. Clearly delighted to herald its new-age management philosophy, GE wrote the following to stockholders in that report (in this historical period, the assumption was that business professionals would be male):

[The marketing concept] . . . introduces the marketing man at the beginning rather than at the end of the production cycle and integrates marketing into each phase of the business. Thus, marketing, through its studies and research, will establish for the engineer, the design and manufacturing man, what the customer wants in a given product, what price he is willing to pay, and where and when it will be wanted. Marketing will have authority in product planning, production scheduling, and inventory control, as well as in sales distribution and servicing of the product.<sup>22</sup>

The articulation of the marketing concept was a major breakthrough in business, and in the 1960s and '70s it spread like wildfire throughout companies of all kinds. Soon firms everywhere were adopting the practice of letting the market decide what products to offer. Such an approach required substantial investment in ongoing market and consumer research and also necessitated an organization-wide commitment to marketing planning. As a result, the idea of the marketing plan became codified in most organizations' business processes. We'll come back to the idea of marketing planning in Chapter 3.

**The Marketing Mix** The articulation of the marketing concept and its quick adoption across a gamut of industries quickly led to a major focus on teaching marketing courses in colleges and universities. In the mid-1960s, a convenient way of teaching the key components was developed with the advent of the **marketing mix**, or **4Ps of marketing**, originally for *product*, *price*, *place*, and *promotion*.<sup>23</sup> The idea was that these fundamental elements comprise the marketer's "tool kit" to be applied in carrying out the job. It is referred to as a "mix" because, by developing unique combinations of these elements, marketers set their product or brand apart from the competition. Also, an important rubric in marketing is the following: making a change in any one of the marketing mix elements tends to result in a domino effect on the others.

Today, the basic concept of the marketing mix still persists, but with considerably greater sophistication than in the 1960s. The product is now regarded broadly in the context of an overall *offering*, which could include a bundle of goods, services, ideas (for example, intellectual property), and other components, often represented by strong overarching branding. Many marketers today are more focused on *solutions* than products—the characterization of an offering as a solution is nice because of the implication that a solution has been developed in conjunction with specific, well-understood customer wants and needs.<sup>24</sup> Price today is largely regarded in relationship to the concept of value. Place has undergone tremendous change. Rather than just connoting the process of getting goods from Point A to Point B, firms now understand that sophisticated, integrated supply chain approaches are a crucial component of business success.<sup>25</sup> And finally, to grasp the magnitude of changes in *promotion* since the 1960s one need only consider the proliferation of high-tech media options available to marketers today, from the Internet to cell phones and beyond.

Over the years some authors have proposed various additions to the original marketing mix—that is, adding "more Ps." Especially outside the setting of marketing physical goods, as in the context of marketing services or ideas, the case is frequently made for the need to add more elements to the marketer's tool kit.<sup>26</sup> This issue has been hotly debated for years. Pete Markey, brand communications and marketing director at Aviva, argues that the 4Ps are still relevant today because they remind businesses that marketing is not the responsibility of just one department; it is the responsibility of the entire business to understand customers' wants and needs, and to extract value from them. The 4Ps capture the essence of marketing in a simplified, repeatable process that needs to be communicated to the new generation of marketers.<sup>27</sup>

You will find as you progress in your reading of this book that later on we follow the basic topical flow of developing, pricing, delivering, and communicating offerings that have value. Put in terms of the 4Ps of the marketing mix, Part Three of the book focuses on *developing* the value offering through product strategy and new product development, building the brand, and attention to service (the product “P”). Part Four focuses on pricing and delivering the value offering (the “price and place Ps”). Finally, Part Five provides a comprehensive look at how firms communicate the value offering to customers (the “promotion P”). Thus, the core elements of the original 4Ps of marketing are there but presented within the context of the terminology and work processes used by *today’s* marketing managers.

## Post-Marketing Concept Approaches

Close perusal of the definition of the marketing concept reveals several issues that still resonate widely in today’s business milieu. The decisions to place the customer at the core of the enterprise (often referred to as a **customer-centric** approach to business), focus on investment in customers over the *long term*, and focus on marketing as an *organization-wide* issue (that is, not just relegated to a “marketing department”) are all relevant and important topics in business classes and boardrooms today, and each will be discussed further in later chapters.<sup>28</sup> Amazon is one of the leading companies pursuing a customer-centric approach to business, and its CEO, Jeff Bezos, has integrated this technique into Amazon culture, often leaving a seat open at his conference tables to remind everyone in the room that the most important person in any conversation is “the Customer.”<sup>29</sup>

Referring again to Exhibit 1.2, the four evolutionary steps beyond the original marketing concept warrant further discussion now: differentiation orientation, market orientation, relationship orientation, and one-to-one marketing.

**Differentiation Orientation** More sophisticated research and analytical approaches have made it possible to do increasingly precise refinement of market segmentation, target marketing, and positioning of products to serve very specific customer groups, processes you will learn more about in Chapter 7. The idea is to create and communicate **differentiation**, or what clearly distinguishes your products from those of competitors in the minds of customers.<sup>30</sup> The ability for marketers to tailor and deliver different product messages to different groups also has been greatly enhanced by the proliferation of multiple types of media that can be used with great precision to communicate to very specifically defined customer groups. For example, during its “Share a Coke” campaign, Coca-Cola put 250 of the most popular names among teens and millennials on 20-ounce bottles, and created a website geared toward share-worthy content. Coca-Cola targeted the millennial generation by delivering personalization, trend, and social interaction in a Coke bottle, and increased sales by 2 percent after the campaign launched.<sup>31</sup>

**Market Orientation** A great deal of research has been devoted to learning how a firm can successfully put the marketing concept into practice. Think of **market orientation** as the implementation of the marketing concept. The notion of market orientation, one component of which is **customer orientation**—placing the customer at the core of all aspects of the enterprise—takes the guiding business philosophy of the marketing concept and works to more usefully define just how to implement it within a firm.<sup>32</sup> The focal point of Southwest Airlines is its customer experience, which manifests itself through the personality of its brand, the heart on the underbelly of its planes, its ticker symbol (LUV), and the employees who are hired for their attitude and trained for skill. The Southwest heart is a promise to customers and a reminder to employees that Southwest cares.<sup>33</sup>

**Relationship Orientation** Marketing managers today recognize the power of securing, building, and maintaining long-term relationships with profitable customers.<sup>34</sup>

The original marketing concept clearly recognized the need for an orientation toward the longer term in marketing—that is, not just making the next quarter’s financial projections but rather cultivating customers for the long haul. The move toward a **relationship orientation** by firms has been driven by the realization that it is far more efficient and effective to invest in keeping and cultivating profitable current customers instead of constantly having to invest in gaining new customers that come with unknown return on investment.<sup>35</sup> Certainly most firms simultaneously focus on both current and new customers, but no company wants to be in a position of losing great customers and having to scramble to replace the associated lost revenue.

