FIFTEENTH EDITION

A PREFACE TO MARKETING MANAGEMENT

J. Paul Peter / James H. Donnelly, Jr.

Mc Graw Hill Education

A Preface to Marketing Management

Fifteenth Edition

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To Rose, Angie, and my BFF, Chelsea

J. Paul Peter

To Gayla

Jim Donnelly

About the Authors

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is Professor Emeritas at the University of Wisconsin. He was a member of the faculty at Indiana State, Ohio State, and Washington University before joining the Wisconsin faculty. While at Ohio State, he was named Outstanding Marketing Professor by the students and has won the John R. Larson Teaching Award at Wisconsin. He has taught a variety of courses including Marketing Management, Marketing Strategy, Consumer Behavior, Marketing Research, and Marketing Theory, among others.

Professor Peter's research has appeared in the *Journal of Marketing,* the *Journal of Marketing Research,* the *Journal of Consumer Research,* the *Journal of Retailing,* and the *Academy of Management Journal,* among others. His article on construct validity won the prestigious William O'Dell Award from the *Journal of Marketing Research,* and he was a finalist for this award on two other occasions. He was the recipient of the Churchill Award for Lifetime Achievement in Marketing Research, given by the American Marketing Association and the Gaumnitz Distinguished Faculty Award from the School of Business, University of Wisconsin–Madison. He is an author or editor of 30 books, including *A Preface to Marketing Management,* Fifteenth edition; *Marketing Management: Knowledge and Skills*; *Consumer Behavior and Marketing Strategy*; *Strategic Management: Concepts and Applications*; and *Marketing: Creating Value for Customers*. He is one of the most cited authors in the marketing literature.

Professor Peter has served on the review boards of the *Journal of Marketing, Journal of Marketing Research, Journal of Consumer Research,* and *Journal of Business Research* and was measurement editor for *JMR* and professional publications editor for the American Marketing Association. He has taught in a variety of executive programs and consulted for several corporations as well as the Federal Trade Commission.

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has spent his academic career in the Gatton College of Business and Economics at the University of Kentucky. He received the first Chancellor's Award for Outstanding Teaching given at the university. Previously, he had twice received the UK Alumni Association's Great Teacher Award, an award one can only be eligible to receive every 10 years. He has also received two Outstanding Teacher awards from Beta Gamma Sigma, national business honorary. He received an Acorn Award recognizing "those who shape the future" from the Kentucky Advocates for Higher Education. He was selected as "Best University of Kentucky Professor." He was one of six charter members elected to the American Bankers Association's Bank Marketing Hall of Fame.

During his career he has published in the *Journal of Marketing Research, Journal of Marketing, Journal of Retailing, Administrative Science Quarterly, Academy of Management Journal, Journal of Applied Psychology, Personnel Psychology, Journal of Business Research,* and *Operations Research* among others. He has served on the editorial review board of the *Journal of Marketing*. He is the author of more than a dozen books, which include widely adopted academic texts as well as professional books.

Professor Donnelly is very active in the banking industry where he has served on the board of directors of the Institute of Certified Bankers and the ABA's Marketing Network. He has also served as academic dean of the ABA's School of Bank Marketing and Management.

Preface

We have always enjoyed writing and revising this book because we believe marketing management is a fascinating field. Not only does it include elements of economics, psychology, sociology, and anthropology, but also marketing, finance, and strategic management, among other disciplines. Our goal has always been to blend these into a clear and concise presentation of the basic principles of marketing management so that the core concepts and ideas are covered sufficiently to ensure an in-depth understanding.

Throughout this book's history, feedback from both students and instructors supports our goal. Our book has been used in a wide variety of settings and is the best-selling book of its kind. We are proud to introduce the fifteenth edition knowing that our book and its eight foreign translations have been used around the world whenever courses require a concise overview of the critical aspects of marketing management.

In this edition, we have maintained the format and features of the book that make it a teachable text. We have also updated existing content and added new content to better reflect the changes in marketing management and its environment. We present quality content and examples and avoid excessive verbiage, pictures, and descriptions.

Each time we revise this book, there is a strong emphasis on responding to the feedback of students and instructors. We tailored the book to their expressed needs and wants. We believe a major reason the book has reached its fifteenth edition is that the marketing concept works.

TEXT FORMAT AND FEATURES

In addition to providing a clear and concise overview of the basic principles of marketing management, we have designed this book to assist students in analyzing marketing problems and cases and developing and writing marketing plans. The text consists of four sections.

Section I of the book consists of 13 chapters that cover the essentials of marketing management. Each chapter has a set of "Marketing Insights" to provide a deeper understanding of the chapter material. Each chapter also has a set of key terms and concepts at its conclusion to provide students a quick reference and to facilitate learning. This section is divided into four parts that include (1) strategic planning and marketing management, (2) understanding target markets, (3) the marketing mix, and (4) marketing in special fields. These 13 chapters are designed to provide students with a clear understanding of the concepts, techniques, tools, and strategies for effective marketing management and marketing strategy development.

Section II of the book provides an approach to solving marketing problems and cases. While cases differ in many ways, this approach provides a starting point in understanding the current situation in the case, finding problems, and making recommendations to improve the organization's situation.

Section III of the book provides an overview of financial analysis for marketing. It includes breakeven analysis, net present value analysis, and ratio analysis. These tools are useful for evaluating strategic alternatives and the overall financial condition of an organization.

Section IV of the book provides a framework for developing marketing plans. It offers students an approach to setting up a marketing plan and insights into key issues to consider at each stage of the development process.

Taken collectively, we think these four sections provide a sound foundation for students to develop and improve their strategic marketing skills. In addition to the text material, we also offer students a section of the Online Learning Center (OLC) at www.mhhe.com/peterdonnelly15e that contains a number of useful aids for facilitating learning.

UPDATES AND CHANGES IN THIS EDITION

The following is a summary of updates and changes to this edition. While some of them were designed to improve existing content, others were needed to reflect the dynamic nature of marketing management

Section I Essentials of Marketing Management

Chapter 1 Strategic Planning and the Marketing Management Process

- Revised discussion of the marketing concept
- New comparison of market and production orientations

Chapter 2 Marketing Research: Process and Systems for Decision Making

- Expanded discussion of primary and secondary data
- New comparison of quantitative and qualitative data
- New discussion of some uses of the Internet for marketing
- Revised discussion of marketing information systems

Chapter 3 Consumer Behavior

- New comparison of American cultural values
- New listing of online buying advantages and disadvantages from the consumer's point of view
- New discussion of tracking consumer behavior on social media

Chapter 4 Business, Government, and Institutional Buying

- New discussion of online organizational buying
- New discussion of social media for organizational buyers and sellers

Chapter 5 Market Segmentation

- Additional discussion of product positioning
- Additional discussion of segmentation bases, including a segmentation of online shoppers

Chapter 6 Product and Brand Strategy

- Updated listing of the 20 best global brands
- Revised discussion of qualities of a good brand name

Chapter 7 New Product Planning and Development

- New discussion of screening new product ideas
- Updated discussion of factors associated with new product success
- New discussion of new product failures and their causes

Chapter 8 Integrated Marketing Communication

- New listing of the largest global and U.S. advertisers
- New discussion of online media for integrated marketing communication
- Updated discussion of advantages and disadvantages of major advertising media

Chapter 9 Personal Selling, Relationship Building, and Sales Management

- New listing of factors influencing greater emphasis on personal selling
- Expanded discussion of traits of successful salespeople
- Expanded list of measures to evaluate salespeople

Chapter 10 Distribution Strategy

- Additional discussion of direct sales
- New discussion of successful multichannel marketing strategies

Chapter 11 Pricing Strategy

- Updated discussion of EDLP and high/low pricing strategies
- New discussion of deceptive pricing practices

Chapter 12 The Marketing of Services

- New discussion of customer judgments of service quality dimensions
- New discussion of the Internet as a service

Chapter 13 Global Marketing

- New listing of the top U.S. companies and their international sales
- New discussion of tips for entering emerging markets

Section II Analyzing Marketing Problems and Cases

- Updated and expanded discussion of the objectives of case analysis
- Updated discussion of SWOT analysis

Section III Financial Analysis for Marketing Decisions

- New listing of financial and strategic objectives

Section IV Developing Marketing Plans

- Updated figures

INSTRUCTOR SUPPORT

The *Preface* has been used as a resource in college courses and professional development programs that require an overview of the critical "need-to-know" aspects of marketing management and marketing strategy development. It has been used:

- As the primary introductory text at the undergraduate level.
- At both the undergraduate and MBA level, where several AACSB core curriculum courses are team-taught as one multidisciplinary 9- to 12-hour course.
- At the advanced undergraduate and MBA level where it is used as the content foundation in courses that utilize marketing cases.
- In short courses and executive development programs.

The instructor section of www.mhhe.com/peterdonnelly15e includes an instructor's manual and other support material. It includes two expanded supplements. They were developed in response to instructors' requests. We offer a test bank of nearly 1,300 multiple-choice, true-false, and brief essay questions. We also offer PowerPoint slides that highlight key text material. Your McGraw-Hill representative can also assist in the delivery of any additional instructor support material.

Acknowledgments

Our book is based on the works of many academic researchers and marketing practitioners. We want to thank those individuals who contributed their ideas to develop the field of marketing throughout the years. Indeed, our book would not be possible without their contributions. We would also like to thank our teachers, colleagues, and students for their many contributions to our education. We would also like to publicly acknowledge those individuals who served as reviewers of this and previous editions. We appreciate their advice and counsel and have done our best to reflect their insightful comments.

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J. Paul Peter

James H. Donnelly, Jr.

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Chapter 1

Strategic Planning and the Marketing Management Process

The purpose of this introductory chapter is to present the marketing management process and outline what marketing managers must *manage* if they are to be effective. In doing so, it will also present a framework around which the remaining chapters are organized. Our first task is to review the organizational philosophy known as the marketing concept, because it underlies much of the thinking presented in this book. The remainder of this chapter will focus on the process of strategic planning and its relationship to the process of marketing planning.

THE MARKETING CONCEPT

Simply stated, the marketing concept means that *an organization should seek to achieve its goals by serving its customers*. For a business organization, this means that it should focus its efforts on determining what customers need and want and then creating and offering products and services that satisfy these needs and wants. By doing so, the business will achieve its goal of making profits.

The purpose of the marketing concept is to rivet the attention of organizations on serving customer needs and wants. This is called a *market orientation*, and it differs dramatically from a *production orientation* that focuses on making products and then trying to sell them to customers. Thus, effective marketing starts with the recognition of customer needs and wants and then works backward to create products and services to satisfy them. In this way, organizations can satisfy customers more efficiently in the present and more accurately forecast changes in customers needs and wants in the future. This means that organizations should focus on building long-term customer relationships in which an initial sale is only an early step in the relationship, not an end goal. Long-term relationships between organizations and customers lead to higher levels of profits and higher levels of customer satisfaction.

The principal task of an organization with a market orientation is not to manipulate customers to do what suits its interests but rather to find effective and efficient means to satisfy the interests of customers. This is not to say that all organizations do so. Clearly many are still production oriented. However, effective marketing, as defined in this text, requires that customers come first in organizational decision making.

MARKETING INSIGHT Some Differences between Organizations with a Market versus Product Orientation 1–1

Topic	Marketing Orientation	Production Orientation
Attitudes toward customers	Customer needs determine company plans	They should be glad we exist, trying to cut costs and bringing out better products
Product offering	Company makes what it can sell	Company sells what it can make
Role of marketing research	To determine customer needs and how well company is satisfying them	To determine customer reaction, if used at all
Interest in innovation	Focus is on locating new opportunities	Focus is on technology and cost cutting
Customer service	Satisfy customers after the sale and they'll come back again	An activity required to reduce consumer complaints
Focus of advertising	Need-satisfying benefits of goods and services	Product features and how products are made
Relationship with customer	Customer satisfaction before and after sale leads to a profitable long-run relationship	Relationship ends when a sale is made
Costs	Eliminate costs that do not give value to customer	Keep costs as low as possible

William D. Perrault Jr., Joseph P. Cannon, and E. Jerome McCarthy, *Essentials of Marketing*. 15th ed. (New York: McGraw-Hill, 2017), p. 19. Reprinted with permission of McGraw-Hill Education.

One qualification to this statement deals with the question of a conflict between consumer wants and societal needs and wants. For example, if society deems clean air and water as necessary for survival, this need may well take precedence over a consumer's want for goods and services that pollute the environment.

WHAT IS MARKETING?

Everyone reading this book has been a customer for most of his or her life. Last evening you stopped at a local supermarket to graze at the salad bar, pick up some bottled water and a bag of Fritos corn chips. While you were there, you snapped a $1.00 coupon for a new flavor salad dressing out of a dispenser and tasted some new breakfast potatoes being cooked in the back of the store. As you sat down at home to eat your salad, you answered the phone and someone suggested that you need to have your carpets cleaned. Later on in the evening you saw TV commercials for tires, soft drinks, athletic shoes, and the dangers of smoking and drinking during pregnancy. Today when you enrolled in a marketing course, you found that the instructor has decided that you must purchase this book. A friend has already purchased the book on the Internet. All of these activities involve marketing. And each of us knows something about marketing because it has been a part of our life since we had our first dollar to spend.

