

17

EDITION

Essentials of Marketing

A Marketing Strategy Planning Approach

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ESSENTIALS OF MARKETING: A MARKETING STRATEGY PLANNING APPROACH, SEVENTEENTH EDITION

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Authors of *Essentials of Marketing*, 17/e

William D. Perreault Jr.



William D. Perreault Jr. is Kenan Professor of Business Emeritus at the University of North Carolina. Dr. Perreault is the recipient of the two most prestigious awards in his field: the American Marketing Association Distinguished Educator Award and the Academy of Marketing Science Outstanding Educator Award. He was also selected for the Churchill Award, which honors career impact on mar-

keting research. He was editor of the *Journal of Marketing Research* and has been on the review board of the *Journal of Marketing* and other journals.

The Decision Sciences Institute has recognized Dr. Perreault for innovations in marketing education, and at UNC he has received several awards for teaching excellence. His books include two other widely used texts: *Basic Marketing* and *The Marketing Game!*

Dr. Perreault is a past president of the American Marketing Association Academic Council, served as chair of an advisory committee to the U.S. Census Bureau, and served as a trustee of the Marketing Science Institute. He has also worked as a consultant to organizations that range from GE and IBM to the Federal Trade Commission.

Joseph P. Cannon

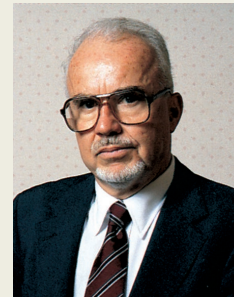


Joseph P. Cannon is a Dean's Distinguished Teaching Fellow and professor of marketing at Colorado State University. He has also taught at the University of North Carolina, Emory University, Instituto de Empresa (Madrid, Spain), INSEAD (Fontainebleau, France), and Thammasat University (Bangkok, Thailand). He has received several teaching awards and the N. Preston Davis Award for Instructional Innovation.

Dr. Cannon's research has been published in the *Journal of Marketing*, *Journal of Marketing Research*, *Journal of the Academy of Marketing Science*, *Journal of Operations Management*, *Journal of Personal Selling* and

Sales Management, *Journal of Public Policy and Marketing*, *Antitrust Bulletin*, and the *Academy of Management Review*, among others. He is a two-time recipient of the Louis W. and Rhona L. Stern Award for high-impact research on interorganizational issues. He has also written numerous teaching cases. Dr. Cannon has served on the editorial review boards of the *Journal of Marketing*, *Journal of the Academy of Marketing Science*, *Journal of Operations Management*, *Journal of Personal Selling and Sales Management*, and *Journal of Marketing Education*. The *Journal of Marketing* has honored Dr. Cannon with several distinguished reviewer awards. He served as chair of the American Marketing Association's Interorganizational Special Interest Group (IOSIG). Before entering academics, Dr. Cannon worked in sales and marketing for Eastman Kodak Company.

E. Jerome McCarthy



Marketing lost one of its pioneers when E. Jerome "Jerry" McCarthy passed away at his home in East Lansing, Michigan, in 2015.

After earning a PhD at the University of Minnesota, Dr. McCarthy joined the faculty at Notre Dame and became a Fellow in the prestigious Ford Foundation Program at Harvard, an experience that focused on how to make marketing management practice more rigorous and shaped

his thoughts on the needs of students and educators. Dr. McCarthy spent most of his career at Michigan State University, gaining a reputation for working with passion and purpose. He received the AMA's Trailblazer Award in 1987 and was voted one of the "top five" leaders in marketing thought by marketing educators.

Dr. McCarthy was well known for his innovative teaching materials and texts, including *Basic Marketing* and *Essentials of Marketing*. These books changed the way marketing was taught by taking a managerial point of view. He also introduced a marketing strategy planning framework, organizing marketing decisions around the Four Ps—Product, Place, Promotion and Price. As these approaches became the standard in other texts, Dr. McCarthy continued to innovate, including new materials in the digital realm. Today's marketing instructors owe a great debt to this innovative pioneer.

Preface

Essentials of Marketing Is Designed to Satisfy Your Needs

This book is about marketing and marketing strategy planning. At its essence, marketing strategy planning is about figuring out how to do a superior job of satisfying customers. We take that point of view seriously and believe in practicing what we preach. So you can trust that this new edition of *Essentials of Marketing*—and all of the other teaching and learning materials that accompany it—will satisfy your needs. We're very excited about this 17th edition of *Essentials of Marketing* and we hope that you will be as well.

In developing this edition, we've made hundreds of big and small additions, changes, and improvements to the text and all the supporting materials that accompany it. We'll highlight some of those changes in this preface, but first we'll provide background on the evolution of *Essentials of Marketing*.

Building on Pioneering Strengths

Basic Marketing (*Essentials of Marketing*'s parent text) pioneered an innovative structure—the “Four Ps” (Product, Place, Promotion, and Price) with a managerial approach—for the introductory marketing course. It quickly became one of the most widely used business textbooks ever published because it organized the best ideas about marketing so that readers could both understand and apply them. The unifying focus of these ideas is: *How does a marketing manager decide which customers to target and the best way to meet their needs?*

With each new edition of *Essentials of Marketing*, we update the content based on changes in marketing management and the market environment. This book reflects marketing's best practices and ideas. *Essentials of Marketing* and the supporting materials that accompany it have been more widely used than any other teaching materials for the introductory marketing class. It is gratifying that the Four Ps organizing structure has worked well for millions of students and teachers.