A relationship orientation draws its power from the firm’s capability to effectively collect and use ongoing, real-time information on customers in marketing management decision making. Implementation of a relationship orientation is discussed in Chapter 5 in the context of customer relationship management (CRM). Much of CRM is designed to facilitate higher levels of customer satisfaction and loyalty, as well as to provide a means for identifying the most profitable customers—those worthy of the most marketing investment.<sup>36</sup> Dollar Shave Club has mounted a serious competitive threat to Gillette and other traditional razor and blade providers by using its in-house CRM system, customer support platform, and data analytics to gain deep customer insights. As a result, it delivers an outstanding customer experience to its over 1.5 million subscribers and aims to engage in a true relationship with each of them.<sup>37</sup>

**One-to-One Marketing** Remember the earlier example of the pre-Industrial Revolution cobbler who would customize a pair of shoes for each customer? In many ways marketing’s evolution has come full circle back to a focus on creating capabilities for such customization. In a series of classic books and articles, Don Peppers and Martha Rogers popularized the term **one-to-one marketing**, which advocates that firms should direct energy and resources into establishing a learning relationship with each customer and then connect that knowledge with the firm’s production and service capabilities to fulfill that customer’s needs in as custom a manner as possible.<sup>38</sup>

Some firms come close to one-to-one marketing by employing **mass customization**, in which they combine flexible manufacturing with flexible marketing to greatly enhance customer choices.<sup>39</sup> Retailers have even entered into mass customization. The luxury brand Burberry allows customers to build their own trench coats. They are able to select from silhouettes of varying length, leather or fabric type, and several colors. Options also include sleeve length, lining, collar, buttons, and belts. Buyers are able to customize their perfect coat with the click of a few buttons.<sup>40</sup>

So far in this chapter we have explored common misconceptions about marketing and then moved well past the stereotypes to begin to gain a solid foundation for understanding what marketing management really is about today. Given the increasingly rapid pace of changes in today’s business environment, it’s highly likely that marketing’s role will evolve even more rapidly than in the past. Now let’s turn our attention to the future to identify important change drivers that are sure to impact marketing over the next decade and beyond.

## CHANGE DRIVERS IMPACTING THE FUTURE OF MARKETING

### LO 1-4

Recognize the impact of key change drivers on the future of marketing.

A great way to systematically explore the future of marketing is by considering several well-documented broad trends that are clearly impacting the future of the field. These trends are well under way, but their ultimate impact on marketing and on business in general is not yet fully known. Five key areas of shift, or change drivers, are

- Shift to product glut and customer shortage.
- Shift in information power from marketer to customer.
- Shift in generational values and preferences.

- Shift to distinguishing Marketing (“Big M”) from marketing (“little m”).
- Shift to demanding return on marketing investment.

## Shift to Product Glut and Customer Shortage

Fred Wiersema, in his book *The New Market Leaders*, builds a powerful case that the balance of power is shifting between marketers and their customers in both business-to-consumer (B2C/end user) markets and business-to-business (B2B) markets. He identifies “six new market realities” in support of this trend: Competitors proliferate, all secrets are open secrets, innovation is universal, information overwhelms and depreciates, easy growth makes hard times, and customers have less time than ever.<sup>41</sup>

Blockbuster’s demise did not happen because of technology or Netflix, but rather because it failed to focus on its customers. Blockbuster might have been salvaged if it had understood that it was in the business of retail customer service, restructured its strategy to consultative selling, and branded itself as “*the movie expert*” utilizing any platform necessary. Instead, Blockbuster continued to think of itself as a convenience chain for a product that (unfortunately) in reality was no longer convenient in the digital age, and eventually it shut down operations.<sup>42</sup>

Wiersema’s central point is that not only is a customer orientation desirable, but also in today’s market it is a *necessity for survival*. Coming to grips with the impact of Wiersema’s six market realities greatly heightens the role of marketing in the firm as the nexus of an organization’s customer-focused strategies.



The highly customizable brand Burberry has extended its product line to children.

Source: Burberry

## Shift in Information Power from Marketer to Customer

Nowadays, customers of all kinds have nearly limitless access to information about companies, products, competitors, other customers, and even detailed elements of marketing plans and strategies. This is analogous to Wiersema’s “All Secrets Are Open Secrets,” but here we’re talking about the customer’s perspective. For decades, marketers held a degree of information power over their customers because firms had access to detailed and sophisticated information about their products and services that customers couldn’t get without the help of somebody in the firm (usually a salesperson). Now, customers are empowered to access boundless information about all kinds of products and services on the Internet.<sup>43</sup>

For competitive reasons, firms have no choice but to be more open about their businesses and products. Even if they wanted to, firms can’t stop chat rooms, independent websites, web logs or blogs, and other customer-generated modes of communication from filling web page after web page with information, disinformation, and opinions about a company’s products, services, and even company dirty laundry. Consider Walmart, one of the world’s most successful companies. In recent years Walmart from time to time has been caught off guard by the number and range of uncontrollable information sources about it and its activities (such as employee wage and benefit practices). Another example of this shift in information power is the physician/patient relationship. Between open direct-to-consumer advertising by pharmaceutical companies and innumerable websites devoted to every medical malady, more and more patients arrive at the doctor’s office self-diagnosed and ready to self-prescribe!<sup>44</sup>





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GEICO has made major inroads with the younger generation of insurance purchasers by introducing clever themes and efficient rate quotes via the web.  
Source: GEICO

The trend toward more information in the hands of the customer is not going to diminish. Marketing approaches must be altered to reflect and respond to this important change.

## Shift in Generational Values and Preferences

Aspects of generational marketing will be discussed in more detail in Chapter 7. For now, the inexorable shift in values and preferences from generation to generation deserves mention as one of the key trends affecting the future of marketing. One clear impact is on the firm's message and the method by which that message is communicated. For example, GenY consumers tend to be much more receptive to electronic commerce as a primary mode of receiving marketing communication and ultimately purchasing than are prior generations.<sup>45</sup> Did you know that through the iTunes Store or Google Play you can secure the Girl Scout Cookie Finder app, which provides users with GPS coordinates for the nearest cookie sales location? For many, gone are the days of strictly relying

on face-to-face selling.<sup>46</sup> This preference has clear implications for how marketing carries out its management of customer relationships across generations and also calls into question how much *value* younger customers derive from the different approaches to relationships. That is, do members of the younger generation appreciate, or even need, the kinds of close personal relationships companies like State Farm provide through their agents, or are they perfectly happy to interact with firms like GEICO, primarily through electronic sales and distribution channels?

Generational shifts also impact marketing in terms of human resources. Consider how generational differences in attitudes toward work life versus family life, expectations about job satisfaction and rewards, and preferred modes of learning and working (e.g., electronic versus face-to-face) affect the ability of firms to hire people into various marketing-related positions. For example, firms often wish to differentiate themselves by offering great service to their customers. Yet nearly all organizations are severely challenged today in hiring and keeping high-quality customer service personnel because of a severe shortage of capable, qualified customer care personnel.<sup>47</sup>

Generational changes are nothing new. In the context of both customers and organization members, understanding the generational differences and how to work to appeal to different generations' values and preferences is a critical part of marketing management. Today, the importance of this issue is accentuated and accelerated in marketing due to propensities among generational groups to differentially use technology and the impact of generational differences on workplace design and management practice.