Since we are all involved in marketing, it may seem strange that one of the persistent problems in the field has been its definition. The American Marketing Association defines marketing as "the activity, set of institutions, and processes for creating, communicating, delivering, and exchanging offerings that have value for customers, clients, partners, and society at large."[1] This definition takes into account all parties involved in the marketing effort: members of the producing organization, resellers of goods and services, and

FIGURE 1.1
Major Types of Marketing

Type	Description	Example
Product	Marketing designed to create exchange for tangible products.	Strategies to sell Gateway computers.
Service	Marketing designed to create exchanges for intangible products.	Strategies by Allstate to sell insurance.
Person	Marketing designed to create favorable actions toward persons.	Strategies to elect a political candidate.
Place	Marketing designed to attract people to places.	Strategies to get people to vacation in national or state parks.
Cause	Marketing designed to create support for ideas, causes, or issues or to get people to change undesirable behaviors.	Strategies to get pregnant women not to drink alcohol.
Organization	Marketing designed to attract donors, members, participants, or volunteers.	Strategies designed to attract blood donors.

customers or clients. While the broadness of the definition allows the inclusion of nonbusiness exchange processes, the primary emphasis in this text is on marketing in the business environment. However, this emphasis is not meant to imply that marketing concepts, principles, and techniques cannot be fruitfully employed in other areas of exchange as is clearly illustrated in Figure 1.1.

WHAT IS STRATEGIC PLANNING?

Before a production manager, marketing manager, and personnel manager can develop plans for their individual departments, some larger plan or blueprint for the *entire* organization should exist. Otherwise, on what would the individual departmental plans be based?

In other words, there is a larger context for planning activities. Let us assume that we are dealing with a large business organization that has several business divisions and several product lines within each division (e.g., General Electric, Altria). Before individual divisions or departments can implement any marketing planning, a plan has to be developed for the entire organization.[2] This means that senior managers must look toward the future and evaluate their ability to shape their organization's destiny in the years and decades to come. The output of this process is objectives and strategies designed to give the organization a chance to compete effectively in the future. The objectives and strategies established at the top level provide the context for planning in each of the divisions and departments by divisional and departmental managers.

Strategic Planning and Marketing Management

Some of the most successful business organizations are here today because many years ago they offered the right product at the right time to a rapidly growing market. The same can also be said for nonprofit and governmental organizations. Many of the critical decisions of the past were made without the benefit of strategic thinking or planning. Whether these decisions were based on wisdom or were just luck is not important; they worked for these organizations. However, a worse fate befell countless other organizations. More than three-quarters of the 100 largest U.S. corporations of 70 years ago have fallen from the list. These corporations at one time dominated their markets, controlled vast resources, and had the best-trained workers. In the end, they all made the same critical mistake. Their managements failed to recognize that business strategies need to reflect changing

MARKETING INSIGHT The Long-Term Value of Loyal Customers 1–2

1. It costs a great deal more to acquire a new customer than to keep an old one.
2. Loyal customers buy more from your firm over time.
3. The longer you keep a customer, the more profitable they become over time.
4. It costs less to service loyal customers than new customers.
5. Loyal customers are often excellent referrals for new business.
6. Loyal customers are often willing to pay more for the quality and value they desire.

Source: One of the earliest works on the value of the loyal customer was Frederick F. Reichheld, *The Loyalty Effect.* (Boston: HBS Press, 1996). Also see Roland T. Rust, Katherine N. Lemon, and Valerie A. Zeithaml, "Return on Marketing: Using Customer Equity to Focus Marketing Strategies," *Journal of Marketing,* January 2004, pp. 76–89; and W. D. Perreault Jr., J. P. Cannon, and E. Jerome McCarthy, *Essentials of Marketing*, 15th ed. (New York: McGraw-Hill, 2017), pp. 42–43.

environments and emphasis must be placed on developing business systems that allow for continuous improvement. Instead, they attempted to carry on business as usual.

Present-day managers are increasingly recognizing that wisdom and innovation alone are no longer sufficient to guide the destinies of organizations, both large and small. These same managers also realize that the true mission of the organization is to provide value for three key constituencies: customers, employees, and investors. Without this type of outlook, no one, including shareholders, will profit in the long run.

Strategic planning includes all the activities that lead to the development of a clear organizational mission, organizational objectives, and appropriate strategies to achieve the objectives for the entire organization. The form of the process itself has come under criticism in some quarters for being too structured; however, strategic planning, if performed successfully, plays a key role in achieving an equilibrium between the short and the long term by balancing acceptable financial performance with preparation for inevitable changes in markets, technology, and competition, as well as in economic and political arenas. Managing principally for current cash flows, market share gains, and earnings trends can mortgage the firm's future. An intense focus on the near term can produce an aversion to risk that dooms a business to stagnation. Conversely, an overemphasis on the long run is just as inappropriate. Companies that overextend themselves betting on the future may penalize short-term profitability and other operating results to such an extent that the company is vulnerable to takeover and other threatening actions.

The strategic planning process is depicted in Figure 1.2. In the strategic planning process, the organization gathers information about the changing elements of its environment. Managers from all functional areas in the organization assist in this information-gathering process. This information is useful in aiding the organization to adapt better to these changes through the process of strategic planning. The strategic plan(s)[3] and supporting plan are then implemented in the environment. The end results of this implementation are fed back as new information so that continuous adaptation and improvement can take place.

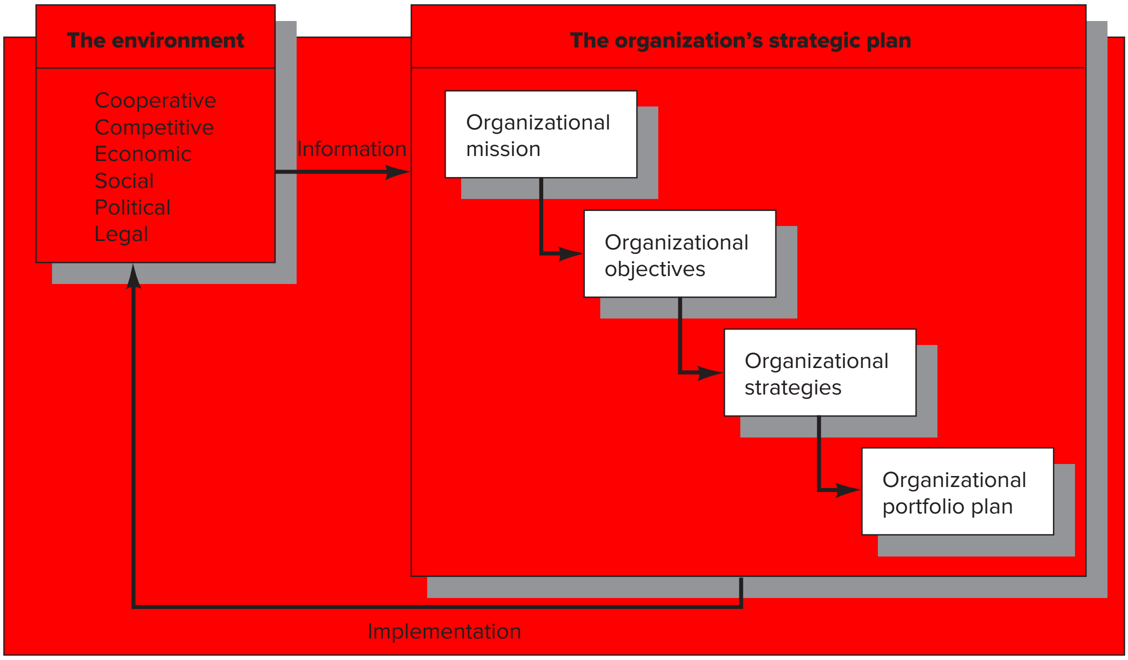
The Strategic Planning Process

The output of the strategic planning process is the development of a strategic plan. Figure 1.2 indicates four components of a strategic plan: mission, objectives, strategies, and portfolio plan. Let us carefully examine each one.

Organizational Mission

The organization's environment provides the resources that sustain the organization, whether it is a business, a college or university, or a government agency. In exchange for these resources, the organization must supply the environment with quality goods

FIGURE 1.2 The Strategic Planning Process



and services at an acceptable price. In other words, every organization exists to accomplish something in the larger environment and that purpose, vision, or mission usually is clear at the organization's inception. As time passes, however, the organization expands, and the environment and managerial personnel change. As a result, one or more things are likely to occur. First, the organization's original purpose may become irrelevant as the organization expands into new products, new markets, and even new industries. For example, Levi Strauss began as a manufacturer of work clothes. Second, the original mission may remain relevant, but managers begin to lose interest in it. Finally, changes in the environment may make the original mission inappropriate, as occurred with the March of Dimes when a cure was found for polio. The result of any or all three of these conditions is a "drifting" organization, without a clear mission, vision, or purpose to guide critical decisions. When this occurs, management must search for a purpose or emphatically restate and reinforce the original purpose.

The mission statement, or purpose, of an organization is the description of its reason for existence. It is the long-run vision of what the organization strives to be, the unique aim that differentiates the organization from similar ones and the means by which this differentiation will take place. In essence, the mission statement defines the direction in which the organization is heading and how it will succeed in reaching its desired goal. While some argue that vision and mission statements differ in their purpose, the perspective we will take is that both reflect the organization's attempt to guide behavior, create a culture, and inspire commitment. However, it is more important that the mission statement comes from the heart and is practical, easy to identify with, and easy to remember so that it will provide direction and significance to all members of the organization regardless of their organizational level.

The basic questions that must be answered when an organization decides to examine and restate its mission are, What is our business? Who are our customers? What do customers value? and What is our business? The answers are, in a sense, the assumptions on which the organization is being run and from which future decisions will evolve. While such questions

MARKETING INSIGHT Some Actual Mission Statements 1–3

Organization	Mission
Large pharmaceutical firm	We will become the world's most valued company to patients, customers, colleagues, investors, business partners, and the communities where we work and live.
Community bank	To help citizens successfully achieve and celebrate important life events with education, information, products, and services.
Skin care products	We will provide luxury skin-care products with therapeutic qualities that make them worth their premium price.
Hotel chain	Grow a worldwide lodging business using total-quality-management (TQM) principles to continuously improve preference and profitability. Our commitment is that *every guest leaves satisfied.*
Mid-size bank	We will become the best bank in the state for medium-size businesses by 2024.

may seem simplistic, they are such difficult and critical ones that the major responsibility for answering them must lie with top management. In fact, the mission statement remains the most widely used management tool in business today. In developing a statement of mission, management must take into account three key elements: the organization's history, its distinctive competencies, and its environment.[4]

1. *The organization's history*. Every organization—large or small, profit or nonprofit—has a history of objectives, accomplishments, mistakes, and policies. In formulating a mission, the critical characteristics and events of the past must be considered.
2. *The organization's distinctive competencies*. While there are many things an organization may be able to do, it should seek to do what it can do best. Distinctive competencies are things that an organization does well—so well in fact that they give it an advantage over similar organizations. For Honeywell, its ability to design, manufacture, and distribute a superior line of thermostats. Similarly, Procter & Gamble's distinctive competency is its knowledge of the market for low-priced, repetitively purchased consumer products. No matter how appealing an opportunity may be, to gain advantage over competitors, the organization must formulate strategy based on distinctive competencies.
3. *The organization's environment*. The organization's environment dictates the opportunities, constraints, and threats that must be identified before a mission statement is developed. For example, managers in any industry that is affected by Internet technology breakthroughs should continually be asking, How will the changes in technology affect my customers' behavior and the means by which we need to conduct our business?

However, it is extremely difficult to write a useful and effective mission statement. It is not uncommon for an organization to spend one or two years developing a useful mission statement. When completed, an effective mission statement will be *focused on markets rather than products, achievable, motivating, and specific.*[5]

Focused on Markets Rather Than Products The customers or clients of an organization are critical in determining its mission. Traditionally, many organizations defined their business in terms of what they made ("our business is glass"), and in many cases they named the organization for the product or service (e.g., American Tobacco, Hormel Meats, National Cash Register, Harbor View Savings and Loan Association). Many of these organizations have found that, when products and technologies become obsolete, their mission is no longer relevant and the name of the organization may no longer describe what it does. Thus, a more enduring way of defining the mission is needed. In recent years,

MARKETING INSIGHT Common Shortcomings in Mission Statements 1–4

1. Incomplete—not specific as to where the company is headed and what kind of company management is trying to create.
2. Vague—does not provide direction to decision makers when faced with product/market choices.
3. Not motivational—does not provide a sense of purpose or commitment to something bigger than the numbers.
4. Not distinctive—not specific to our company.
5. Too reliant on superlatives—too many superlatives such as *#1*, *recognized leader*, *most successful*.
6. Too generic—does not specify the business or industry to which it applies.
7. Too broad—does not rule out any opportunity management might wish to pursue.

Source: Adapted from Arthur A. Thompson Jr. Margaret A. Peteraf, John E. Gamble, and A. J. Strickland III, *Crafting and Executing Strategy,* 21st ed. (New York: McGraw-Hill, 2018), p. 22.