The success of *Essentials of Marketing* is not the result of a single strength—or one long-lasting innovation. Other textbooks have adopted our Four Ps framework, and we have continuously improved the book. The text's Four Ps framework, managerial orientation, and strategy planning focus have proven to be foundation pillars that are remarkably robust for supporting new developments in the field, resulting in innovations in the text and package.

Thus, with each new edition of *Essentials of Marketing*, we continue to innovate to better meet the needs of students and faculty. In fact, we have made ongoing changes in how we develop the logic of the Four Ps and the marketing strategy planning process. As always, though, our objective is to provide a flexible, high-quality text and choices from comprehensive and reliable support materials so that instructors and students can accomplish their learning objectives.

What's Different about Essentials of Marketing?

The biggest distinguishing factor about *Essentials of Marketing* is the integrative approach to our teaching and learning package for the introductory marketing course. This integration makes it easier to learn about marketing, teach marketing, and apply it in the real world. For many students, the introductory marketing course will be the only marketing class they ever take. They need to come away with a strong understanding of the key concepts in marketing and how marketing operates in practice. *Essentials of Marketing*:

1. Examines *what* marketing is and *how* to do it.
2. Integrates special topics such as services, international marketing, big data, social media, ethics, and more across the text—with coverage in almost every chapter.
3. Delivers a supplements package completely developed or closely managed by the authors—so each part connects with the text.

The supplements package is extensive—designed to let you *teach marketing your way* (see Exhibit P-1). The integration of these three features delivers a product proven to work for instructors and students. Let us show you what we mean—and why and how instructors and students benefit from the *Essentials of Marketing* teaching and learning package.

What and how of marketing. Marketing operates in dynamic markets. Fast-changing global markets, environmental challenges and sustainability, the blurring speed of technological advances—including an explosion in the use of digital tools by consumers and businesses—are just a few of the current trends confronting today's marketing manager. Whereas some marketing texts merely attempt to describe this market environment, *Essentials of Marketing* teaches students *analytical abilities* and *how-to-do-it skills* that prepare them for success.

Exhibit P-1**Essentials of Marketing: An Integrated Approach to Teaching and Learning Marketing**

To propel students in this direction, we deliberately include a variety of examples, explanations, frameworks, conceptual organizers, exercises, cases, and how-to-do-it techniques that relate to our overall framework for

marketing strategy planning. Taken together, these learning aids speed the development of “marketing sensibility” and enable students to analyze marketing situations and develop marketing plans in a confident and meaningful way. They are practical and they work. And because they are interesting and understandable, they motivate students to see marketing as the challenging and rewarding area it is. In the end, the *Essentials of Marketing* teaching and learning package prepares students to analyze marketing situations and develop exceptional marketing strategies—not just recite endless sets of lists.

Integration of special topics. In contrast to many other marketing textbooks, we emphasize careful integration of special topics. Some textbooks treat “special” topics—such as marketing relationships, international marketing, services marketing, the Internet, digital lifestyles, nonprofit organizations, marketing ethics, marketing analytics, social issues, and business-to-business marketing—in separate chapters (or parts of chapters). We are convinced that treating such topics separately leads to an unfortunate compartmentalization of ideas. For example, to simply tack on a new chapter covering ethics or marketing analytics completely ignores the reality that these are not isolated topics; rather, they must be considered across the rubric of marketing decisions.

Exhibit P-2 shows the coverage of some key topics across specific chapters.

The teaching and learning materials have been designed and developed by the authors—so they seamlessly

Exhibit P-2 Coverage of Special Topics across Chapters*

Special Topic	Chapter																		
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19
Marketing relationships	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
International	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X		X
Ethics	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
Services	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
B2B	X	X	X	X		X	X	X	X	X	X	X	X	X	X	X	X	X	X
Marketing analytics	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
Technology, Internet, social media, “big data,” and digital lifestyle	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
Environment and sustainability	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
Nonprofits	X	X	X	X		X	X	X			X		X		X	X	X		X
Quality	X	X	X	X	X	X	X	X	X		X		X	X	X	X	X	X	X
Customer value	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
Marketing’s link with other functions	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
Marketing for a better world (#M4BW)	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X

*X indicates coverage in the form of a section of the chapter, example, illustration, or discussion.

integrate with the textbook. They are integrated to work effectively with *Essentials of Marketing*. We don't tack on extras that have been outsourced and therefore don't mix well with our package. Because of this, you have flexible tools for *teaching and learning marketing your way*. You pick those elements from the package that best fit your students and your teaching approach.