We'd be remiss not to highlight the generation that is the apple of many a marketer's eye today—millennials. The millennial generation represents roughly 25 percent of the population and \$200 billion in annual buying power. Millennials favor authenticity over content, are brand loyal (especially if those brands are active on social media), are highly connected through technology, and wish to be part of a company's product development process.<sup>48</sup> Chipotle's "build-your-own" business model provided a customer experience that was interactive, and its web series "Farmed and Dangerous" provided social media interaction, resulting in a young customer base that largely remained loyal during Chipotle's food-safety crisis in 2015.<sup>49</sup>

By 2025, millennials are expected to represent 75 percent of workers. They want their share of responsibility while at work, but they also value work-life balance and time away from work, and seek to join companies that are tuned in to ethical business practices

and social responsibility. Millennials represent the best-educated generation in history.<sup>50</sup> The software firm Workday caters to the millennial mind through its “Generation Workday” program, inviting junior staffers to senior leader meetings, offering mentoring opportunities, and rotating employees through different divisions to gain new skills, experiences, and networks.<sup>51</sup> You’ll learn more about generational marketing in Chapter 7.

## Shift to Distinguishing Marketing (Big M) from marketing (little m)

Earlier it was established that the marketing concept is intended to be an overarching business philosophy in which firms place the customer at the core of the enterprise. Also, you have learned through reading some of the stereotypical impressions of what marketing is (and is not) and that marketing—at least the *image* of marketing—can be fairly fragmented and often quite tactical in nature. How can marketing as a discipline that is both strategic and tactical be reconciled?

Begin by thinking of marketing as occurring on two dimensions within an organization. These dimensions exist in tandem, and even intersect on occasion, but harbor fundamental differences in goals and properties. For convenience, we can distinguish these dimensions by capitalizing the word for one (“Marketing”—“Big M”) and leaving the word in lowercase for the other (“marketing”—“little m”). Exhibit 1.3 portrays this relationship. Let’s investigate these concepts further.

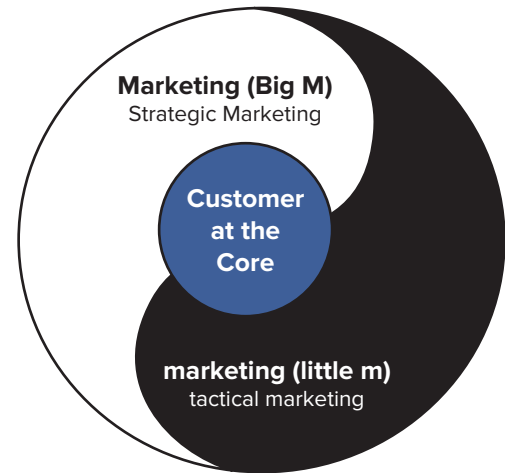
**Marketing (Big M)** Marketing (Big M) serves as a core driver of business strategy. That is, an understanding of markets, competitors, and other external forces, coupled with attention to internal capabilities, allows a firm to successfully develop strategies for the future. This approach is often referred to as **strategic marketing**, which means a long-term, firm-level commitment to investing in marketing—supported at the highest organizational level—for the purpose of enhancing organizational performance.

Going back to the AMA definition, marketing’s focus 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” contains substantial elements of Marketing (Big M): The core concepts of customer value, exchange, customer relationships, and benefit to the organization and its stakeholders are all very strategic in nature and help form the core business philosophy of a firm. Earlier we saw that the marketing concept includes a strong Marketing (Big M) thrust: “. . . an organization-wide customer orientation with the objective of achieving long-run profits.” Certainly the core marketing concept characteristics of an organization-wide customer orientation and long-run profits are very strategic. Both the AMA definition of marketing and the long-standing marketing concept provide evidence of the centrality of Marketing (Big M) to the firm as a core business philosophy.

The concept of Marketing (Big M) necessitates several important actions on the part of the organization to maximize marketing’s impact. Consider these action elements required for successful Marketing (Big M):

- Make sure *everyone* in an organization, regardless of their position or title, understands the concept of customer orientation, which places the customer at the core of all aspects of the enterprise. It doesn’t matter whether or not the organization member directly interfaces with customers outside the firm. The point is that everybody has customers within the organization, and through the process of effectively serving those internal customers, the firm can better serve its external customers. In this way, everyone in the firm has a stake in the success of Marketing (Big M).

### EXHIBIT 1.3 Strategic and Tactical Marketing



- Align all internal organizational processes and systems around the customer. Don't let the IT system, telecommunications system, billing system, or any other internal process or system become an impediment to a customer orientation. If the people inside a firm understand the power of a customer-centric business approach, but the internal systems don't support it, Marketing (Big M) won't be successful.
- Find somebody at the top of the firm to consistently champion this Marketing (Big M) business philosophy. The CEO is the most appropriate person for this role, perhaps manifest through the CMO (chief marketing officer). Like anything else of importance in a business organization, Marketing (Big M) takes resources, patience, and time to acculturate and implement, and it won't happen unless someone at the top is consistently supportive, with both resources and leadership.
- Forget the concept that the marketing department is where Marketing (Big M) takes place. Marketing (Big M) is not about what one department does or does not do. Marketing (Big M) is the basis on which an organization approaches its whole enterprise—remember Peter Drucker's words: “[Marketing] is the *whole business* . . . seen from the *customer's* point of view. Concern and responsibility for marketing must, therefore, permeate all areas of the enterprise.” Drucker was right!
- Create *market-driving*, not just *market-driven*, strategies. It is imperative to study the market and competition as part of the marketing planning process. Firms today must break out of linear thinking when developing new products and markets. Certainly research on markets and customers can uncover unmet needs and offer guidance on designing products to fulfill those needs. But the process contributes little toward **market creation**—approaches that drive the market toward fulfilling a whole new set of needs that customers did not realize was possible or feasible before. Classic examples of market creation include Microsoft's revolution of the information field, Disney's creation of the modern theme park industry, and Apple's innovations in integrated communications with the iPhone and iPad. These were all market-driving strategies that created really new markets.

**marketing (little m)** In contrast, **marketing (little m)** serves the firm and its stakeholders at a functional or operational level; hence, marketing (little m) is often thought of as **tactical marketing**. In fact, marketing (little m) almost always takes place at the functional or operational level of a firm. Specific programs and tactics aimed at customers and other stakeholder groups tend to emanate from marketing (little m).<sup>52</sup> But marketing (little m) always needs to be couched within the philosophy, culture, and strategies of the firm's Marketing (Big M). In this way, Marketing (Big M) and marketing (little m) should be quite naturally connected within a firm, as the latter tends to represent the day-to-day operationalization and implementation of the former. Everything from brand image, to the message salespeople and advertisements deliver, to customer service, to packaging and product features, to the chosen distribution channel—in fact, all elements of the marketing mix and beyond—exemplify marketing (little m).