Examine the mission statements in Marketing Insight 1–3. Do any of these shortcomings apply to them?

therefore, a key feature of mission statements has been an *external* rather than *internal* focus. In other words, the mission statement should focus on the broad class of needs that the organization is seeking to satisfy (external focus), not on the physical product or service that the organization is offering at present (internal focus). These market-driven firms stand out in their ability to continuously anticipate market opportunities and respond before their competitors. Peter Drucker has clearly stated this principle:

> A business is not defined by the company's name, statutes, or articles of incorporation. It is defined by the want the customer satisfies when he buys a product or service. To satisfy the customer is the mission and purpose of every business. The question "What is our business?" can, therefore, be answered only by looking at the business from the outside, from the point of view of customer and market.[6]

While Drucker was referring to business organizations, the same necessity exists for both nonprofit and governmental organizations. That necessity is to state the mission in terms of serving a particular group of clients or customers and meeting a particular class of need.

Achievable While the mission statement should stretch the organization toward more effective performance, it should, at the same time, be realistic and achievable. In other words, it should open a vision of new opportunities but should not lead the organization into unrealistic ventures far beyond its competencies.

Motivational One of the side (but very important) benefits of a well-defined mission is the guidance it provides employees and managers working in geographically dispersed units and on independent tasks. It provides a shared sense of purpose outside the various activities taking place within the organization. Therefore, such end results as sales, patients cared for, students graduated, and reduction in violent crimes can then be viewed as the result of careful pursuit and accomplishment of the mission and not as the mission itself.

Specific As we mentioned earlier, public relations should not be the primary purpose of a statement of mission. It must be specific to provide direction and guidelines to management when they are choosing between alternative courses of action. In other words, "to produce the highest-quality products at the lowest possible cost" sounds very good, but it does not provide direction for management.

MARKETING INSIGHT Potential Sources of Cross-Functional Conflict for Marketers 1–5

Functions	What They May Want to Deliver	What Marketers May Want Them to Deliver
Research and development	Basic research projects	Products that deliver customer value
	Product features	Customer benefits
	Few projects	Many new products
Production/operations	Long production runs	Short production runs
	Standardized products	Customized products
	No model changes	Frequent model changes
	Long lead times	Short lead times
	Standard orders	Customer orders
	No new products	Many new products
Finance	Rigid budgets	Flexible budgets
	Budgets based on return on investment	Budgets based on need to increase sales
	Low sales commissions	High sales commissions
Accounting	Standardized billing	Custom billing
	Strict payment terms	Flexible payment terms
	Strict credit standards	Flexible credit standards
Human resources	Trainable employees	Skilled employees
	Low salaries	High salaries

Organizational Objectives

Organizational objectives are the end points of an organization's mission and are what it seeks through the ongoing, long-run operations of the organization. The organizational mission is distilled into a finer set of specific and achievable organizational objectives. These objectives must be *specific, measurable, action commitments* by which the mission of the organization is to be achieved.

As with the statement of mission, organizational objectives are more than good intentions. In fact, if formulated properly, they can accomplish the following:

1. They can be converted into specific action.
2. They will provide direction. That is, they can serve as a starting point for more specific and detailed objectives at lower levels in the organization. Each manager will then know how his or her objectives relate to those at higher levels.
3. They can establish long-run priorities for the organization.
4. They can facilitate management control because they serve as standards against which overall organizational performance can be evaluated.

Organizational objectives are necessary in all areas that may influence the performance and long-run survival of the organization. As shown in Figure 1.3, objectives can be established in and across many areas of the organization. The list provided in Figure 1.3 is by no means exhaustive. For example, some organizations are specifying the primary objective as the attainment of a specific level of quality, either in the marketing of a product or the providing of a service. These organizations believe that objectives should reflect an organization's commitment to the customer rather than its own finances. Obviously, during the strategic planning process conflicts are likely to occur between various functional departments in the organization. The important point is that management must translate the

FIGURE 1.3
Sample Organizational Objectives (manufacturing firm)

Area of Performance	Possible Objective
1. Market standing	To make our brands number one in their field in terms of market share.
2. Innovations	To be a leader in introducing new products by spending no less than 7 percent of sales for research and development.
3. Productivity	To manufacture all products efficiently as measured by the productivity of the workforce.
4. Physical and financial resources	To protect and maintain all resources—equipment, buildings, inventory, and funds.
5. Profitability	To achieve an annual rate of return on investment of at least 15 percent.
6. Manager performance and responsibility	To identify critical areas of management depth and succession.
7. Worker performance and attitude	To maintain levels of employee satisfaction consistent with our own and similar industries.
8. Social responsibility	To respond appropriately whenever possible to societal expectations and environmental needs.

organizational mission into specific objectives that support the realization of the mission. The objectives may flow directly from the mission or be considered subordinate necessities for carrying out the mission. As discussed earlier, the objectives are specific, measurable, action commitments on the part of the organization.

Organizational Strategies

Hopefully, when an organization has formulated its mission and developed its objectives, it knows where it wants to go. The next managerial task is to develop a "grand design" to get there. This grand design constitutes the organizational strategies. Strategy involves the choice of major directions the organization will take in pursuing its objectives. Toward this end, it is critical that strategies are consistent with goals and objectives and that top management ensures strategies are implemented effectively. As many as 70 percent of strategic plans fail because the strategies in them are not well-defined and, thus, cannot be implemented effectively. What follows is a discussion of various strategies organizations can pursue. We discuss three approaches: (1) strategies based on products and markets, (2) strategies based on competitive advantage, and (3) strategies based on value.

Organizational Strategies Based on Products and Markets One means to developing organizational strategies is to focus on the directions the organization can take in order to grow. Figure 1.4, which presents the available strategic choices, is a product–market matrix.[7] It indicates that an organization can grow by better managing

FIGURE 1.4
Organizational Growth Strategies

Products / Markets	Present Products	New Products
Present customers	Market penetration	Product development
New customers	Market development	Diversification

MARKETING INSIGHT Three Tests for Organizational Strategies 1–6

1. *The Fit Test*: How well does the strategy fit the company's situation? A strategy must have good *external fit,* which means it will be well matched to industry and competitive conditions, the company's best market opportunities, and other relevant aspects of its business environment. It also must have a good *internal fit,* which means it is tailored to the company's resources and distinctive competencies and be supported by a complementary set of functional capabilities (sales and marketing, production, etc.).
2. *The Competitive Advantage Test*: Can the strategy help the company achieve a sustainable competitive advantage? Strategies that fail this test are unlikely to produce superior performance for more than a brief period of time. A good strategy should enable the organization to achieve a long-term competitive advantage.
3. *The Performance Test*: Is the strategy producing good company performance? Critical performance indicators are (a) profitability and financial strength and (b) competitive strength and market standing. Above average performance in these two areas is an indicator of a winning strategy.

Source: Adapted from Arthur A. Thompson Jr. Margaret A. Peteraf, John E. Gamble, and A. J. Strickland III, *Crafting and Executing Strategy,* 21st ed. (New York: McGraw-Hill, 2018), p. 12.

what it is presently doing or by finding new things to do. In choosing one or both of these paths, it must also decide whether to concentrate on present customers or to seek new ones. Thus, according to Figure 1.4, there are only four paths an organization can take in order to grow.

Market Penetration Strategies These strategies focus primarily on increasing the sale of present products to present customers. For example:

- Encouraging present customers to use more of the product: "Orange Juice Isn't Just for Breakfast Anymore."
- Encouraging present customers to purchase more of the product: multiple packages of Pringles, instant winner sweepstakes at a fast-food restaurant.
- Directing programs at current participants: A university directs a fund-raising program at those graduates who already give the most money.

Tactics used to implement a market penetration strategy might include price reductions, advertising that stresses the many benefits of the product (e.g., "Milk Is a Natural"), packaging the product in different-sized packages, or making it available at more locations. Other functional areas of the business could also be involved in implementing the strategy in addition to marketing. A production plan might be developed to produce the product more efficiently. This plan might include increased production runs, the substitution of preassembled components for individual product parts, or the automation of a process that previously was performed manually.

Market Development Strategies Pursuing growth through market development, an organization would seek to find new customers for its present products. For example:

- Arm & Hammer continues to seek new uses for its baking soda.
- McDonald's continually seeks expansion into overseas markets.
- As the consumption of salt declined, the book *101 Things You Can Do with Salt Besides Eat It* appeared.

Market development strategies involve much, much more than simply getting the product to a new market. Before deciding on marketing techniques such as advertising and packaging, companies often find they must establish a clear position in the market, sometimes spending large sums of money simply to educate consumers as to why they should consider buying the product.

Product Development Strategies Selecting one of the remaining two strategies means the organization will seek new things to do. With this particular strategy, the new products developed would be directed primarily to present customers. For example:

- Offering a different version of an existing product: mini-Oreos, Ritz with cheese.
- Offering a new and improved version of its product: Gillette's latest improvement in shaving technology.
- Offering a new way to use an existing product: Vaseline's Lip Therapy.

Diversification This strategy can lead the organization into entirely new and even unrelated businesses. It involves seeking new products (often through acquisitions) for customers not currently being served. For example:

- Altria, originally a manufacturer of cigarettes, is widely diversified in financial services, Post cereals, Sealtest dairy, and Kraft cheese, among others.
- Brown Foreman Distillers acquired Hartmann Luggage, and Sara Lee acquired Coach Leather Products.
- Some universities are establishing corporations to find commercial uses for faculty research.

Organizational Strategies Based on Competitive Advantage Michael Porter developed a model for formulating organizational strategy that is applicable across a wide variety of industries.[8] The focus of the model is on devising means to gain competitive advantage. Competitive advantage is an ability to outperform competitors in providing something that the market values. Porter suggests that firms should first analyze their industry and then develop either a *cost leadership strategy* or a *strategy based on differentiation*. These general strategies can be used on marketwide bases or in a niche (segment) within the total market.

Using a cost leadership strategy, a firm would focus on being the low-cost company in its industry. They would stress efficiency and offer a standard, no-frills product. They could achieve this through efficiencies in production, product design, manufacturing, distribution, technology, or some other means. The important point is that to succeed, the organization must continually strive to be the cost leader in the industry or market segment it competes in. It must also offer products or services that are acceptable to customers when compared to the competition. Walmart, Southwest Airlines, and Timex Group Ltd. are companies that have succeeded in using a cost leadership strategy.

Using a strategy based on differentiation, a firm seeks to be unique in its industry or market segment along particular dimensions that the customers value. These dimensions might pertain to design, quality, service, variety of offerings, brand name, or some other factor. The important point is that because of uniqueness of the product or service along one or more of these dimensions, the firm can charge a premium price. L.L.Bean, Rolex, Coca- Cola, and Microsoft are companies that have succeeded using a differentiation strategy.

Organizational Strategies Based on Value As competition increases, the concept of "customer value" has become critical for marketers as well as customers. It can be thought of as an extension of the marketing concept philosophy that focuses on developing and delivering superior value to customers as a way to achieve organizational objectives. Thus, it focuses not only on customer needs, but also on the question, How can we create value for them and still achieve our objectives?

It has become pretty clear that in today's competitive environment it is unlikely that a firm will succeed by trying to be all things to all people.[9] Thus, to succeed firms must seek to build long-term relationships with their customers by offering a unique value that only they can offer. It seems that many firms have succeeded by choosing to deliver superior customer value using one of three value strategies—best price, best product, or best service.

Dell Inc., Costco, and Southwest Airlines are among the success stories in offering customers the best price. Rubbermaid, Nike, Starbucks, and Microsoft believe they offer the best products on the market. Airborne Express, Roadway, Cott Corporation, and Lands' End provide superior customer value by providing outstanding service.

Choosing an Appropriate Strategy

On what basis does an organization choose one (or all) of its strategies? Of extreme importance are the directions set by the mission statement. Management should select those strategies consistent with its mission and capitalize on the organization's distinctive competencies that will lead to a sustainable competitive advantage. A sustainable competitive advantage can be based on either the assets or skills of the organization. Technical superiority, low-cost production, customer service/product support, location, financial resources, continuing product innovation, and overall marketing skills are all examples of distinctive competencies that can lead to a sustainable competitive advantage. For example, Honda is known for providing quality automobiles at a reasonable price. Each succeeding generation of Honda automobiles has shown marked quality improvements over previous generations. Similarly, VF Corporation, manufacturer of Wrangler and Lee jeans, has formed "quick response" partnerships with both discounters and department stores to ensure the efficiency of product flow. The key to sustaining a competitive advantage is to continually focus and build on the assets and skills that will lead to long-term performance gains.

Organizational Portfolio Plan

The final phase of the strategic planning process is the formulation of the organizational portfolio plan. In reality, most organizations at a particular time are a portfolio of businesses, that is, product lines, divisions, and schools. To illustrate, an appliance manufacturer may have several product lines (e.g., televisions, washers and dryers, refrigerators, stereos) as well as two divisions, consumer appliances and industrial appliances. A college or university will have numerous schools (e.g., education, business, law, architecture) and several programs within each school. Some widely diversified organizations such as Altria are in numerous unrelated businesses, such as cigarettes, food products, land development, and industrial paper products.