Marketing can be studied in many ways, and the *Essentials of Marketing* text material is only the central component of our *Professional Learning Units System (P.L.U.S.)* for students and teachers. Instructors and students can select from our units to develop their own personalized teaching and learning systems. Our objective is to offer you a *P.L.U.S.* "menu" so that you can conveniently select units you want—and disregard what you do not want. Many combinations of units are possible depending on course and learning objectives. Later in this preface we highlight each *P.L.U.S.* element (full details can be found in the Instructor's Manual).

Most business students take only one marketing course in their studies. They deserve the benefits of a highly innovative yet *proven* set of integrated learning materials. Our teaching and learning materials—from the textbook to the Connect exercises to the test bank to the PowerPoint slides and In-Class Activities—continue to be updated based on what has proven to work for generations of students.

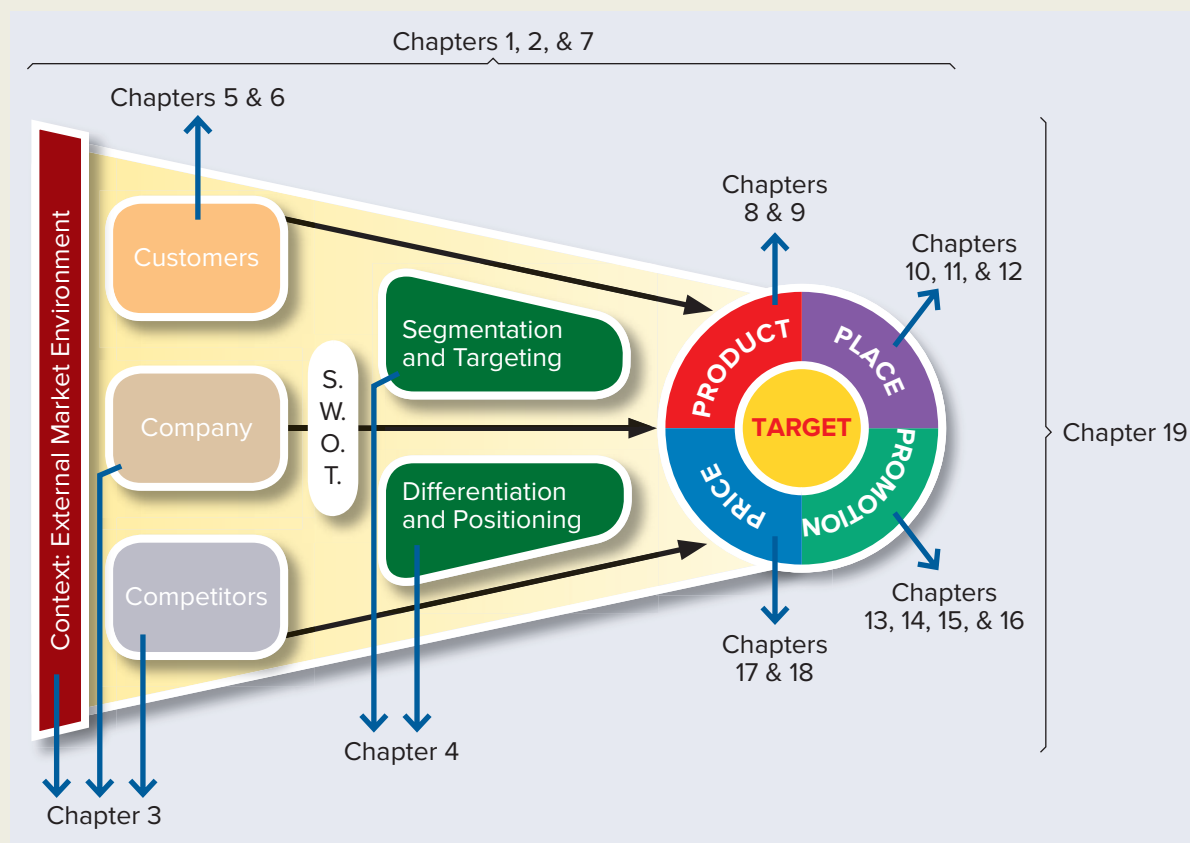
Nineteen Chapters—with an Emphasis on Marketing Strategy Planning

The emphasis of *Essentials of Marketing* is on marketing strategy planning. Nineteen chapters introduce the important concepts of marketing and help students see marketing through the eyes of the manager. The organization of the chapters and topics is carefully planned. We took special care in writing so that:

- It is possible to rearrange and use the chapters in many different sequences to fit different needs.
- All topics and chapters fit together into a clear, overall framework for the marketing strategy planning process.

Broadly speaking, the chapters can be grouped into three sections. The first seven chapters introduce marketing and provide a broad view of the marketing strategy planning process. We introduce the marketing strategy planning process in Chapter 2 and use this framework as a structure for our coverage of marketing throughout the text—see Exhibit P-3. Chapters 3–7 each cover different topics, such as the market environment, competition, segmentation, differentiation, and buyer behavior, as well as how marketing information systems and research provide information about these topics to improve marketing decisions. The second part of the text (Chapters 8–18) goes into the details of planning the Four Ps, with

Exhibit P-3 *Essentials of Marketing and the Marketing Strategy Planning Process*



specific attention to the key strategy decisions in each area. Finally, we conclude with an integrative review (Chapter 19) and a critical assessment of marketing's challenges and opportunities.