Understanding these two dimensions of marketing helps clarify much of the confusion surrounding the field today. It certainly helps explain much of the confusion surrounding what marketing management is supposed to be, and how and why the field tends to have a bit of an identity crisis both inside firms and with the public at large. Occasionally throughout this book, the Marketing (Big M), marketing (little m) notion will be brought up to add explanatory power to important points. But for the most part, we'll just use one version of the word, assuming we all understand it contains both levels.

## Shift to Justifying the Relevance and Payback of the Marketing Investment

The final change driver affecting the future of marketing is a topic on the minds of many CEOs and CMOs today. The issue is how management can effectively measure and assess the level of success a firm's investment in various aspects of marketing has had. Appropriate and effective **marketing metrics** must be designed to identify, track, evaluate, and provide key benchmarks for improvement just as various financial metrics guide the financial

management of the firm.<sup>53</sup> Why the intense focus on metrics? Here are several important reasons:

- *Marketing is a fuzzy field.* Marketing has often historically viewed itself as working within gray area comfort zones of a business. That is, if what marketing contributed was mostly creative in nature, how can the impact of such activities be measured effectively? For the marketer, this can be a somewhat attractive position to be in, and historically many marketers probably took advantage of the idea that their activities were above measurement. Those days are over.
- *If it can't be measured, it can't be managed.* As with all aspects of business, effective management of the various aspects of marketing requires quantification of objectives and results. The marketing plan is one of the most important elements of a business plan. Effective planning requires metrics.
- *Is marketing an expense or an investment?* Practicing marketers tend to pitch marketing internally as an investment in the future success of the organization. As an investment, it is not unreasonable that expected returns be identified and measured.<sup>54</sup> Leading consulting firm McKinsey & Company uses its Marketing Navigator to translate complex marketing return on investment (MROI) data into simplified visualizations to help its clients make better marketing investment decisions. McKinsey believes that better MROI begins with better objectives, and communicating marketing as an investment, not a cost.<sup>55</sup> We'll take a close look at marketing analytics and metrics in Chapter 5.
- *CEOs and stockholders expect marketing accountability.* Marketers need to create tools for ongoing, meaningful measurement of marketing productivity. More and more, CMOs are being held accountable for marketing performance in the same manner as are CFOs and leaders of other functional aspects of the business.<sup>56</sup>

This section has identified and examined several key change drivers that are sure to impact the future of marketing. Clearly, many other trends in the macro-level environment of business also affect marketing, including the obvious examples of globalization, ethnic diversification, and the growth and proliferation of technology, such as a precipitous shift to digital and social media approaches to marketing communication. All of these issues, and more, will be thematic throughout your reading of the chapters ahead.

## YOUR MARKETING MANAGEMENT JOURNEY BEGINS

Some students take the marketing management course because they “have to” take it in order to fulfill a degree requirement, not necessarily because they see inherent value in marketing for their career as a leader and manager. It is our hope that if you initially fell into this category, you can now see that gaining the knowledge and skills required for marketing management will increase your worth as an asset to any firm, regardless of your position or job title.

As you progress through this course, keep in mind that marketing management is not so much a position or a job title as it is a process and a way of approaching decision making about important business opportunities and challenges. Our presumption throughout this book is that you are seeking knowledge and skills that will enable you to use marketing to its fullest potential to positively impact organizational performance. Be assured from the outset that a high level of personal and career value can be derived by investing time and energy now in mastering the leadership and management of marketing.



This AT&T-sponsored display in a local YMCA calls out the dark side of smartphone communication—texting while driving. Technology has increased the channels of marketing communications, but at the same time created important new responsibilities for marketers to promote proper use.

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## SUMMARY

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Marketing as an activity, set of institutions, and processes adds value to a firm and its internal and external stakeholders in many ways. For a marketing manager to be successful, he or she must approach the job with a strong understanding of what it takes to do great marketing *today*, which, because of a variety of change drivers, is very different from doing marketing in the past. Leading and managing the facets of marketing in order to improve individual, unit, and organizational performance—marketing management—is a core business activity in today's business milieu, worthy of study and mastery by any student of business regardless of job title or professional or educational background.

## KEY TERMS

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marketing management 5  
marketing's stakeholders 6  
societal marketing 7  
sustainability 7  
value 7  
exchange 7  
production orientation 9  
sales orientation 9  
marketing concept 10

marketing mix  
(4Ps of marketing) 10  
customer-centric 11  
differentiation 11  
market orientation 11  
customer orientation 11  
relationship orientation 12  
one-to-one marketing 12  
mass customization 12

Marketing (Big M) 15  
strategic marketing 15  
market creation 16  
marketing (little m) 16  
tactical marketing 16  
marketing metrics 16

## APPLICATION QUESTIONS

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More application questions are available online.

1. Consider the various marketing misconceptions introduced in this chapter.
  - a. Pick any two of the misconceptions and develop a specific example of each from your own experience with firms and brands.
  - b. How will it be beneficial for a new marketing manager to understand the misconceptions that exist about marketing?
  - c. Can you come up with some other marketing misconceptions of your own—ones that are not addressed in the chapter?
2. In the chapter we make a strong case for the relevance of Peter Drucker's key themes today, even though much of his writing was done decades ago. Do you agree that his message was ahead of its time and is still relevant? Why or why not? Assume you are the CEO of a firm that wants to practice a market orientation. How will Drucker's advice help you to accomplish this goal?
3. Put yourself in the role of a marketing manager. From this perspective, do you agree with the concepts of societal marketing and sustainability? Why or why not? How does a focus on sustainability affect the marketing manager's role and activities? Identify two organizations that you believe do a great job of paying attention to sustainability and present the evidence that leads you to this conclusion.
4. Review the section on change drivers and select any two within the set that you want to focus on. Pick an organization of your choice and answer the following questions:
  - a. In what ways does each of the change drivers impact the firm's ability to successfully do marketing?
  - b. How is the firm responding to the change drivers in the way it approaches its business? What should it be doing that it is not doing at present?

- c. What role do you believe the marketing manager has in proactively preparing for these and future change drivers?
5. In the chapter you learned that harmonious performance of Marketing (big M) and marketing (little m) within a firm can lead to greater levels of success. Why is this true? What does it mean that these two need to be “harmonious”? What would be some likely negative consequences if they were out of sync?

## MANAGEMENT DECISION CASE

### From Clydesdales to Talking Frogs: Budweiser’s Strategic Adaptability Keeps It a Winner

In the rapidly changing world of today’s marketing manager, for a brand to survive and thrive over the long run, its marketing strategy must stay ahead of the curve. It must continually evolve—responding to the changing needs and preferences of customers and taking advantage of the many new tools for connecting with its target markets. Over the course of its 150 years,<sup>57</sup> the Budweiser brand has not only survived but thrived, thanks to strong marketing management focused on providing value and effectively communicating that value to its customers.