Managing such groups of businesses is made a little easier if resources are plentiful, cash is plentiful, and each is experiencing growth and profits. Unfortunately, providing larger and larger budgets each year to all businesses is seldom feasible. Many are not experiencing growth, and profits and resources (financial and nonfinancial) are becoming more and more scarce. In such a situation, choices must be made, and some method is necessary to help management make the choices. Management must decide which businesses to build, maintain, or eliminate, or which new businesses to add. Indeed, much of the recent activity in corporate restructuring has centered on decisions relating to which groups of businesses management should focus on.

Obviously, the first step in this approach is to identify the various divisions, product lines, and so on that can be considered a "business." When identified, these are referred to as *strategic business units* (SBUs) and have the following characteristics:

- They have a distinct mission.
- They have their own competitors.

- They are a single business or collection of related businesses.
- They can be planned independently of the other businesses of the total organization.

Thus, depending on the type of organization, an SBU could be a single product, product line, or division; a college of business administration; or a state mental health agency. Once the organization has identified and classified all of its SBUs, some method must be established to determine how resources should be allocated among the various SBUs. These methods are known as *portfolio models*. For those readers interested, the appendix of this chapter presents two of the most popular portfolio models, the Boston Consulting Group model and the General Electric model.

The Complete Strategic Plan

Figure 1.2 indicates that at this point the strategic planning process is complete, and the organization has a time-phased blueprint that outlines its mission, objectives, and strategies. Completion of the strategic plan facilitates the development of marketing plans for each product, product line, or division of the organization. The marketing plan serves as a subset of the strategic plan in that it allows for detailed planning at a target market level. This important relationship between strategic planning and marketing planning is the subject of the final section of this chapter.

THE MARKETING MANAGEMENT PROCESS

Marketing management can be defined as "the process of planning and executing the conception, pricing, promotion, and distribution of goods, services, and ideas to create exchanges with target groups that satisfy customer and organizational objectives."[10] It should be noted that this definition is entirely consistent with the marketing concept, since it emphasizes serving target market needs as the key to achieving organizational objectives. The remainder of this section will be devoted to a discussion of the marketing management process according to the model in Figure 1.5.

Situation Analysis

With a clear understanding of organizational objectives and mission, the marketing manager must then analyze and monitor the position of the firm and, specifically, the marketing department, in terms of its past, present, and future situation. Of course, the future situation is of primary concern. However, analyses of past trends and the current situation are most useful for predicting the future situation.

The situation analysis can be divided into six major areas of concern: (1) the cooperative environment, (2) the competitive environment, (3) the economic environment, (4) the social environment, (5) the political environment, and (6) the legal environment. In analyzing each of these environments, the marketing executive must search both for opportunities and for constraints or threats to achieving objectives. Opportunities for profitable marketing often arise from changes in these environments that bring about new sets of needs to be satisfied. Constraints on marketing activities, such as limited supplies of scarce resources, also arise from these environments.

The Cooperative Environment The cooperative environment includes all firms and individuals who have a vested interest in the firm's accomplishing its objectives. Parties of primary interest to the marketing executive in this environment are (1) suppliers, (2) resellers, (3) other departments in the firm, and (4) subdepartments and employees of the marketing department. Opportunities in this environment are primarily related to methods of increasing efficiency. For example, a company might decide to switch from a competitive bid process of obtaining materials to a single source that is located near the company's plant.

FIGURE 1.5
Strategic Planning and Marketing Planning

Similarly, members of the marketing, engineering, and manufacturing functions may use a teamwork approach to developing new products versus a sequential approach. Constraints consist of such things as unresolved conflicts and shortages of materials. For example, a company manager may believe that a distributor is doing an insufficient job of promoting and selling the product, or a marketing manager may feel that manufacturing is not taking the steps needed to produce a quality product.

The Competitive Environment The competitive environment includes primarily other firms in the industry that rival the organization for both resources and sales. Opportunities in this environment include such things as (1) acquiring competing firms; (2) offering demonstrably better value to consumers and attracting them away from competitors; and (3) in some cases, driving competitors out of the industry. For example, one airline purchases another airline, a bank offers depositors a free checking account with no minimum balance requirements, or a grocery chain engages in an everyday low-price strategy that competitors can't meet. The primary constraints in these environments are the demand stimulation activities of competing firms and the number of consumers who cannot be lured away from competition.

The Economic Environment The state of the macroeconomy and changes in it also bring about marketing opportunities and constraints. For example, such factors as high inflation and unemployment levels can limit the size of the market that can afford to purchase a firm's top-of-the-line product. At the same time, these factors may offer a profitable opportunity to develop rental services for such products or to develop less-expensive models of the product. In addition, changes in technology can provide significant threats and opportunities. For example, in the communications industry, when technology was developed to a level where it was possible to provide cable television using phone lines, such a system posed a severe threat to the cable industry.

MARKETING INSIGHT Key Issues in the Marketing Planning Process That Need to Be Addressed 1–7

Speed of the Process. There is the problem of either being so slow that the process seems to go on forever or so fast that there is an extreme burst of activity to rush out a plan.

Amount of Data Collected. Sufficient data are needed to properly estimate customer needs and competitive trends. However, the law of diminishing returns quickly sets in on the data-collection process.

Responsibility for Developing the Plan. If planning is delegated to professional planners, valuable line management input may be ignored. If the process is left to line managers, planning may be relegated to secondary status.

Structure. Many executives believe the most important part of planning is not the plan itself but the structure of thought about the strategic issues facing the business. However, the structure should not take precedence over the content so that planning becomes merely filling out forms or crunching numbers.

Length of the Plan. The length of a marketing plan must be balanced between being so long that both staff and line managers ignore it and so brief that it ignores key details.

Frequency of Planning. Too frequent reevaluation of strategies can lead to erratic firm behavior. However, when plans are not revised frequently enough, the business may not adapt quickly enough to environmental changes and thus suffer a deterioration in its competitive position.

Number of Alternative Strategies Considered. Discussing too few alternatives raises the likelihood of failure, whereas discussing too many increases the time and cost of the planning effort.

Cross-Functional Acceptance. A common mistake is to view the plan as the proprietary possession of marketing. Successful implementation requires a broad consensus, including other functional areas.

Using the Plan as a Sales Document. A major but often overlooked purpose of a plan and its presentation is to generate funds from either internal or external sources. Therefore, the better the plan, the better the chance of gaining desired funding.

Senior Management Leadership. Commitment from senior management is essential to the success of a marketing planning effort.

Tying Compensation to Successful Planning Efforts. Management compensation should be oriented toward the achievement of objectives stated in the plan.

Donald R. Lehmann and Russell S. Winer, *Analysis for Marketing Planning*, 7th ed. (Burr Ridge, IL: McGraw-Hill/Irwin, 2008), Chapter 1. Reprinted with permission of McGraw-Hill Education.

The Social Environment This environment includes general cultural and social traditions, norms, and attitudes. While these values change slowly, such changes often bring about the need for new products and services. For example, a change in values concerning the desirability of large families brought about an opportunity to market better methods of birth control. On the other hand, cultural and social values also place constraints on marketing activities. As a rule, business practices that are contrary to social values become political issues, which are often resolved by legal constraints. For example, public demand for a cleaner environment has caused the government to require that automobile manufacturers' products meet certain average gas mileage and emission standards.

The Political Environment The political environment includes the attitudes and reactions of the general public, social and business critics, and other organizations, such as the Better Business Bureau. Dissatisfaction with such business and marketing practices as unsafe products, products that waste resources, and unethical sales procedures can have adverse effects on corporation image and customer loyalty. However, adapting business and marketing practices to these attitudes can be an opportunity. For example, these attitudes have brought about markets for such products as unbreakable children's toys, high-efficiency air conditioners, and more economical automobiles.

The Legal Environment This environment includes a host of federal, state, and local legislation directed at protecting both business competition and consumer rights. In past years, legislation reflected social and political attitudes and has been primarily directed at constraining business practices. Such legislation usually acts as a constraint on business behavior, but again can be viewed as providing opportunities for marketing safer and more efficient products. In recent years, there has been less emphasis on creating new laws for constraining business practices. As an example, deregulation has become more common, as evidenced by events in the airlines, financial services, and telecommunications industries.

Marketing Planning

The previous sections emphasized that (1) marketing activities must be aligned with organizational objectives and (2) marketing opportunities are often found by systematically analyzing situational environments. Once an opportunity is recognized, the marketing executive must then plan an appropriate strategy for taking advantage of the opportunity. This process can be viewed in terms of three interrelated tasks: (1) establishing marketing objectives, (2) selecting the target market, and (3) developing the marketing mix.

Establishing Objectives Marketing objectives usually are derived from organizational objectives; in some cases where the firm is totally marketing oriented, the two are identical. In either case, objectives must be specified and performance in achieving them should be measurable. Marketing objectives are usually stated as standards of performance (e.g., a certain percentage of market share or sales volume) or as tasks to be achieved by given dates. While such objectives are useful, the marketing concept emphasizes that profits rather than sales should be the overriding objective of the firm and marketing department. In any case, these objectives provide the framework for the marketing plan.

Selecting the Target Market The success of any marketing plan hinges on how well it can identify customer needs and organize its resources to satisfy them profitably. Thus, a crucial element of the marketing plan is selecting the groups or segments of potential customers the firm is going to serve with each of its products. Four important questions must be answered:

1. What do customers want or need?
2. What must be done to satisfy these wants or needs?
3. What is the size of the market?
4. What is its growth profile?

Present target markets and potential target markets are then ranked according to (1) profitability; (2) present and future sales volume; and (3) the match between what it takes to appeal successfully to the segment and the organization's capabilities. Those that appear to offer the greatest potential are selected. One cautionary note on this process involves the importance of not neglecting present customers when developing market share and sales strategies. Chapters 3, 4, and 5 are devoted to discussing consumer behavior, industrial buyers, and market segmentation.

Developing the Marketing Mix The marketing mix is the set of controllable variables that must be managed to satisfy the target market and achieve organizational objectives. These controllable variables are usually classified according to four major decision areas: product, price, promotion, and place (or channels of distribution). The importance of

MARKETING INSIGHT Examples of Marketing Objectives 1–8

Poorly Stated Objectives	Well-Stated Objectives
Our objective is to be a leader in the industry in terms of new product development.	Our objective is to spend 12 percent-of-sales revenue between 2020 and 2022 on research and development in an effort to introduce at least five new products in 2022.
Our objective is to maximize profits.	Our objective is to achieve a 10 percent return on investment during 2022, with a payback on new investments of no longer than four years.
Our objective is to better serve customers.	Our objective is to obtain customer satisfaction ratings of at least 90 percent on the 2020 annual customer satisfaction survey, and to retain at least 85 percent of our 2020 customers as repeat purchasers in 2021.
Our objective is to be the best that we can be.	Our objective is to increase market share from 30 percent to 40 percent in 2020 by increasing promotional expenditures by 14 percent.

Source: Adapted from Donald R. Lehmann and Russell S. Winer, *Analysis for Marketing Planning*, 7th ed. (Burr Ridge, IL: McGraw-Hill/Irwin, 2008), Chapter 1.

these decision areas cannot be overstated, and in fact, the major portion of this text is devoted to analyzing them. Chapters 6 and 7 are devoted to product and new product strategies, Chapters 8 and 9 to promotion strategies in terms of both nonpersonal and personal selling, Chapter 10 to distribution strategies, and Chapter 11 to pricing strategies. In addition, marketing mix variables are the focus of analysis in two chapters on marketing in special fields, that is, the marketing of services (Chapter 12) and global marketing (Chapter 13). Thus, it should be clear that the marketing mix is the core of the marketing management process.

The output of the foregoing process is the marketing plan. It is a formal statement of decisions that have been made on marketing activities; it is a blueprint of the objectives, strategies, and tasks to be performed.

Implementation and Control of the Marketing Plan

Implementing the marketing plan involves putting the plan into action and performing marketing tasks according to the predefined schedule. Even the most carefully developed plans often cannot be executed with perfect timing. Thus, the marketing executive must closely monitor and coordinate implementation of the plan. In some cases, adjustments may have to be made in the basic plan because of changes in any of the situational environments. For example, competitors may introduce a new product. In this event, it may be desirable to speed up or delay implementation of the plan. In almost all cases, some minor adjustments or fine tuning will be necessary in implementation.

Controlling the marketing plan involves three basic steps. First, the results of the implemented marketing plan are measured. Second, these results are compared with objectives. Third, decisions are made on whether the plan is achieving objectives. If serious deviations exist between actual and planned results, adjustments may have to be made to redirect the plan toward achieving objectives.

Marketing Information Systems and Marketing Research

Throughout the marketing management process, current, reliable, and valid information is needed to make effective marketing decisions. Providing this information is the task of the marketing information system and marketing research. These topics are discussed in detail in Chapter 2.