The first chapter deals with the important role of marketing—focusing not only on how a marketing orientation guides a business or nonprofit organization in the process of providing superior value to customers, but also on the role of macro-marketing and how a market-directed economy shapes choices and quality of life for consumers. Chapter 1 also introduces students to our marketing for a better world (#M4BW) elements—designed to show students examples of companies creatively using marketing to make profits *and* improve the world around them.

Chapter 2 builds on these ideas with a focus on the marketing strategy planning process. It discusses why the marketing strategy planning process involves narrowing down to the selection of a specific target market while blending the Four Ps into a marketing mix to meet the needs of customers. With that foundation in place, Chapter 2 introduces an integrative model of the marketing strategy planning process that serves as an organizing framework for the rest of the text.

Chapter 3 introduces students to the importance of evaluating opportunities in the external environments affecting marketing. This chapter also highlights the critical role of screening criteria to narrow down all possible opportunities to those that the firm will pursue. Chapter 4 shows how market analysis relates to segmentation and differentiation decisions, as well as the criteria used to narrow down to a specific target market and marketing mix. Our approach to segmentation includes defining product-markets—which fits with our strategic planning approach. Analyzing product-markets teaches students how to identify and evaluate opportunities—a key element of marketing strategy.

It is necessary to understand customers in order to segment markets and satisfy target market needs. So the next two chapters take a closer look at customers. Chapter 5 studies the behavioral aspects of the final consumer market. Chapter 6 looks at how business and organizational customers—such as manufacturers, channel members, and government purchasers—are similar to and different from final consumers.

Chapter 7 presents a contemporary view of getting information—from marketing information systems and marketing research—for marketing planning. Chapter 7 includes discussion of how information technology—ranging from intranets to speedy collection of marketing research data—is transforming marketing. This sets the stage for discussions in later chapters about how research and marketing information improve each area of marketing strategy planning.

Chapters 8 through 18 are concerned with developing a marketing mix out of the Four Ps. These chapters are concerned with developing the “right” Product and

making it available at the “right” Place with the “right” Promotion at the “right” Price to satisfy target customers while still meeting the objectives of the business. These chapters are presented in an integrated, analytical way—as part of the overall framework for the marketing strategy planning process—so students' thinking about planning marketing strategies develops logically.

Chapters 8 and 9 focus on product planning for goods and services, as well as managing product quality, new-product development, and the different strategy decisions required at different stages of the product life cycle. We emphasize the value of an organized new-product development process for developing truly new products that propel a firm to profitable growth. These chapters also detail how quality management approaches can improve implementation, including implementation of better-quality service.

Chapters 10 through 12 focus on Place. Chapter 10 introduces decisions a manager makes about whether to use direct distribution (for example, selling from the firm's own website) or work with other firms in a channel of distribution. We put special emphasis on the need for channel members to cooperate and coordinate to better meet the needs of customers. Chapter 11 focuses on the fast-changing arena of logistics and the strides that firms are making in using e-commerce to reduce the costs of storing, transporting, and handling products while improving the distribution service they provide customers. Chapter 12 provides a clear picture of retailers, wholesalers, and their strategy planning, including exchanges taking place via the Internet. This chapter helps students see why big changes taking place in retailing are reshaping the channel systems for many consumer products.

Chapters 13 through 16 deal with Promotion. These chapters build on the concepts of integrated marketing communications, direct-response promotion, and customer-initiated digital communication introduced in Chapter 13. Chapter 14 describes the roles of personal selling, customer service, and sales technology in the promotion blend. Chapter 15 covers advertising and sales promotion, including the ways that managers are taking advantage of the Internet and other highly targeted media to communicate more effectively and efficiently. Chapter 16 examines publicity, which we broadly define to include owned, earned, and social media.

Chapters 17 and 18 deal with Price. Chapter 17 focuses on pricing objectives and policies, including the use of information technology to implement flexible pricing; pricing in the channel; and the use of discounts, allowances, and other variations from a list price. Chapter 18 covers cost-oriented and demand-oriented pricing approaches and how they fit in today's competitive environments. The careful coverage of marketing costs helps equip students to deal with the renewed cost-consciousness of the firms they will join.

The final chapter—Chapter 19—considers how efficient the marketing process is. Here we evaluate the effectiveness of both micro- and macro-marketing—and we consider the competitive, technological, ethical, and social challenges facing marketing managers both now and in the future. Chapter 19 also reinforces the integrative nature of marketing management and reviews the marketing strategy planning process that leads to creative marketing plans.

Four appendices can be used to supplement the main text material. Appendix A provides some traditional economic analysis of supply and demand that can be a useful tool in analyzing markets. Appendix B reviews some quantitative tools—or marketing arithmetic—which help marketing managers who want to use accounting data in analyzing marketing problems. Appendix B also reviews forecasting to predict market potential and sales for a company's product. Students especially appreciate Appendix C, which is about career opportunities in marketing. Appendix D provides an example of a marketing plan for Hillside Veterinary Clinic. This example is referenced in Chapter 2 and in end-of-chapter exercises.