In 1864, Adolphus Busch partnered with his father-in-law, Eberhard Anheuser, to begin brewing beer in St. Louis. Anheuser was a marketing pioneer in those early years, using a strong mix of the most cutting-edge promotional tools of the day: print and outdoor advertising, point-of-sale material in saloons, an inventory of giveaway items, and a large cadre of traveling salesmen (yes, they were all men back then).<sup>58</sup> Fast forward to 1908: anticipating Prohibition, Busch used newspaper ads to remind readers (and regulators) that the beer industry employed 750,000 people who touch 4 million women and children family members, and that 400,000 more people were employed on farms that produced crops needed to make beer. In a patriotic theme to be revisited in future years, Busch and Anheuser proclaimed to everyone that beer industry employees “love their homes,” and “are good, honest citizens, temperate, patriotic, and true.”<sup>59</sup>

Despite their best efforts to thwart it, Prohibition arrived in 1920, and the minds behind Budweiser responded with a major modification to the product component of the marketing mix: the introduction of nonalcoholic beer and soft drinks.<sup>60</sup> When Prohibition ended in 1933, the knee-jerk marketing approach of most beer brands was to simply announce they were back in business with ads in the key newspapers of the day (*The New York Times*, for example).

Budweiser took a bit bolder marketing approach. In an early example of event marketing, Budweiser celebrated the return of legal booze with six Clydesdale horses pulling a red, white, and gold beer wagon up New York’s Fifth Avenue to the Empire State Building.<sup>61</sup> These majestic horses were a very early “brand character,” and of course they would go on to appear many times in Budweiser promotions in the coming years.

After the Great Depression, Budweiser made a major product packaging innovation—beer in cans—that dramatically boosted product sales. The 1940s brought the now-famous slogan, or tagline, the “King of Beers,” which is still in use today. In the 1980s, faced with more health-conscious consumers, Budweiser responded with one of its biggest product innovations: Bud Light. Although Budweiser grew to be the number 1 American beer brand in 1988, by 2001 the Bud Light brand line extension overtook its big brother for first place in U.S. beer sales. Also in the 1980s, Budweiser took the bold marketing strategy step of focusing almost exclusively on sports-watching males. So it was only natural that Budweiser would decide to dominate the premier sporting event—the Super Bowl, of course. While requiring a huge promotional expenditure, the annual event gave them instant access to a massive audience of these targeted sports-watching males, and it was also a great platform for some very memorable and creative advertising (search for “Budweiser Frogs commercial” or “Budweiser Whassup commercial” to see a couple of famous classics).<sup>62</sup> Budweiser was indeed the King of Beers—and the King of Marketers!

But alas, market preferences shifted in the 1990s toward wine and cocktails, causing a marked decline in beer sales and heightening the role of marketing management even more for Budweiser. Ultimately, the emerging microbrewery craze set

in; in 2008, Anheuser-Busch was sold to the Belgian company InBev (the new corporate name is AB InBev).<sup>63</sup> Although no longer an “American-owned” beer, Budweiser continues to push its strong association with Americana through cutting-edge Super Bowl commercials and the return of the beloved Clydesdales. Budweiser’s 2017 Super Bowl ad reached even further back into its American history, telling the story of Adolphus Busch’s immigration to the United States.<sup>64</sup>

Budweiser continues to innovate with products focused on females and millennials. In 2012, it launched a blend of beer and cocktail called Lime-A-Rita, with additional flavors recently released.<sup>65</sup> In 2014, 200,000 millennials were invited to vie for 1,000 spots at Whatever, USA, a Budweiser-led event in Crested Butte, Colorado, where guests partied with celebrities, made many new friends, and, of course, drank Bud Light. The strategy was executed largely through digital and social media.<sup>66</sup>

Over all these years, Budweiser’s longevity and continued success is a testament to the power of strong, adaptive marketing management—always staying fresh in the market, relevant to new groups of customers, and effective in using the day’s most effective promotional tools to communicate the brand’s value and differentiation.

## Questions for Consideration

1. Over the course of its history, Budweiser’s marketing responded to major regulatory and cultural changes, such as Prohibition and the changing role of women in society. What other changes are either happening now or are on the horizon to which today’s marketing managers at Budweiser should respond? What should that response be?
2. In this account of Budweiser’s history there is evidence of both “Big M” marketing and “little m” marketing. Which of these two types of marketing do you think is Budweiser’s greater strength? Support your answer with examples to demonstrate your understanding of these concepts.
3. The most recent threat to Budweiser’s dominance is the microbrewery craze, which has created (or resulted from) a set of more discriminating beer drinkers, not so different from wine aficionados. One approach Budweiser has taken in their commercials is to make fun of these enthusiasts. Do you believe this is an effective strategy? Why or why not? What alternative communication or product innovation strategies (if any) should be considered to reach this segment?

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# CHAPTER 2

## Marketing Foundations: Global, Ethical, Sustainable

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### LEARNING OBJECTIVES

- LO 2-1** Identify the various levels in the Global Marketing Experience Curve.
- LO 2-2** Learn the essential information components for assessing a global market opportunity.
- LO 2-3** Define the key regional market zones and their marketing challenges.
- LO 2-4** Describe the strategies for entering new global markets.
- LO 2-5** Recognize key factors in creating a global product strategy.
- LO 2-6** Learn the importance of ethics in marketing strategy, the value proposition, and the elements of the marketing mix.
- LO 2-7** Recognize the significance of sustainability as part of marketing strategy and the use of the triple bottom line as a metric for evaluating corporate performance.

How do the three topics of this chapter—global, ethical, sustainable—fit together? You may have asked that question when you read the title. However, these topics represent the foundation of marketing and build on the ideas and concepts discussed in Chapter 1. Though they may seem unrelated, they are linked together because companies realize that success in the marketing place today is defined, in part, by a company’s ability to consider global opportunities, clearly define its values, and develop a value proposition and marketing strategy that considers factors beyond profit (sustainability). In this chapter, we explore each of these topics, linking them back to the concepts in Chapter 1 and introducing information that you will use throughout the rest of the book.

## MARKETING IS NOT LIMITED BY BORDERS

From large multinationals to small start-up companies, business is no longer confined to a company’s local market. Worldwide distribution networks, sophisticated communication tools, greater product standardization, and the Internet have opened world markets. Large companies such as Nestlé, P&G, Amazon, and General Electric leverage their considerable assets to build global companies that do business anywhere in the world (see Exhibit 2.1). At the same time, with relatively minimal investment, small companies access international markets with only a website and an international shipping company.<sup>1</sup>

While the opportunities have never been greater, the risks have also never been higher. Global marketing mistakes are expensive. The international competitive landscape includes sophisticated global companies as well as successful local organizations. The operating environment varies dramatically around the world, creating real challenges for companies moving into new markets. Global customers demand different products, which means that successful products in a company’s local market frequently have to be adapted to new markets.<sup>2</sup> All these factors establish global marketing as one of the most demanding but rewarding areas in marketing.

## THE GLOBAL EXPERIENCE LEARNING CURVE

An understanding of marketing beyond home markets develops over time as a company gets more international business experience. This process is referred to as *the global experience learning curve*. In some cases this happens quickly. General Motors moved into Canada in 1918, only two years after being incorporated, and eBay opened in the United Kingdom during its first year of operation. However, other companies take much longer to push into global markets. Walmart opened its first international store in Mexico City in 1991, nearly 30 years after Sam Walton opened the first store in Bentonville, Arkansas. Exhibit 2.2 lists the global expansion histories of a number of companies.