THE STRATEGIC PLAN, THE MARKETING PLAN, AND OTHER FUNCTIONAL AREA PLANS

Strategic planning is clearly a top-management responsibility. In recent years, however, there has been an increasing shift toward more active participation by marketing managers in strategic analysis and planning. This is because, in reality, nearly all strategic planning questions have marketing implications. In fact, the two major strategic planning questions—What products should we make? and What markets should we serve?—are clearly marketing questions. Thus, marketing executives are involved in the strategic planning process in at least two important ways: (1) They influence the process by providing important inputs in the form of information and suggestions relating to customers, products, and middlemen; and (2) they must always be aware of what the process of stategic planning involves as well as the results because everything they do—the marketing objectives and strategies they develop—must be derived from the strategic plan. In fact, the planning done in all functional areas of the organization should be derived from the strategic plan.

Marketing's Role in Cross-Functional Strategic Planning

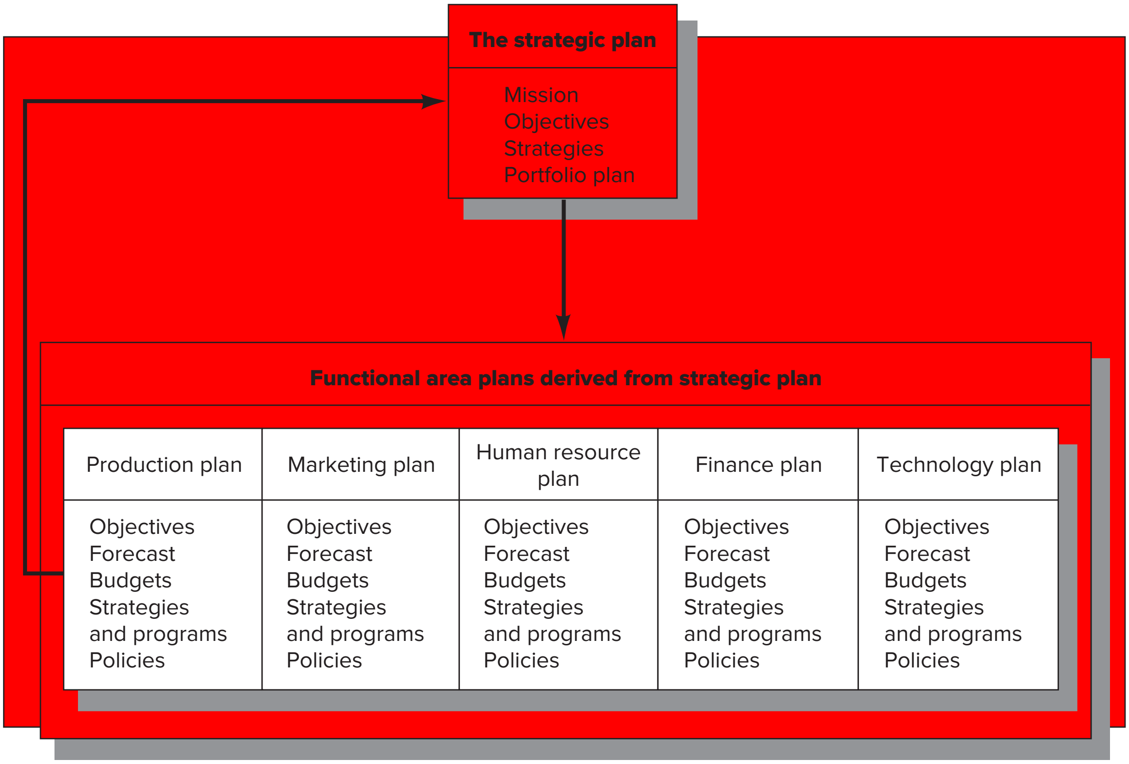
More and more organizations are rethinking the traditional role of marketing. Rather than dividing work according to function (e.g., production, finance, technology, human resources), they are bringing managers and employees together to participate in *cross-functional teams.* These teams might have responsibility for a particular product, line of products, or group of customers.

Because team members are responsible for all activities involving their products and/or customers, they are responsible for strategic planning. This means that all personnel working in a cross-functional team will participate in creating a strategic plan to serve customers. Rather than making decisions independently, marketing managers work closely with team members from production, finance, human resources, and other areas to devise plans that address all concerns. Thus, if a team member from production says, "That product will be too difficult to produce," or if a team member from finance says, "We'll never make a profit at that price," the team members from marketing must help resolve the problems. This approach requires a high degree of skill at problem solving and gaining cooperation.

Clearly the greatest advantage of strategic planning with a cross-functional team is the ability of team members to consider a situation from a number of viewpoints. The resulting insights can help the team avoid costly mistakes and poor solutions. Japanese manufacturers are noted for using cross-functional teams to figure out ways to make desirable products at given target costs. In contrast, U.S. manufacturers traditionally have developed products by having one group decide what to make, another calculate production costs, and yet another predict whether enough of the product will sell at a high enough price.

Thus, in well-managed organizations, a direct relationship exists between strategic planning and the planning done by managers at all levels. The focus and time perspectives will, of course, differ. Figure 1.6 illustrates the cross-functional perspective of strategic planning. It indicates very clearly that all functional area plans should be derived from the strategic plan while at the same time contributing to the achievement of it.

FIGURE 1.6 The Cross-Functional Perspective in Planning



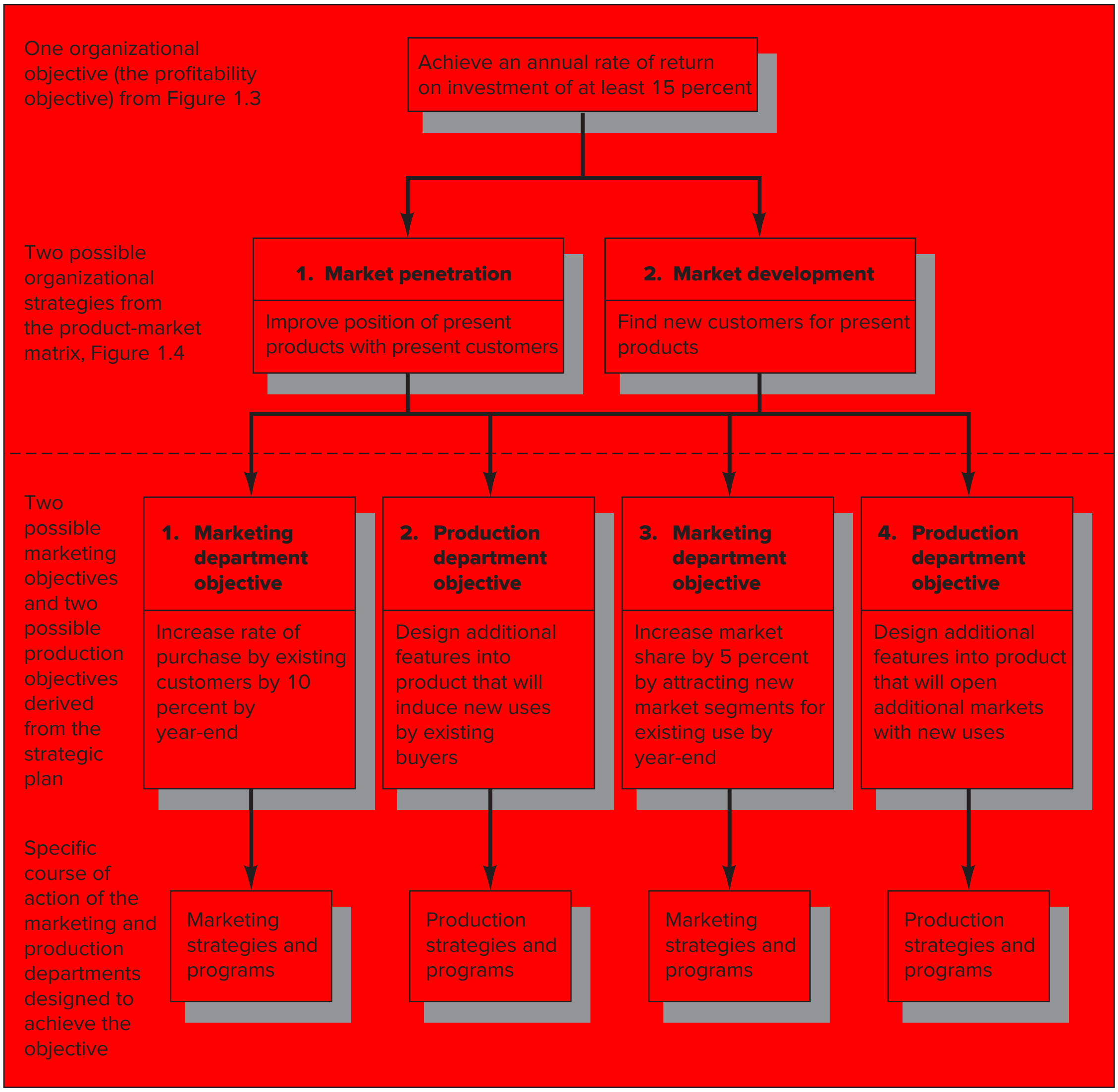
If done properly, strategic planning results in a clearly defined blueprint for management action in all functional areas of the organization. Figure 1.7 clearly illustrates this blueprint using only one organizational objective and two strategies from the strategic plan (above the dotted line) and illustrating how these are translated into elements of the marketing department plan and the production department plan (below the dotted line). Note that in Figure 1.7, all objectives and strategies are related to other objectives and strategies at higher and lower levels in the organization: That is, a hierarchy of objectives and strategies exists. We have illustrated only two possible marketing objectives and two possible production objectives. Obviously, many others could be developed, but our purpose is to illustrate the cross-functional nature of strategic planning and how objectives and strategies from the strategic plan must be translated into objectives and strategies for all functional areas including marketing.

SUMMARY

This chapter has described the marketing management process in the context of the organization's overall strategic plan. Clearly, marketers must understand their cross-functional role in joining the marketing vision for the organization with the financial goals and manufacturing capabilities of the organization. The greater this ability, the better the likelihood is that the organization will be able to achieve and sustain a competitive advantage, the ultimate purpose of the strategic planning process.

At this point it would be useful to review Figures 1.5, 1.6, and 1.7 as well as the book's table of contents. This review will enable you to better relate the content and progression of the material to follow to the marketing management process.

FIGURE 1.7 A Blueprint for Management Action: Relating the Marketing Plan to the Strategic Plan and the Production Plan



Distinctive competencies: Distinctive competencies are things that an organization does so well that they give it an advantage over similar organizations. No matter how appealing an opportunity may be, to gain advantage over competitors, the organization must formulate strategy based on distinctive competencies.

Diversification: An organizational strategy that seeks growth through new products (often through acquisitions) for customers not currently being served.

Market development: An organizational strategy that seeks growth through seeking new customers for present products.

Market penetration: An organizational strategy that seeks growth through increasing the sale of present products to present customers.

Marketing: 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.

Marketing concept: The marketing concept means that an organization should seek to make a profit by serving the needs of customer groups. Its purpose is to rivet the attention of marketing managers on serving broad classes of customer needs (customer orientation), rather than on the firm's products (production orientation) or on devising methods to attract customers to current products (selling orientation).

Marketing information system: Throughout the marketing management process, current, reliable, and valid information is needed to make effective marketing decisions. Providing this information is the task of the marketing information system and marketing research.

Marketing management: Marketing management is the process of planning and executing the conception, pricing, promotion, and distribution of goods, services, and ideas to create exchanges with target groups that satisfy customer and organizational objectives.

Marketing mix: The marketing mix is the set of controllable variables that must be managed to satisfy the target market and achieve organizational objectives. The controllable variables are usually classified according to four major decision areas: product, price, promotion, and place (or channels of distribution).

Marketing planning: The marketing planning process produces three outputs: (1) establishing marketing objectives, (2) selecting the target market, and (3) developing the marketing mix.

Organizational mission: The mission statement, or purpose, of an organization is the description of its reason for existence. It is the long-run vision of what the organization strives to be, the unique aim that differentiates the organization from similar ones and the means by which this differentiation will take place. An effective mission statement will be focused on markets rather than products, achievable, motivating, and specific.

Organizational objectives: Organizational objectives are the end points of an organization's mission and are what it seeks through the ongoing, long-run operation of the organization. The organizational mission is distilled into a finer set of specific, measurable, action commitments by which the mission of the organization is to be achieved.

Organizational portfolio plan: This stage of the strategic plan involves the allocation of resources across the organization's product lines, divisions, or businesses. It involves deciding which ones to build, maintain, or eliminate, or which to add.

Organizational strategies: Organizational strategies are the choice of the major directions the organization will take in pursuing its objectives. There are three major approaches: (1) strategies based on products and markets, (2) strategies based on competitive advantage, and (3) strategies based on value.

Organizational strategies based on competitive advantage: This approach to developing organizational strategy would develop either a cost leadership strategy which focuses on being the lower cost company in the industry or a differentiation strategy which focuses on being unique in the industry or market segment along dimensions that customers value.

Organizational strategies based on products and markets: An approach to developing organizational strategies that focuses on the four paths an organization can grow: market penetration strategies, market development strategies, product development strategies, and diversification strategies.

Organizational strategies based on value: This approach to developing organizational strategy seeks to succeed by choosing to deliver superior customer value using one of three value strategies—best price, best product, or best service.

Product development: An organizational strategy that seeks growth through developing new products primarily for present customers.