Following Appendix D are 39 written cases. The first 5 cases are video cases, available to instructors in video format in the Instructor Resources section of Connect. Most of the next 34 short written cases have been updated with new information to make sure they reflect the realities of the current marketplace. The focus of these cases is on problem solving. They encourage students to apply—and engage with—the concepts developed in the text. At the end of each chapter, we recommend the cases that best relate to that chapter's content.

Two bonus chapters (previously available only with our *Basic Marketing* text) are now available online and through custom printing. Bonus Chapter 1 builds on implementation and control, two concepts introduced in Chapter 2. The chapter goes into more detail on these concepts and offers how-to approaches for making implementation and control more effective. The chapter discusses how new information technology tools facilitate these practices and demonstrates how firms use sales analysis, performance analysis, and cost analysis to control marketing strategies and plans. Bonus Chapter 2 includes separate sections that describe how finance, production and operations, accounting, information systems, and human resources interact with marketing to create and implement successful marketing plans.

I love your book—but there are too many chapters for my class. What can I do?

We are often asked this question by professors who use the quarter system, who prefer to provide students with less breadth of coverage but more depth, or who like the

idea of one chapter per week. Three chapters can easily be dropped from the text without harming understanding of other topics:

- Chapter 11 provides coverage of logistics and customer service. We hear that schools with a required course on supply chain management often find this chapter to be redundant. It can also be dropped if there is less desire for this type of coverage. Dropping it does not have an adverse impact on other Place chapters.
- Chapter 18 provides depth in setting prices. Some instructors prefer not to cover this more quantitative treatment and drop the chapter.
- Chapter 19 provides a critical look at marketing and a review of the marketing strategy planning process. If time is an issue, this can be dropped, though we recommend instructors have a concluding lecture that ties together the course.

What's New in This Edition of *Essentials of Marketing*?

Each revision of *Essentials of Marketing* has a few basic themes—areas we try to emphasize across the book. Over the last couple of editions we focused on (1) marketing for a better world, (2) marketing analytics, (3) active learning, and (4) currency. There are several big changes to this edition of *Essentials of Marketing* and hundreds of smaller ones. *Essentials of Marketing* is quick to recognize the many dramatic changes in the market environment and marketing strategy; we are also a leader in pedagogical innovations. Here is a quick overview of what we changed for the 17th edition of *Essentials of Marketing*.

Marketing for a better world. Brand new to this edition—we look at the best of marketing, where marketing practices meet target customer needs and make the world a better place. We have noticed that many of our students come into our class with a negative perception of marketing. We also find that young people today are really interested in the opportunity for business to contribute to making the world a better place. When we look around, we see so many businesses and nonprofit organizations finding ways to make a better world through their marketing efforts. We decided to highlight those efforts, and you will see our “green boxes” and #M4BW across every chapter.

Our perspective on marketing for a better world is not a philanthropic one—we propose that firms do this as an extension of a marketing orientation. A growing number of customers in developed economies want to buy from companies that do good things in the world.

Marketing analytics. The last couple of editions of *Essentials of Marketing* have featured growing coverage of big data and marketing analytics. Following marketing practice and feedback from instructors, this edition builds on that coverage of these topics. Our students—whether

Exhibit P-4 You Decide How Much Marketing Analytics to Add to Your Class

I want my students to . . .	Resources in <i>Essentials of Marketing</i>
. . . understand the importance of analytics and some key terms.	Each chapter features new key terms and/or marketing analytics examples.
. . . understand how marketing managers use analytics.	Each chapter includes a “Marketing Analytics in Action” activity—a mini case study of analytics in practice.
. . . calculate some basic marketing analytics.	Each chapter includes a Connect homework exercise “Marketing Analytics: Data to Knowledge”
. . . conduct sales and performance analysis.	Assign Bonus Chapter 1, “Implementing and Controlling Marketing Plans: Metrics and Analysis”

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marketing majors or in some other area of business—are expected to know what marketing analytics is and how it can be used in marketing strategy planning.

We had discussions with many different instructors about how to add marketing analytics to the introductory marketing course. While everyone agreed that today’s student needs to know more about how businesses use marketing analytics, there was disagreement about how much time and focus it should receive. Given that, we make our coverage flexible—allowing *you* the instructor to decide how much attention marketing analytics gets in your class. Most of our extended treatment of marketing analytics can easily be added or left out—as it involves an in-text boxed element, end-of-chapter and online exercises, a marketing simulation, and a bonus chapter. Exhibit P-4 shows how each can contribute to the learning objectives you have for your students.

Currency. Every edition of *Essentials of Marketing* focuses on currency. We find that students like to read current examples. And with technology and customer behavior evolving so quickly, a marketing textbook must keep pace. Instructors and students require up-to-date concepts, content, and examples. In this edition:

- We add hundreds of new examples and images (ads and photos) that engage students. Of course, we continue to include the latest earned, owned, and social media examples—but we also recognize changing consumer behavior, organizational buying behavior, new-product development, the growth and evolution of retail (especially online), advertising, and pricing.
- Current visuals—photos and advertising examples—are particularly important for today’s student, so we choose examples that provide a learning experience for the student, not just added color.
- Our *What’s Next?* boxes, embedded in each chapter, provide a futuristic perspective on where marketing may be headed.