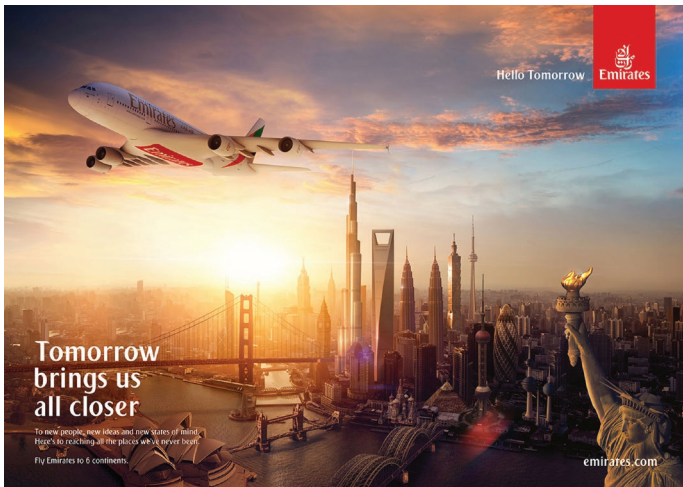
### LO 2-1

Identify the various levels in the Global Marketing Experience Curve.

### EXHIBIT 2.1 | World’s Largest International Companies in 2016

Company	Revenue (\$ Millions)
Walmart	\$484,130
State Grid	329,601
China National Petroleum	299,271
Sinopec Group	294,344
Royal Dutch Shell	272,156
ExxonMobil	246,204
Volkswagen	236,600
Toyota Motor	236,592
Apple	233,715
BP	225,982

Source: “Fortune Global 500,” *Time Inc.*, July 3, 2016.



As a global airline, Emirates wants to promote international togetherness with the hope of more people traveling and, not surprisingly, choosing Emirates.  
 Source: The Emirates Group

The global experience learning curve moves a company through four distinct stages: no foreign marketing, foreign marketing, international marketing, and global marketing. The process is not always linear; companies may, for example, move directly from no foreign marketing to international marketing without necessarily engaging in foreign marketing. In addition, the amount of time spent in any stage can vary; some companies remain in a stage for many years.

## Companies with No Foreign Marketing

Many companies with *no direct foreign marketing* still do business with international customers through intermediaries or limited direct contact. In these cases, however, there is no formal international channel relationship or global marketing strategy targeted at international customers. Of course, any company with a website is now a

global company as someone can visit the site from anywhere in the world, but companies with no foreign marketing consider any sales to an international customer as incidental.

The typical company with no foreign marketing is usually small, with a limited range of products. Increasingly though, small companies move into international markets much faster than even a decade ago. This is due, in part, to domestic distributor relationships, local customers with global operations, and effective websites, which have all created international opportunities for many small companies with limited resources.

## Companies with Foreign Marketing

Companies often develop a more formal international strategy by following their existing customers into foreign markets. Domestic customers with global operations may demand more service or place additional orders that require the company to work with their foreign

### EXHIBIT 2.2 | Examples of Global Companies and Their Expansion into Global Markets

Years to Expansion	U.S. Company	First Expansion
29	Walmart (est. 1962)	1991: Walmart opens two units in Mexico City.
20	Hewlett-Packard (est. 1939)	1959: HP sets up a European marketing organization in Geneva, Switzerland, and a manufacturing plant in Germany.
26	Tyson Foods (est. 1963)	1989: Tyson establishes a partnership with a Mexican poultry company to create an international partnership.
25	Caterpillar (est. 1925)	1950: Caterpillar Tractor Co. Ltd. in Great Britain is founded.
19	Home Depot (est. 1979)	1998: Home Depot enters the Puerto Rican market, followed by entry into Argentina.
18	Gap (est. 1969)	1987: The first Gap store outside the United States opens in London on George Street.
12	Goodyear (est. 1898)	1910: Goodyear's Canadian plant opens.
10	FedEx (est. 1971)	1981: International delivery begins with service to Canada.
1	PepsiCo (est. 1965)	1966: Pepsi enters Japan and Eastern Europe.

subsidiaries. This stage of the global experience learning curve is called *foreign marketing* and involves developing local distribution and service representation in a foreign market in one of two ways. One method is to identify local intermediaries in appropriate international markets and create a formal relationship. The second approach is for the company to establish its own direct sales force in major markets, thereby expanding the company's direct market reach.

In either scenario, key activities (product planning and development, manufacturing) are still done in the company's home market, but products are modified to fit international requirements. Global markets are important enough for management to build international sales forecasts, and manufacturing allocates time specifically to international production. At this point, international markets are no longer an afterthought, but rather an integral, albeit small, part of the company's growth model.<sup>3</sup>

## International Marketing

When a firm makes the commitment to manufacture products outside its domestic market, it is engaged in *international marketing*. While companies can be heavily involved in international markets with extensive selling organizations and distribution networks, the decision to manufacture outside its home market marks a significant shift toward an integrated international market strategy. Global markets become an essential component of the company's growth strategy, and resources are allocated to expand the business into those markets. The company incorporates an international division or business unit that has responsibility for growing the business in targeted foreign markets.

International marketing aligns the company's assets and resources with global markets, but, in the vast majority of companies, management still takes a "domestic first" approach to the business. As a result, the corporate structure still divides international and domestic markets.

## Global Marketing

A *global marketing* company realizes that all world markets (including the company's own domestic market) are, in reality, a single market with many different segments. This frequently happens when a company generates more than half its revenue in international markets. Exhibit 2.3 highlights companies considered traditional American companies but that generate more than half their revenue outside the United States.

The most significant difference between international and global marketing organizations is management philosophy and corporate planning. Global marketers treat the world as a single, unified market with many different segments that may or may not fall along countries' political boundaries. International marketers, on the other hand, define markets along traditional political boundaries and, most often, assign unique status to their domestic market.

The first step in moving into global markets is to evaluate the market opportunities. Since a company's management team is usually less familiar with foreign markets, research helps fill in the blanks, providing critical information for decision makers.

## Essential Information

Global market research focuses on five basic types of information.

**Economic** An accurate understanding of the current economic environment, such as gross domestic product (GDP) growth, inflation, strength of the currency, and business

### EXHIBIT 2.3 Large U.S. Companies with over 50% of Revenue from International Markets

Company	Percent of Sales from International Markets
Qualcomm	98%
Intel	82
McDonald's	68
Dow Chemical	66
General Motors	63
Apple	62
Nike	55
Johnson & Johnson	53
General Electric	53

#### LO 2-2

Learn the essential information components for assessing a global marketing opportunity.