Situation analysis: This stage of the marketing planning process involves the analysis of the past, present, and likely future in six major areas of concern: (1) the cooperative environment, (2) the competitive environment, (3) the economic environment, (4) the social environment, (5) the political environment, and (6) the legal environment. Opportunities for and constraints on marketing activities arise from these environments.

Strategic business units (SBUs): Strategic business units (SBUs) are product lines and divisions that can be considered a "business" for the purpose of the organizational portfolio plan. An SBU must have a distinct mission, have its own competitors, be a single business or collection of related businesses, and be able to be planned independently of the other SBUs.

Strategic planning: Strategic planning provides a blueprint for management actions for the entire organization. It includes all the activities that lead to the development of a clear organizational mission, organizational objectives, and appropriate strategies to achieve the objectives for the entire organization.

Appendix

Portfolio Models

Portfolio models remain a valuable aid to marketing managers in their efforts to develop effective marketing plans. The use of these models can aid managers who face situations that can best be described as "more products, less time, and less money." More specifically, (1) as the number of products a firm produces expands, the time available for developing marketing plans for each product decreases; (2) at a strategic level, management must make resource allocation decisions across lines of products and, in diversified organizations, across different lines of business; and (3) when resources are limited (which they usually are), the process of deciding which strategic business units (SBUs) to emphasize becomes very complex. In such situations, portfolio models can be very useful.

Portfolio analysis is not a new idea. Banks manage loan portfolios seeking to balance risks and yields. Individuals who are serious investors usually have a portfolio of various kinds of investments (common stocks, preferred stocks, bank accounts, and so on), each with different characteristics of risk, growth, and rate of return. The investor seeks to manage the portfolio to maximize whatever objectives he or she might have. Applying this same idea, most organizations have a wide range of products, product lines, and businesses, each with different growth rates and returns. Similar to the investor, managers should seek a desirable balance among alternative SBUs. Specifically, management should seek to develop a business portfolio that will ensure long-run profits and cash flow.

Portfolio models can be used to classify SBUs to determine the future cash contributions that can be expected from each SBU as well as the future resources that each will require. Remember, depending on the organization, an SBU could be a single product, product line, division, or distinct business. While there are many different types of portfolio models, they generally examine the competitive position of the SBU and the chances for improving the SBU's contribution to profitability and cash flow.

There are several portfolio analysis techniques. Two of the most widely used are discussed in this appendix. To truly appreciate the concept of portfolio analysis, however, we must briefly review the development of portfolio theory.

A REVIEW OF PORTFOLIO THEORY

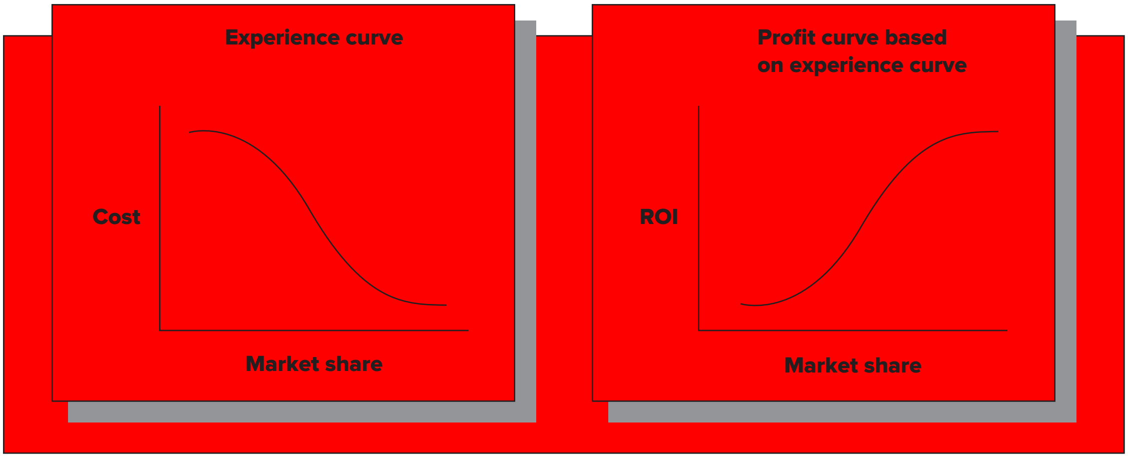
The interest in developing aids for managers in the selection of strategy was spurred by an organization known as the Boston Consulting Group (BCG) more than 25 years ago. Its ideas, which will be discussed shortly, and many of those that followed were based on the concept of experience curves.

Experience curves are similar in concept to learning curves. Learning curves were developed to express the idea that the number of labor hours it takes to produce one unit of a particular product declines in a predictable manner as the number of units produced increases. Hence, an accurate estimation of how long it takes to produce the 100th unit is possible if the production times for the 1st and 10th units are known. The concept of experience curves was based on this model.

Experience curves were first widely discussed in the Strategic Planning Institute's ongoing Profit Impact of Marketing Strategies (PIMS) study. The PIMS project studies 150 firms with more than 1,000 individual business units. Its major focus is on determining which environmental and internal firm variables influence the firm's return on investment (ROI) and cash flow. The researchers have concluded that seven categories of variables appear to influence the return on investment: (1) competitive position, (2) industry/market environment, (3) budget allocation, (4) capital structure, (5) production processes, (6) company characteristics, and (7) "change action" factors.[11]

The experience curve includes all costs associated with a product and implies that the per-unit costs of a product should fall, due to cumulative experience, as production volume increases. In a given industry, therefore, the producer with the largest volume and corresponding market share should have the lowest marginal cost. This leader in market share should be able to underprice competitors, discourage entry into the market by potential competitors, and, as a result, achieve an acceptable return on investment. The linkage of experience to cost to price to market share to ROI is exhibited in Figure A.1. The BCG's view of the experience

FIGURE A.1 Experience Curve and Resulting Profit



curve led the members to develop what has become known as the BCG Portfolio Model.

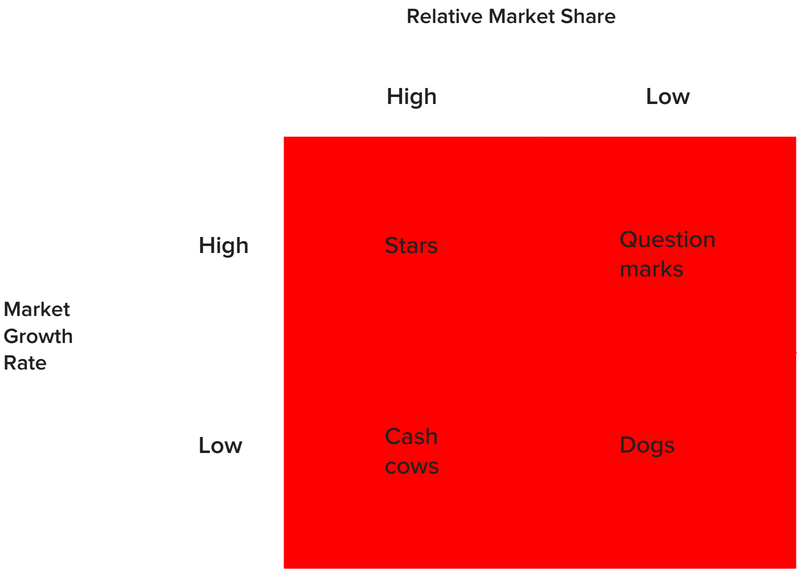
THE BCG MODEL

The BCG model is based on the assumption that profitability and cash flow will be closely related to sales volume. Thus, in this model, SBUs are classified according to their relative market share and the growth rate of the market the SBU is in. Using these dimensions, products are either classified as stars, cash cows, dogs, or question marks. The BCG model is presented in Figure A.2.

- *Stars* are SBUs with a high share of a high-growth market. Because high-growth markets attract competition, such SBUs are usually cash users because they are growing and because the firm needs to protect their market share position.
- *Cash cows* are often market leaders, but the market they are in is not growing rapidly. Because these SBUs have a high share of a low-growth market, they are cash generators for the firm.
- *Dogs* are SBUs that have a low share of a low-growth market. If the SBU has a very loyal group of customers, it may be a source of profits and cash. Usually, dogs are not large sources of cash.
- *Question marks* are SBUs with a low share of a high-growth market. They have great potential but require great resources if the firm is to successfully build market share.

As you can see, a firm with 10 SBUs will usually have a portfolio that includes some of each of these groups. Having

FIGURE A.2
The Boston Consulting Group Portfolio Model



developed this analysis, management must determine what role each SBU should assume. Four basic objectives are possible:

1. *Build share*. This objective sacrifices immediate earnings to improve market share. It is appropriate for promising question marks whose share has to grow if they are ever to become stars.
2. *Hold share*. This objective seeks to preserve the SBU's market share. It is very appropriate for strong cash cows to ensure that they can continue to yield a large cash flow.
3. *Harvest*. Here, the objective seeks to increase the product's short-term cash flow without concern for the long-run impact. It allows market share to decline in order to maximize earnings and cash flow. It is an appropriate objective for weak cash cows, weak question marks, and dogs.
4. *Divest*. This objective involves selling or divesting the SBU because better investment opportunities exist elsewhere. It is very appropriate for dogs and those question marks the firm cannot afford to finance for growth.

There have been several major criticisms of the BCG Portfolio Model, revolving around its focus on market share and market growth as the primary indicators of preference. First, the BCG model assumes market growth is uncontrollable.[12] As a result, managers can become preoccupied with setting market share objectives instead of trying to grow the market. Second, assumptions regarding market share as a critical factor affecting firm performance may not hold true, especially in international markets.[13] Third, the BCG model assumes that the major source of SBU financing comes from internal means. Fourth, the BCG matrix does not take into account any interdependencies that may exist between SBUs, such as shared distribution.[14] Fifth, the BCG matrix does not take into account any measures of profits and customer satisfaction.[15] Sixth, and perhaps most important, the thrust of the BCG matrix is based on the underlying assumption that corporate strategy begins with an analysis of competitive position. By its very nature, a strategy developed entirely on competitive analysis will always be a reactive one.[16] While the preceding criticisms are certainly valid ones, managers (especially of large firms) across all industries continue to find the BCG matrix useful in assessing the strategic position of SBUs.[17]

THE GENERAL ELECTRIC MODEL

Although the BCG model can be useful, it does assume that market share is the sole determinant of an SBU's profitability. Also, in projecting market growth rates, a manager should carefully analyze the factors that influence sales and any opportunities for influencing industry sales.

Some firms have developed alternative portfolio models to incorporate more information about market opportunities and competitive positions. The GE model is one of these. The GE model emphasizes all the potential sources of strength, not just market share, and all of the factors that influence the long-term attractiveness of a market, not just its growth rate. As Figure A.3 indicates, all SBUs are classified according to *business strength* and *industry attractiveness*. Figure A.4 presents a list of items that can be used to position SBUs in the matrix.

FIGURE A.3
The General Electric Portfolio Model

		Business Strength		
		Strong	Average	Weak
Industry Attractiveness	High	A	A	B
	Medium	A	B	C
	Low	B	C	C

FIGURE A.4
Components of Industry Attractiveness and Business Strength at GE

Industry Attractiveness	Business Strength
	Market position
Market size	Domestic market share
Market growth	World market share
Profitability	Share growth
Cyclicality	Share compared with leading competitor
Ability to recover from inflation	
World scope	Competitive strengths
	Quality leadership
	Technology
	Marketing
	Relative profitability

Industry attractiveness is a composite index made up of such factors as those listed in Figure A.4. For example: *market size*—the larger the market, the more attractive it will be; *market growth*—high-growth markets are more attractive than low-growth markets; *profitability*—high-profit-margin markets are more attractive than low-profit-margin industries.

Business strength is a composite index made up of such factors as those listed in Figure A.4. Such as *market share*—the higher the SBU's share of market, the greater its business strength; *quality leadership*—the higher the SBU's quality compared to competitors, the greater its business strength; *share compared with leading competitor*—the closer the SBU's share to the market leader, the greater its business strength.

Once the SBUs are classified, they are placed on the grid (Figure A.3). Priority "A" SBUs (often called the *green zone*) are those in the three cells at the upper left, indicating that these are SBUs high in both industry attractiveness and business strength, and that the firm should "build share." Priority "B" SBUs (often called *the yellow zone*) are those medium in both industry attractiveness and business strength. The firm will usually decide to "hold share" on these SBUs. Priority "C" SBUs are those in the three cells at the lower right (often called the *red zone*). These SBUs are low in both industry attractiveness and business strength. The firm will usually decide to harvest or divest these SBUs.

Whether the BCG model, the GE model, or a variation of these models is used, some analyses must be made of the firm's current portfolio of SBUs as part of any strategic planning effort. Marketing must get its direction from the organization's strategic plan.

Part

Chapter 2

Marketing Research: Process and Systems for Decision Making

Marketing managers require current, reliable, useful information to make effective decisions. In today's highly competitive global economy, marketers need to exploit opportunities and avoid mistakes if they are to survive and be profitable. Not only is sound marketing research needed, but also a system that gets current, valid information to the marketing decision maker in a timely manner.

This chapter is concerned with the marketing research process and information systems for decision making. It begins by discussing the marketing research process that is used to develop useful information for decision making. Then, marketing information systems are briefly discussed. The chapter is intended to provide a detailed introduction to many of the important topics in the area, but it does not provide a complete explanation of the plethora of marketing research topics.