Active learning exercises. Connect and SmartBook offer your students better opportunities to get grounded in the basic concepts of marketing. Many instructors count

on these to prepare students for class and utilize more active learning activities inside or outside the classroom. We have designed many active learning exercises so students can learn more critical thinking and application of concepts, which helps them understand how marketing really works. This edition of *Essentials of Marketing* features:

- *Flip Your Marketing Class.* A few years ago, Joe Cannon decided to “flip” his marketing classes. He no longer lectures and now uses about 90 percent of class time on in-class activities. Whether you are ready to completely “flip” your class or are just looking to add more active learning to mix in with your lectures, you will appreciate the materials he has put together. Joe’s *Flip Your Marketing Class* e-book can be downloaded from the Instructor’s Resource Materials.
- *In-Class Activities.* As part of the *Flip Your Marketing Class* e-book effort, Joe produced a series of exercises that can be used in class. For each chapter there are two to four In-Class Activities. These exercises can be completed in small groups in class. They reinforce and apply concepts learned from *Essentials of Marketing*. Beyond that, many of the following elements of *Essentials of Marketing* could also be used as in-class activities. We have added some brand-new activities, and others were updated.
- *Marketing Analytics in Action.* These in-chapter boxed features place students in the situation many managers face: analyzing and interpreting marketing analytics. The activities show students how marketing analytics are used—but they also ask questions that force students to use critical thinking skills to make marketing decisions. These exercises work particularly well for in-class discussion.
- *Practice Marketing.* The *Practice Marketing* simulation offers a unique way to learn and apply the Four Ps of marketing. Students take on the role of a marketing manager tasked with creating and launching a new product; they do actual marketing strategy planning around a backpack—analyzing customers, competitors, and company—then making target market, product, place, promotion, and price decisions. After

seeing the results of their initial decisions, they can adapt their strategy. The simulation allows students to compete with other students or artificial intelligence characters. Many students have referred to *Practice Marketing* as a virtual internship.

- *What's Next?* Each chapter includes an active learning boxed element. Each *What's Next?* offers an in-depth analysis of some trend or marketing future—and asks students about its implications. These elements have all been updated to make them more forward-looking and active learning focused.
- *Ethical Dilemma.* Several of these critical thinking exercises have been updated from previous editions, with a focus on students making decisions in gray areas, many of which have been introduced by the advancing technologies used in marketing.
- *Questions and Problems.* In past editions, our chapter opening cases have primarily served to motivate a chapter's subject matter. We have added two end-of-chapter "Questions and Problems" (always questions 1 and 2) designed to have students reflect on the opening case studies. Students experience higher-order learning when they are asked to recognize concepts in a case study—so we ask them to do that in question 1. Question 2 turns the chapter opener into a discussion case. Both questions can be used for in-class discussion or homework assignments for instructors looking for higher-order learning objectives for their students.
- *Marketing Analytics: Data to Knowledge.* These end-of-chapter exercises—which can be done through Connect—show students how data analysis is used by marketing managers. Using concepts and examples from each chapter, the exercises build higher-order learning skills and demonstrate data-driven marketing decision making. Each practical question walks students through a real-life scenario, shows them how to use a spreadsheet to find answers, and then asks (optional) discussion questions to build critical thinking skills.
- *Cases.* Our video and short cases continue to provide students with opportunities to explore how real companies conduct the marketing strategy planning process.

Chapter-by-chapter. We updated every chapter's opening case scenario. Although we don't have space to list all of our changes, the following are some highlights of the more significant changes we have made to this edition of *Essentials of Marketing*:

Chapter 1. Refreshed with new and updated examples. New discussion and introduction of the idea of marketing for a better world and the associated #M4BW.

Chapter 2. An updated opener and refreshed and more current examples throughout the chapter. We added a new *Ethical Dilemma*. Revised and reorganized coverage of customer lifetime value and customer equity. Added examples of marketing for a better world.

Chapter 3. Updates for currency throughout the chapter. Minor revisions to section on objectives. Major changes throughout the technology section, including the addition of *machine learning* and removal of the ethics coverage from this section. Many changes resulting in more streamlined coverage of the legal environment. Shortened and combined what were three major sections at the end of this chapter. Added examples of marketing for a better world.

Chapter 4. Updates for currency throughout this chapter with new examples. Simplified Exhibit 4-3 and coverage of segmentation. New Exhibit 4-11 provides a detailed explanation of the dynamic behavioral segmentation approach that is being used for online segmentation. Added examples of marketing for a better world.

Chapter 5. Updates for currency across the chapter and new examples. Added examples of marketing for a better world.

Chapter 6. Updates for currency and refreshed examples. New *Ethical Dilemma*, revisions to Exhibits 6-3 and 6-7. New exhibit added to give students more examples of different types of buying processes. Added examples of marketing for a better world.