## EXHIBIT 2.4 | Top 5 Economies Based on GDP

Top 5 Economies	GDP (purchasing power parity) (US\$ trillion)
China	\$21.27
European Union	\$19.18
United States	\$18.56
India	\$ 8.72
Japan	\$ 4.93

Source: 2016 CIA World Fact Book

cycle trends, is essential. Also, depending on the company's target markets (consumer or business), additional economic data on consumer spending per capita (consumer products) or industrial purchasing trends (business products) are also needed to facilitate decision making. Exhibit 2.4 identifies the five largest economies in the world based on GDP, which is the total market value of all final goods and services produced in a country in a given year and one of the most widely used measures of economic growth.

**Culture, Societal Trends** Understanding a global market's culture and social trends is fundamental for consumer products and helpful for business-to-business marketers. Cultural values, symbols and rituals, and cultural differences affect people's perception of products while B2B companies must learn local cultural practices to recruit employees and establish good business relationships.<sup>4</sup>

**Business Environment** Knowledge of the business environment is essential for companies moving into foreign markets where they will invest significant resources. Ethical standards, management styles, degree of formality, and gender or other biases are all critical factors that management needs to know before entering a new market. Failure to understand the business environment can lead to misunderstanding and lost relationships as the company enters a new market. (See Exhibit 2.5 for examples.)

**Political and Legal** Local political changes can create significant uncertainties for a business. As witnessed in Bolivia and other countries, new governments sometimes alter the relationship of government to industry by exerting greater control and even nationalizing some industries.

Learning the legal landscape is fundamental before committing resources in a foreign market. Developing countries frequently limit the flow of money out of the country, making it harder for a foreign company to transfer money back home. Labor laws also vary widely around the world. Germany and France, for example, make it difficult to terminate someone once that person has

## EXHIBIT 2.5 | Business Customs in Five Selected Countries

When you are doing business in . . .	Remember. . .
The Czech Republic	Relationship building is important. Start with small talk and get to know the individual you are working with.
France	You should address the French as Monsieur or Madame followed by his or her last name. Use first names only after you are encouraged to do so.
Japan	Exchanging business cards is a brief ceremony. Use both hands to accept the card and look over each side before you slip it into your jacket pocket or briefcase.
Germany	Punctuality is extremely important. Be on time or you may seem disrespectful.
Colombia	Colombians stand closer to each other than do Americans. Do not step back if you feel they are too close; you may seem rude.

Source: Kwintessential.co.uk



been hired, while Great Britain's termination policies are more consistent with those of the United States.

**Specific Market Conditions** Before entering a foreign market, a company has some understanding of the specific market conditions for its own products as a result of its existing business knowledge. However, it is unlikely a company has in-depth knowledge about market trends, competitors, and unique market characteristics. Unfortunately, many companies that follow customers into a particular market believe it is unnecessary to know a lot about local market conditions. This lack of understanding can limit growth opportunities. The more a company knows about the local market environment, the better it will be able to leverage its investment in that market.

## EXHIBIT 2.6 | Fastest-Growing World Economies

Country	2017 GDP Real Growth Rate (%)
Libya	13.73
Yemen	12.62
Côte d'Ivoire	7.98
Myanmar	7.70
India	7.61

Source: IMF, *World Economic Outlook*, October 2016.

## Emerging Markets

World economic growth for much of the 20th century was fueled by the **developed economies** of Western Europe, the United States, and Japan. Over the past 25 years, however, while developed economies continue to grow, the most significant economic growth is found in **emerging markets**. Indeed, 75 percent of world economic growth over the next 20 years is projected to come from a new group of powerful economies, most notably China and India. These economic growth engines create market opportunities for companies, which, in turn, means marketers need to understand the unique challenges and opportunities of emerging markets.<sup>5</sup> Exhibit 2.6 highlights the fastest-growing economies in the world. Notice that, with the exception of India, the fastest-growing economies are small and their significant percentage growth is due in large part to the fact that the country's economy is starting from a much smaller economic base. Libya, for example, grew nearly 14 percent in 2017, but that does not mean it represents a good market opportunity.

The nature of emerging markets means traditional marketing methods will not be effective. For example, if the majority of a country lacks a television or radio and cannot read, traditional advertising campaigns will not work, or if a country lacks a distribution network, it will not be possible to deliver products to customers.

The challenge for marketers, particularly consumer products companies, is that demand for their products may be strong, but there is insufficient income to purchase the product and inadequate infrastructure to support sophisticated market programs. Soon after the Velvet Revolution in the Czech Republic, Estee Lauder opened a store in Prague targeted at Czech women living in the capital.<sup>6</sup> At first the company experienced problems because products that sold well in Western Europe and the United States simply were not being purchased. The company came to realize the products were sized and priced according to Western European standards and too expensive for the local Czech businesswoman. The solution was to sell sample sizes (which are often offered as premiums in promotional packages sold in the United States) for a fraction of the large product sizes. Czech women wanted to purchase Estee Lauder cosmetics, but at a size and price consistent with the local market.

## Multinational Regional Market Zones

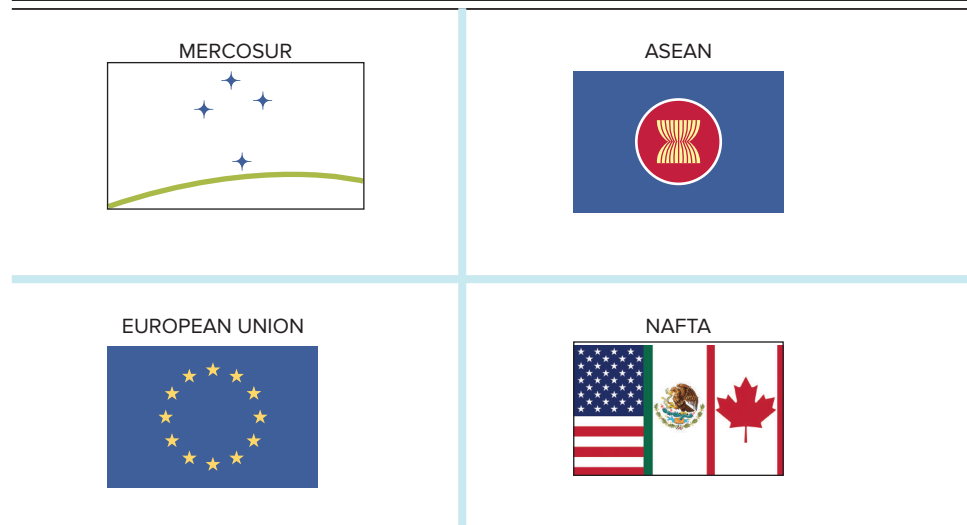
The single most significant global economic trend over the past 15 years is the emergence of regional market zones around the world. **Regional market zones** consist of a group of countries that create formal relationships for mutual economic benefit through lower tariffs and reduced trade barriers. In some cases, such as the European Union, their influence extends beyond economic concerns to political and social issues. Many countries believe membership in an economic alliance will be essential for access to markets in the future. As the world divides itself into a handful of powerful economic alliances, countries feel

### LO 2-3

Define the key regional market zones and their marketing challenges.