THE ROLE OF MARKETING RESEARCH

Marketing research is the process by which information about the environment is generated, analyzed, and interpreted for use in marketing decision making.[1] It cannot be overstated that *marketing research is an aid to decision making and not a substitute for it*. In other words, marketing research does not make decisions, but it can substantially increase the chances that good decisions are made. Unfortunately, too many marketing managers view research reports as the final answer to their problems; whatever the research indicates is taken as the appropriate course of action. Instead, marketing managers should recognize that (1) even the most carefully executed research can be fraught with errors; (2) marketing research does not forecast with certainty what will happen in the future; and (3) they should make decisions in light of their own knowledge and experience, since no marketing research study includes all of the factors that could influence the success of a strategy.

Although marketing research does not make decisions, it can reduce the risks associated with managing marketing strategies. For example, it can reduce the risk of introducing new products by evaluating consumer acceptance of them prior to full-scale introduction. Marketing research is also vital for investigating the effects of various marketing strategies after they have been implemented. For example, marketing research can examine the effects of a change in any element of the marketing mix on customer perception and behavior.

At one time, marketing researchers were primarily engaged in the technical aspects of research, but were not heavily involved in the strategic use of research findings. Today, however, many marketing researchers work hand-in-hand with marketing managers throughout the research process and have responsibility for making strategic recommendations based on the research.

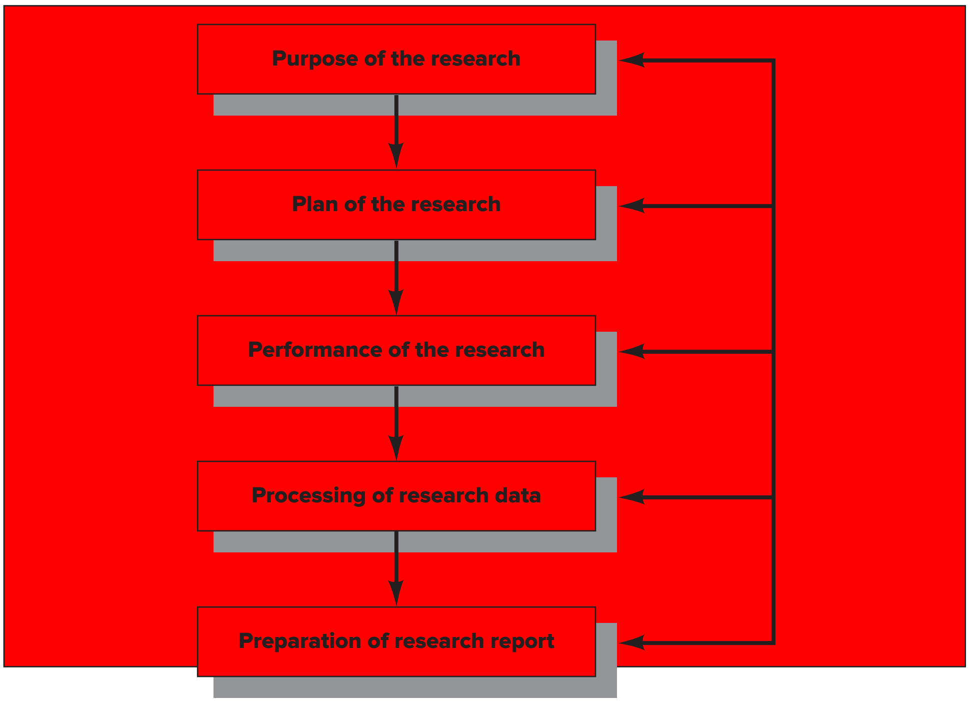
THE MARKETING RESEARCH PROCESS

Marketing research can be viewed as systematic processes for obtaining information to aid in decision making. There are many types of marketing research, and the framework illustrated in Figure 2.1 represents a general approach to the process. Each element of this process is discussed next.

Purpose of the Research

The first step in the research process is to determine explicitly why the research is needed and what it is to accomplish. This may be much more difficult than it sounds. Quite often a situation or problem is recognized as needing research, yet the nature of the problem is not clear or well defined nor is the appropriate type of research evident. Thus, managers and researchers need to discuss and clarify the current situation and develop a clear understanding of the problem. At the end of this stage, managers and researchers should agree on (1) the current situation involving the problem to be researched, (2) the nature of the problem, and (3) the specific question or questions the research is designed to investigate. This step is crucial since it influences the type of research to be conducted and the research design.

FIGURE 2.1
The Five Ps of the Research Process



Plan of the Research

Once the specific research question or questions have been agreed on, a research plan can be developed. A research plan spells out the nature of the research to be conducted and includes an explanation of such things as the sample design, measures, and analysis techniques to be used. Three critical issues that influence the research plan are (1) whether primary or secondary data are needed, (2) whether qualitative or quantitative research is needed, and (3) whether the company will do its own research or contract with a marketing research specialist.

Primary versus Secondary Data

Given the information needed and budget constraints, a decision must be made as to whether primary data, secondary data, or some combination of the two is needed. *Primary data* are data collected specifically for the research problem under investigation; *secondary data* are those that have previously been collected for other purposes but can be used for the problem at hand. For example, if a company wanted to know why users of a competitive brand didn't prefer its brand, it may have to collect primary data to find out. On the other hand, if a company wanted to know the population size of key global markets that it might enter, it could find this information from secondary sources. Secondary information has the advantage of usually being cheaper than primary data, although it is not always available for strategy-specific research questions.

There are many types of secondary data that could be useful for understanding a market and for answering a particular research question. There are also many sources of secondary data. Some of these data can be found from sources *internal* to the organization such as sales invoices, quarterly sales reports, and marketing research done by the organization for other purposes but useful for the problem at hand.

Other secondary data must be obtained from sources *external* to the organization and include information such as the types listed in Figure 2.2. Organizations can get such information from a number of sources. One source is syndicated data providers, such as ACNielsen (which offers sales–tracking data across grocery, drug, and mass merchandisers among other services) and J.D. Power Associates (which offers in-depth reports on automotive, travel, health, and other industries). Another external source is the volume of data and information provided by the government, such as U.S. census data, *Guide to Industrial Statistics*, *U.S. Industrial Outlook*, *Survey of Current Business,* and *Guide to Foreign Trade Statistics*. Finally, much useful information about competitors can be found by analyzing their websites, other published reports about them, and their annual reports. In order to demonstrate some differences between primary and secondary data, Figure 2.3 compares them on several dimensions.

Qualitative versus Quantitative Research

Given a research question, a decision must be made whether qualitative or quantitative research would be a better approach. Qualitative research typically involves face-to-face interviews with respondents designed to develop a better understanding of what they think and feel concerning a research topic, such as a brand name, a product, a package, or an advertisement. The two most common types of qualitative research in marketing are focus groups and long interviews. *Focus groups* typically involve discussions among a small number of consumers led by an interviewer and are designed to generate insights and ideas about products and brands. *Long interviews* are conducted by an interviewer with a single respondent for several hours. They are designed to find out such things as the meanings various products or brands have for an individual or how a product influences a person's life.

Quantitative research involves more systematic procedures designed to obtain and analyze numerical data. Four common types of quantitative research in marketing are observation, surveys, experiments, and mathematical modeling.

FIGURE 2.2 Common Types of Information Available in a Secondary Data Search

Demographics

Population growth: actual and projected
Population density
In-migration and out-migration patterns
Population trends by age and ethnic background

Employment Characteristics

Labor force growth
Unemployment levels
Percentage of employment by occupation categories
Employment by industry

Economic Data

Personal income levels (per capita and median)
Type of manufacturing/service firms
Total housing starts
Building permits issued
Sales tax rates

Competitive Characteristics

Levels of retail and wholesale sales
Number and types of competing retailers
Availability of financial institutions

Supply Characteristics

Number of distribution facilities
Cost of deliveries
Level of rail, water, air, and road transportation

Regulations

Taxes
Licensing
Wages
Zoning

International Market Characteristics

Transportation and exporting requirements
Trade barriers
Business philosophies
Legal system
Social customs
Political climate
Cultural patterns
Religious and moral background

Source: Joseph Hair Jr., Robert Bush, and David Ortinau, *Marketing Research* 4th ed. (New York: McGraw-Hill, 2009), p. 53.

FIGURE 2.3 Differences between Primary and Secondary Data

	Primary Data	Secondary Data
Collection method examples	Focus groups Surveys Observations Data gathered by equipment (e.g., video) In-depth personal interviews	Literature reviews Online electronic searches Company records Marketing information systems Private research companies Boundary spanners (e.g., salespersons)
Advantages	Pertain only to firm's research May provide insight into why and how consumers make choices	Less expensive (often free) Information typically readily accessible
Disadvantages	More expensive May be difficult to enlist customer participation May take excessive amount of time to collect	Data may not be relevant Data may not be accurate Data may have been altered Data may contain bias
Examples of use	To understand what motivates consumers To determine the effect of variables (e.g., price) on product choice To gain feedback on company's existing and proposed products	To gather macroeconomic data To gather socioeconomic data To obtain information about competitors To gain insight into international cultures and markets

C. Shane Hunt, John E. Mello, and George Deitz, *Marketing*, 2nd ed. (New York: McGraw-Hill, 2018), p. 157. Reprinted with permission of McGraw-Hill Education.

MARKETING INSIGHT Advantages and Disadvantages of Qualitative and Quantitative Data 2–1

Research Method Type	Advantages	Disadvantages
Qualitative	Uncovers details concerning the motivations behind behaviors	Results may be difficult to measure objectively
	Is not limited to a predetermined set of responses	Research can take longer than quantitative methods
	Can be a good way to start research into a marketing problem	Potential for researcher bias
	Can be very flexible in approach	Individual participants may not represent general target market
	Can be used to generate marketing ideas	Small sample size
Quantitative	Results may be generalizable to a larger population	May be limited by researchers' questions
	Some methods can be conducted quickly and inexpensively	Response rates can be very low
	Analysis of data can be faster than in qualitative research	Difficult to determine nonresponse bias
	Can conduct causal studies that indicate why behaviors occur	Possible respondent self-selection bias
	Can be cost-effective	Participant resistance to giving sensitive information
	Often convenient for respondent	

C. Shane Hunt, John E. Mello, and George Deitz, *Marketing*, 2nd ed. (New York: McGraw-Hill, 2018), p. 164. Reprinted with permission of McGraw-Hill Education.

Observational research involves watching people and recording relevant facts and behaviors. For example, retail stores may use observational research to determine what patterns customers use in walking through stores, how much time they spend in various parts of the store, and how many items of merchandise they examine. This information can be used to design store layouts more effectively. Similarly, many retail marketers do traffic counts at various intersections to help determine the best locations for stores.

Survey research involves the collection of data by means of a questionnaire by mail, phone, online, or in person. Surveys are commonly used in marketing research to investigate customer beliefs, attitudes, satisfaction, and many other issues. Mail surveys are useful for reaching widely dispersed markets but take more time to get responses than telephone surveys; personal surveys involving structured questions are useful but expensive.

Experimental research involves manipulating one variable and examining its impact on other variables. For example, the price of a product could be changed in one test store, while left the same in other stores. Comparing sales in the test store with those in other stores can provide evidence about the likely impact of a price change in the overall market. Experiments are useful for getting a better idea of the causal relationships among variables, but they are often difficult to design and administer effectively in natural settings. Thus, many marketing research experiments are conducted in laboratories or simulated stores to carefully control other variables that could impact results.

Mathematical modeling often involves secondary data, such as scanner data collected and stored in computer files from retail checkout counters. This approach involves the development of equations to model relationships among variables and uses econometric and statistical techniques to investigate the impact of various strategies and tactics on sales and brand choices. Math modeling is useful because it provides an efficient way to study problems with extremely large secondary data sets.

Which of these types of research is best for particular research questions requires considerable knowledge of each of them. Often, qualitative research is used in early stages of investigating a topic to get more information and insight about it. Then, quantitative approaches are used to investigate the degree to which the insights hold across a larger sample or population. Figure 2.4 provides a comparison of a variety of qualitative and quantitative data collection methods.

Company versus Contract Research

Most large consumer goods companies have marketing research departments that can perform a variety of types of research. In addition many marketing research firms, advertising agencies, and consulting companies do marketing research on a contract basis. Some marketing research suppliers have special expertise in a particular type of research that makes them a better choice than doing the research internally. A decision about whether the marketing research department has the ability to do a particular type of research itself or whether all or part of the research should be contracted with a research supplier must be made. In either case, schedules for task completion, the exact responsibilities of all involved parties, and cost need to be considered.

Performance of the Research

Performance of the research involves preparing for data collection and actually collecting them. The tasks at this stage obviously depend on the type of research that has been selected and the type of data needed. If secondary data are to be used, they must be located, prepared for analysis, and possibly paid for. If primary data are to be collected, then observational forms, questionnaires, or other types of measures must be designed, pretested, and validated. Samples must be drawn and interviews must be scheduled or preparations must be made for mailing or phoning selected individuals.