Chapter 7. Many updates and new examples as marketing research continues to evolve—drawing on new sources of data and new types of marketing analytics. Major revisions to coverage of information systems and two new exhibits designed to reinforce important ideas. Deleted the section on international marketing research, with relevant content integrated elsewhere in the chapter—and dropped the related learning objective. Added examples of marketing for a better world.

Chapter 8. Updates throughout this chapter. New key term *product line length*. New exhibit to better show differences between services and goods. Significantly reduced coverage of warranties—previously had its own learning objective and major section—now briefly covered elsewhere in chapter. Added examples of marketing for a better world.

Chapter 9. Updated for currency. New key terms include *continuous innovation*, *dynamically continuous innovation*, and *discontinuous innovation*. New *Ethical Dilemma*. Updated coverage of managing service quality with attention to robots replacing service workers. Added examples of marketing for a better world.

Chapter 10. Updated for currency. Major revisions to coverage of selling direct versus indirect—reorganized and new content added. Added two new key terms: *horizontal channel conflict* and *vertical channel conflict*. Moved and updated coverage of *multichannel shopping* and *omnichannel* from Chapter 12 to this chapter as it felt like a better fit. Updated reverse channel coverage. Added examples of marketing for a better world.

Chapter 11. Updated for currency. Added new coverage of food delivery and service level. Major new section at the end of the chapter, "Disaster Relief—Logistics

Saves Lives,” provides an example of marketing for a better world but also a nice integration and review of key concepts from this chapter. Added examples of marketing for a better world.

Chapter 12. We always have a lot of revisions in our coverage of retailing—and this edition is no different. To remain current, every edition requires significant rewriting, especially in our section on retailing and the Internet. Other changes include minor updates to Exhibits 12–3, 12–4, and 12–6 and moving coverage of multichannel shopping and omnichannel to Chapter 10. Added examples of marketing for a better world.

Chapter 13. This chapter always has a lot of new examples—students notice dated examples and we aim to eliminate them. Major revision to the section “How Typical Promotion Plans Are Blended and Integrated” that includes a better explanation of this process and new content. Added examples of marketing for a better world.

Chapter 14. Updated for currency. Major rewrite and coverage of customer service. Also major updates and edits to “Information Technology Provides Tools to Do the Job.” Added examples of marketing for a better world.

Chapter 15. Because it reflects evolutionary changes in advertising, this chapter always has major changes with each edition. Major updates include (1) updates to the chapter opening case on Domino’s; (2) new graphic that really demonstrates the changing advertising media landscape (see Exhibit 15–6); (3) deleted the separate section on advertising agencies, moving some necessary coverage elsewhere in the chapter, but really cutting back this content; (4) many revisions to the “Digital and Mobile Advertising” section; (5) new key term and coverage of *influencers*—including legal issues; (6) revision and updates to sales promotion; and (7) new coverage of legal issues for sales promotion. Added examples of marketing for a better world.

Chapter 16. This chapter is another that requires constant updating with all the changes going on with earned, owned, and social media. There were lots of small changes and updates throughout the chapter, including updates to Exhibits 16–6 and 16–7. Added examples of marketing for a better world.

Chapter 17. Updated for currency as well as major changes that include (1) two new key terms, *benefit corporation* and *B Corporation (B Corp) certification*, (2) new *Ethical Dilemma*, (3) additional coverage on price level policies through the product life cycle, (4) major reorganization including new topics under “Pricing Policies for Price Reductions, Financing, and Transportation,” which included (5) streamlined coverage of geographic pricing where we eliminated key terms and coverage of *FOB*, *zone pricing*, *uniform delivered pricing*, and *freight absorption pricing*. Added examples of marketing for a better world.

Chapter 18. Updated for currency. New exhibit and better explanation of price sensitivity. Added examples of marketing for a better world.

Chapter 19. Modest updates for currency. Added examples of marketing for a better world.

Bonus Chapter 1. The previous edition included (1) adding a new learning objective and section “Marketing Metrics and Analytics Can Guide Marketing Strategy Planning” and (2) *What’s Next?* Making better decisions in a world of data analytics. This edition provides updates for currency and new examples of marketing for a better world.

Bonus Chapter 2. Updates for this edition include new examples for currency and examples of marketing for a better world.

Expanded Teaching and Learning Resources for the 17th Edition

The authors of *Essentials of Marketing* and McGraw-Hill Higher Education have put together a variety of resources to supplement your teaching and learning experience. Instructors will find the following resources posted in the Instructor Resources section of the Connect Library for the 17th edition.

- **Active Learning Guide and Exercises**—We hear more and more from instructors seeking to change their marketing course away from being primarily lecture-based to adding more active learning in the classroom. Joe Cannon decided to flip his class and learned a lot in the process. He shares those insights in an e-book that provides some guidance—see *Flip Your Marketing Class*. The ideas work whether you want to completely flip the class or just add more active learning to your current class sessions. One of the most difficult aspects of making this transition is having high-quality activities for students to work on—activities that reinforce important marketing concepts and critical thinking. We have put together many different resources that can help you make this transition—most with teaching notes.
- **Connect Interactive Applications**—An online assignment and assessment solution that connects students with the tools and resources they’ll need to achieve success.
- **SmartBook**—Powered by LearnSmart, SmartBook is the adaptive reading experience that helps students learn faster, study more efficiently, and retain more knowledge.
- **Instructor’s Manual and Digital Implementation Guide**—Offers a single resource to make it easier for you to decide which resources to use when covering each chapter in the text.
- **PowerPoint Presentation Resources:**
 - **Chapter PowerPoint Slides.** For each chapter there is a set of PowerPoint presentations that includes television commercials and short video clip examples, examples of print advertisements that

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demonstrate important concepts, and questions to use with “clickers” or simply to check if students are getting it. These slides cover all the major topics in the chapter.