## EXHIBIT 2.7 | Top Four Regional Market Zones



Source: ©Alliance Images/Alamy Stock Photo

pressure to align with a regional market zone. Exhibit 2.7 identifies four of the largest regional market zones.

Regional market zones generally form as a result of four forces. The first and most fundamental factor is *economic*. Many small and medium-sized countries believe growth in their own country will be enhanced by forming alliances with other countries. By enlarging the trading area and creating a market zone, each country benefits economically and the market zone has more power in the global marketplace. Second, research suggests *geographic proximity* to other alliance partners is advantageous in the development of a market zone. Transportation and communication networks are more likely to connect countries close to one another, making it easier to facilitate market zone activities. Other issues such as immigration also tend to be handled more effectively when the distance between partners is minimized. The third factor is *political*. Closely related to increased economic power is increased political clout, particularly as smaller countries form broad political alliances. A prerequisite for effective political alliances among countries is general agreement on government policies. Countries with widely disparate political structures find it difficult to accommodate those differences in a political alliance. *Cultural similarities*, such as having a shared language, among alliance partners also facilitate market zones as shared cultural experiences encourage greater cooperation and minimize possible conflicts from cultural disparities.

**Europe** The **European Union** is the most successful regional market zone and it is also one of the oldest. Founded more than 50 years ago by six countries (Belgium, France, Italy, Luxembourg, the Netherlands, and West Germany) with the Treaty of Rome, the EU now includes 28 countries spanning all of Europe. In addition, five countries are seeking membership in the European Union: Iceland, Macedonia, Montenegro, Serbia, and Turkey. The process of becoming a member of the EU takes many years, and applicants must meet a wide range of economic, social, and legal criteria. One of the most difficult challenges for many member states is meeting targeted government spending and total debt limits. France and Germany (the two largest members of the EU) have both failed to meet government spending limits in recent years, and the debt limits of countries like Italy and Greece exceed the EU guidelines. With few consequences for missing EU targets, many governments focus more on local country priorities than EU directives. This has been a factor in the ongoing challenges for the euro as countries like Greece experience significant budget problems. Other countries (Italy, Spain, Portugal) are also having significant problems meeting their financial obligations.<sup>7</sup>

The EU is one of the most dominant economic entities in the world, with economic output approximately equal to that of the United States, but it is not without challenges. Its currency, the euro, has been considered one of the strongest in the world. However, recent challenges to the economic stability of several EU members (such as Greece) have caused significant fluctuations in its value. At the same time, some countries (notably Great Britain) have voted to leave the EU, creating a great deal of uncertainty about its future. Despite the challenges it faces, the EU maintains a great deal of power over member states, with the ability to enact laws, impose taxes, and exert tremendous social influence in the lives of citizens. For example, the EU has adopted strong socially responsible policies for companies doing business in member countries.



The WTO is the leading global organization to settle trade disputes between countries.

©Martin Good/Shutterstock

**Americas** The most significant market zone in the Americas is the alliance of the United States, Canada, and Mexico, which is commonly referred to by the treaty that created the alliance, **NAFTA (North American Free Trade Agreement)**. NAFTA created the single largest economic alliance and has eliminated tariffs between the member countries for more than 19 years. Exhibit 2.8 lists NAFTA's main provisions. Many industries, such as automaking, have manufacturing plants in Mexico to supply the U.S. market. Retailers have also benefited; Gigante, a large Mexican supermarket chain, operates in the United States while Walmart, a U.S. company, has over 800 stores in Mexico.<sup>8</sup>

NAFTA is not the only market zone in the Americas. **MERCOSUR**, the most powerful market zone in South America, was inaugurated in 1995 and includes Argentina, Bolivia, Brazil, Chile, Paraguay, and Uruguay. With over 200 million people and a combined GDP of more than \$1 trillion, it is currently the third-largest free trade area in the world.<sup>9</sup> One of the drawbacks has been a limited transnational transportation network, which restricts the movement of goods between member countries. However, MERCOSUR has overcome this

## EXHIBIT 2.8 | Key Provisions of NAFTA

### NAFTA aims to:

- Eliminate barriers to trade in, and facilitate the cross-border movement of, goods and services between the territories of the Parties.
- Promote conditions of fair competition in the free trade area.
- Increase substantially investment opportunities in the territories of the Parties.
- Provide adequate and effective protection and enforcement of intellectual property rights in each Party's territory.
- Create effective procedures for the implementation and application of this Agreement, for its joint administration and for the resolution of disputes; and
- Establish a framework for further trilateral, regional, and multilateral cooperation to expand and enhance the benefits of this Agreement.

Source: Article 101: Establishment of the Free Trade Area, NAFTA.

problem by successfully leveraging the combined economic power of the individual member countries and creating additional economic benefits for its members.

**Asia** The most important Asian market zone is **ASEAN**, which was founded in 1967 and comprises 10 countries in the Pacific Rim (Brunei Darussalam, Indonesia, Malaysia, Philippines, Cambodia, Laos, Myanmar, Singapore, Thailand, and Vietnam). After the 1997–1998 Asian financial crisis, the group added China, Japan, and South Korea. While the relationships with these “plus 3” countries are less developed than among the full member countries, the combined economic activity of all participants makes ASEAN a powerful global economic force.<sup>10</sup> The GDP of the 10 full members is over \$600 billion, and if the “plus 3” countries are included, the combined total is over \$20 trillion. ASEAN is currently leading talks to create an Asian free-trade area that would encompass “30 percent of the world’s total export volume.” The Regional Comprehensive Economic Partnership would be second only to the WTO in size.

## SELECT THE GLOBAL MARKET

Conducting a thorough assessment of potential global market opportunities is an essential first step in entering the global market. Once the analysis is completed, it is time to select specific countries for future investment. Deciding which countries to enter is difficult because the risk of failure is very high. Targeting the wrong country can lead to very high costs and unprofitable long-term investments. Walmart pulled out of the German market at an estimated cost of \$400 million. On the other hand, moving too slowly into a market can hamper growth and limit profit potential in the future. eBay’s decision to move slowly into China cost the company a dominant position in the market.

### Identify Selection Criteria

Market selection criteria incorporate the nature of the competitive environment, including both local and global competitors, as well as target market size and future growth rates. Marketing managers need to know which markets will be the easiest and which will be the

most difficult to enter. In addition, the size and future growth potential of international markets are critical in making the long-term commitment to manufacture in an international market. On the other hand, financial criteria focus on the cost of market entry and profitability estimates over given time periods. Decision makers are particularly interested in knowing the size of the investment and the length of time it will take before the company can expect to be profitable in a new market.<sup>11</sup>

### EXHIBIT 2.9 | Key Company Characteristics in Global Market Expansion



### Company Review

As a marketing manager you will need to evaluate global market opportunities against key company characteristics to look for markets that maximize the company’s strengths while minimizing weaknesses. Moving into new foreign markets brings greater risk to the company. As a result, decision makers must consider whether their company philosophy, personnel skill sets (principally in critical areas such as marketing and logistics), organizational structure, management expertise, and financial resources support the move into new countries (see Exhibit 2.9). Comparing the