In terms of actual data collection, a cardinal rule is to obtain and record the maximal amount of useful information, subject to the constraints of time, money, and respondent privacy. Failure to obtain and record data clearly can obviously lead to a poor research study, while failure to consider the rights of respondents raises both practical and ethical problems. Thus, both the objectives and constraints of data collection must be closely monitored.

Processing of Research Data

Processing research data includes the preparation of data for analysis and the actual analysis of them. Preparations include such things as editing and structuring data and coding them for analysis. Data sets should be clearly labeled to ensure they are not misinterpreted or misplaced.

The appropriate analysis techniques for collected data depend on the nature of the research question and the design of the research. Qualitative research data consist of interview records that are content analyzed for ideas or themes. Quantitative research data may be analyzed in a variety of ways depending on the objectives of the research.

FIGURE 2.4 A Comparison of Data Collection Methods Used in Marketing Research

Method	Advantages	Disadvantages
Focus groups	• Depth of information collected. • Flexibility in use. • Relatively low cost. • Data collected quickly.	• Requires expert moderator. • Questions of group size and acquaintanceships of participants. • Potential for bias from moderator. • Small sample size.
Telephone surveys	• Centralized control of data collection. • More cost-effective than personal interviews. • Data collected quickly.	• Resistance in collecting income, financial data. • Limited depth of response. • Disproportionate coverage of low-income segments. • Abuse of phone by solicitors. • Perceived intrusiveness.
Mail surveys	• Cost-effective per completed response. • Broad geographic dispersion. • Ease of administration. • Data collected quickly.	• Refusal and contact problems with certain segments. • Limited depth of response. • Difficult to estimate nonresponse biases. • Resistance and bias in collecting income, financial data. • Lack of control following mailing.
Personal (in-depth) interviews	• More depth of response than telephone interviews. • Generate substantial number of ideas compared with group methods.	• Easy to transmit biasing cues. • Not-at-homes. • Broad coverage often infeasible. • Cost per contact high. • Data collection time may be excessive.
Mall intercepts	• Flexibility in collecting data, answering questions, probing respondents. • Data collected quickly. • Excellent for concept tests, copy evaluations, other visuals. • Fairly high response rates.	• Limited time. • Sample composition or representativeness is suspect. • Costs depend on incidence rates. • Interviewer supervision difficult.
Internet surveys	• Inexpensive, quickly executed. • Visual stimuli can be evaluated. • Real-time data processing possible. • Can be answered at convenience of respondent.	• Responses must be checked for duplication, bogus responses. • Respondent self-selection bias. • Limited ability to qualify respondents and confirm responses. • Difficulty in generating sample frames for probability sampling.
Projective techniques	• Useful in word association tests of new brand names. • Less threatening to respondents for sensitive topics. • Can identify important motives underlying choices.	• Require trained interviewers. • Cost per interview high.
Observation	• Can collect sensitive data. • Accuracy of measuring overt behaviors. • Different perspective than survey self-reports. • Useful in studies of cross-cultural differences.	• Appropriate only for frequently occurring behaviors. • Unable to assess opinions of attitudes causing behaviors. • May be expensive in data-collection-time costs.

Source: William Bearden, Thomas Ingram and Raymond LaForge, Marketing: *Principles and Perspectives 5E,* 2007, p. 135.

A critical part of this stage is interpreting and assessing the research results. Seldom, if ever, do marketing research studies obtain findings that are totally unambiguous. Usually, relationships among variables or differences between groups are small to moderate, and judgment and insight are needed to draw appropriate inferences and conclusions. Marketing researchers should always double-check their analysis and avoid overstating the strength of their findings. The implications for developing or changing a marketing strategy should be carefully thought out and tempered with judgment about the overall quality of the study.

MARKETING INSIGHT Kinds of Questions that Marketing Research Can Help Answer 2–2

A. Planning
   1. Segmentation: What kinds of people buy our products? Where do they live? How much do they earn? How many of them are there?
   2. Demand estimation: Are the markets for our products increasing or decreasing? Are there promising markets that we have not yet reached?
   3. Environmental assessment: Are the channels of distribution for our products changing? What should our presence on the Internet be?

B. Problem Solving
   1. Product
      a. In testing new products and product-line extensions, which product design is likely to be the most successful? What features do consumers value most?
      b. What kind of packaging should we use?
      c. What are the forecasts for the product? How might we reenergize its life cycle?
   2. Price
      a. What price should we charge for our products?
      b. How sensitive to price changes are our target segments?
      c. Given the lifetime value assessments of our segments, should we be discounting or charging a premium to our most valued customers?
      d. As production costs decline, should we lower our prices or try to develop higher-quality products?
      e. Do consumers use price as a cue to value or a cue to quality in our industry?
   3. Place
      a. Where, and by whom, are our products being sold? Where, and by whom, should our products be sold?
      b. What kinds of incentives should we offer the trade to push our products?
      c. Are our relationships with our suppliers and distributors satisfactory and cooperative?
   4. Promotion
      a. How much should we spend on promotion? How should it be allocated to products and to geographic areas?
      b. Which ad copy should we run in our markets? With what frequency and media expenditures?
      c. What combination of media—newspapers, radio, television, magazines, or Internet ad banners—should we use?
      d. What is our consumer coupon redemption rate?

C. Control
   1. What is our market share overall? In each geographic area? By each customer type?
   2. Are customers satisfied with our products? How is our record for service? Are there many returns? Do levels of customer satisfaction vary with market? With segment?
   3. Are our employees satisfied? Do they feel well trained and empowered to assist our customers?
   4. How does the public perceive our company? What is our reputation with the trade?

Source: Dawn Iacobucci and Gilbert A. Churchill Jr., *Marketing Research: Methodological Foundations*, 11th ed. (Nashville TN: Earlie Lite Books, 2015), p. 5.

Preparation of the Research Report

The research report is a complete statement of everything done in a research project and includes a write-up of each of the previous stages as well as the strategic recommendations from the research. The limitations of the research should be carefully noted. Figure 2.5

MARKETING INSIGHT Using the Internet for Marketing Research 2–3

The Internet is useful for many types of marketing research. First, it provides vast amounts of secondary data from the government and other sources that is already digitized and easily accessible. Second, traditional methods like surveys and focus groups can be conducted online. Finally, there are a number of methods of research that are unique to the Internet. These include:

1. *Web visitor tracking*. Servers automatically track and time visitors' travel through websites.
2. *Online advertising measurement*. Servers track links to other sites, and their usefullness, can therefore be assessed.
3. *Customer identification systems*. Many companies are installing registration procedures that allow them to track visits and purchases over time, creating a "virtual panel."
4. *E-mail marketing lists*. Customers can be asked to sign up on e-mail lists to receive future direct marketing efforts via the Internet.
5. *Embedded research*. The Internet continues to automate traditional economic roles, of customers, such as searching for information about products and services, comparison shopping among alternatives, interacting with service providers, and maintaining the customer–brand relationship. More and more of these Internet processes look and feel like research processes themselves. The methods are often embedded directly into the actual purchase and use situations and, therefore, are more closely tied to actual economic behavior than traditional research methods. Some firms even provide the option of custom designing products online—the ultimate in applying research for product development purposes.
6. *Observational research (also known as netnography)*. Chat rooms, blogs, and personal websites can all be systematically monitored to assess consumers' opinions about products and services. TimeWarner also maintains a laboratory full of iPads, 3D televisions, and Xbox gaming consoles, such that it can use all sorts of high-tech observational devices to measure people's eye movements, heart rates, facial movements, and skin temperatures as they experience visual stimuli such as television programs or video games.

Source: Adapted from Philip R. Cateora, Mary C. Gilly, John L. Graham, and R. Bruce Money, *International Marketing*, 17th ed. (New York: McGraw-Hill, 2016), p. 246.

FIGURE 2.5
Eight Criteria for Evaluating Marketing Research Reports

1. Was the type of research appropriate for the research questions?
2. Was the research well designed?
   a. Was the sample studied appropriate for the research questions?
   b. Were measures well developed, pretested, and validated?
   c. Were the data analysis techniques the best ones for the study?
3. Was there adequate supervision of data collection, editing, and coding?
4. Was the analysis conducted according to standards accepted in the field?
5. Do the findings make sense, given the research question and design, and were they considered in light of previous knowledge and experience?
6. Are the limitations of the study recognized and explained in detail?
7. Are the conclusions appropriately drawn or are they over- or understated?
8. Are the recommendations for marketing strategy clear and appropriate?

MARKETING INSIGHT Ethical Responsibilities of Marketing Researchers 2–4

Marketing researchers have ethical responsibilities to the respondents who provide primary data, clients for whom they work, and subordinates who work under them. Here are a number of ethical responsibilities to these groups.

RESPONSIBILITIES TO RESPONDENTS

1. *Preserving respondent anonymity*. Marketing researchers should ensure that respondents' identities are safe from invasion of privacy.
2. *Avoiding mental stress for respondents*. Marketing researchers should minimize the mental stress placed on respondents.
3. *Avoiding questions detrimental to respondents*. Marketing researchers should avoid asking questions for which the answers conflict with the self-interest of the respondents.
4. *Avoiding the use of dangerous equipment or techniques*. Physical or reputational harm to respondents based on their participation in marketing research should not occur. Respondents should be informed of any other than minimal risks involved in the research and be free to self-determine their participation.
5. *Avoiding deception of respondents*. Respondents should not be deceived about the purpose of the study in most cases. Many consider deception acceptable in research where it is needed to obtain valid results, there is minimal risk to respondents, and respondents are debriefed explaining the real purpose of the study.
6. *Avoiding coercion of respondents*. Marketing researchers should avoid coercing or harassing people to try to get them to agree to be interviewed or fill out questionnaires.

RESPONSIBILITIES TO CLIENTS

1. *Providing confidentiality*. Marketing researchers are obliged not to reveal information about a client to competitors and should carefully consider when a company should be identified as a client.
2. *Providing technical integrity*. Marketing researchers are obliged to design efficient studies without undue expense or complexity and accurately report results.
3. *Providing administrative integrity*. Marketing researchers are obliged to price their work fairly without hidden charges.
4. *Providing guidance on research usage*. Marketing researchers are obliged to promote the correct usage of research and to prevent the misuse of findings.

RESPONSIBILITIES TO SUBORDINATE EMPLOYEES

1. *Creating an ethical work environment*. Marketing research managers are obliged to create an ethical work environment where unethical behavior is not encouraged or overlooked.
2. *Avoiding opportunities for unethical behavior*. Marketing research managers are obliged to avoid placing subordinates in situations where unethical behavior could be concealed but rewarded.

illustrates the types of questions marketing researchers and managers should discuss prior to submitting the final research report.

Research reports should be clear and unambiguous with respect to what was done and what recommendations are made. Often research reports must trade off the apparent precision of scientific jargon for everyday language that managers can understand. Researchers should work closely with managers to ensure that the study and its limitations are fully understood.

Limitations of the Research Process

Although the foregoing discussion presented the research process as a set of simple stages, this does not mean that conducting quality marketing research is a simple task. Many problems and difficulties must be overcome if a research study is to provide valuable information for decision making.[2] For example, consider the difficulties in one type of marketing research, *test marketing*.

The major goal of most test marketing is to measure new product sales on a limited basis where competitive retaliation and other factors are allowed to operate freely. In this way, future sales potential can often be estimated reasonably well. Listed here are a number of problems that could invalidate test marketing study results.

1. Test market areas are not representative of the market in general in terms of population characteristics, competition, and distribution outlets.
2. Sample size and design are incorrectly formulated because of budget constraints.
3. Pretest measurements of competitive brand sales are not made or are inaccurate, limiting the meaningfulness of market share estimates.
4. Test stores do not give complete support to the study such that certain package sizes may not be carried or prices may not be held constant during the test period.
5. Test-market products are advertised or promoted beyond a profitable level for the market in general.
6. The effects of factors that influence sales, such as the sales force, season, weather conditions, competitive retaliation, shelf space, and so forth, are ignored in the research.
7. The test-market period is too short to determine whether the product will be repurchased by customers.

A list of such problems could be developed for any type of marketing research. However, careful research planning, coordination, implementation, and control can help reduce such problems and increase the value of research for decision making.

MARKETING INFORMATION SYSTEMS

Many organizations are awash in data. Estimates suggest that organizations today process more than 1,000 times as much data as they did in the year 2000. The explosion of data comes as organizations collect and store more information from internal sources, such as e-mails, spreadsheets, and financial reports, and external sources, such as government and social media websites. In addition, there are marketing research study results from sources such as surveys and experiments. The amount of data that organizations collect doubles every two years—so the stored data available to marketing managers continues to grow. This explosion is often referred to as *big data*—data sets that are too large and complex to work with typical data management tools.[3]

For this reason, most marketers use computer-based systems to help them gather, sort, store, and distribute information for marketing decisions. These marketing information systems consist of a coordinated collection of data, tools, techniques, and models by which marketers gather and interpret relevant information for decision making. These systems require three types of software:

1. Database management software for sorting and retrieving data from internal and external sources.
2. Model base management software that contains routines for manipulating data in ways that are useful for marketing decision making.
3. A dialog system that permits marketers to explore databases and use models to produce information to address their decision-making needs.