- **YouTube PowerPoint slides.** We have embedded YouTube videos into a collection with more than 80 slides, which bring virtual guest speakers, viral videos, case studies, and new ads to your classroom presentations.
- **Multimedia Lecture Support Guide and Video Guide.** Now integrated into the Instructor’s Manual and Digital Implementation Guide, you will find detailed lecture scripts and chapter outlines for the presentation slides to make getting prepared for class fast and easy.
- **Author Blog—**Connect with the redesigned *Teach the 4 Ps* blog (www.teachthe4ps.com) for links to articles, blog posts, videos, video clips, and commercials—with tips on how to use them with *Essentials of Marketing*. The site is organized by topic—so you can easily find something related to what you are teaching that day—and provides plenty of tips for bringing *active learning* to your classroom.
- **Practice Marketing Simulation—**An online and fully mobile interactive learning environment that simulates the full marketing mix, as well as market segmentation and targeting. This can be found at www.mhpractice.com and through Connect.
- **Teaching Videos—**The video package includes 17 full-length videos and video cases and 25 shorter animated iSeeIt! videos.

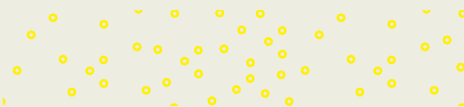
- **Test Bank—**Our test bank includes more than 5,000 objective test questions—every question developed or edited by the authors to ensure it works seamlessly with the text. McGraw-Hill’s TestGen program facilitates the creation of tests.

Responsibilities of Leadership

In closing, we return to a point raised at the beginning of this preface. *Essentials of Marketing* has been a leading textbook in marketing since its first edition. We take the responsibilities of that leadership seriously. We know that you want and deserve the very best teaching and learning materials possible. It is our commitment to bring you those materials today with this edition.

We recognize that fulfilling this commitment requires a process of continuous improvement. Because needs change, revisions, updates, and development of new elements must be ongoing. You are an important part of this evolution and of this leadership. We encourage your feedback. The most efficient way to get in touch with us is to send an e-mail message to Joe.Cannon@ColoState.edu. Thoughtful criticisms and suggestions from students and teachers alike have helped make *Essentials of Marketing* what it is today. We hope that you will help us make it what it will be in the future.

William D. Perreault Jr., Joseph P. Cannon, and E. Jerome McCarthy



Acknowledgments

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We've always believed that the best way to build consistency and quality into the text and the other P.L.U.S. units is to do as much as possible ourselves. With the growth of multimedia technologies, it's darn hard to be an expert on them all. But we've had spectacular help in that regard.

The lecture-support PowerPoints have been a tremendous effort over many editions. We appreciate the efforts of Shannon Lemay-Finn, Luis Torres, Jay Carlson, Mandy Noelle Carlson, David Urban, Milt Pressley, and Lewis Hershey for their creative work on the lecture-support PowerPoint presentation slides.

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We consider our “best in the business” video package a true team effort. Although the authors had input, the project has been led in recent years by Nick Childers at Shadows and Light Creative Services. For several editions, Judy Wilkinson has played a big role as producer of the video series for the book. In that capacity, she worked closely with us to come up with ideas, and she provided guidance to the talented group of marketing professors and managers who created or revised videos for this edition.

Of course, like other aspects of *Essentials of Marketing*, the video series has evolved and improved over time, and its current strength is partly due to the insights of Phil Niffenegger, who served as producer for our early video efforts. The video series also continues to benefit from the contributions of colleagues who developed videos in earlier editions. They are

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as well as encouragement and support while their dads were too often consumed with a never-ending set of deadlines.

Our product must capsule existing knowledge while bringing new perspectives and organization to enhance it. Our thinking has been shaped by the writings of literally thousands of marketing scholars and practitioners. In some cases, it is impossible to give unique credit for a particular idea or concept because so many people have played important roles in anticipating, suggesting, shaping, and developing it. We gratefully acknowledge these contributors—from the early thought-leaders to contemporary authors and researchers—who have shared their creative ideas. We respect their impact on the development of marketing and more specifically this book.

To all of these persons—and to the many publishers who graciously granted permission to use their materials—we are deeply grateful. Responsibility for any errors or omissions is certainly ours, but the book would not have been possible without the assistance of many others. Our sincere appreciation goes to all who contributed.

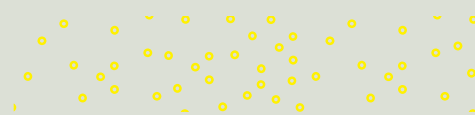
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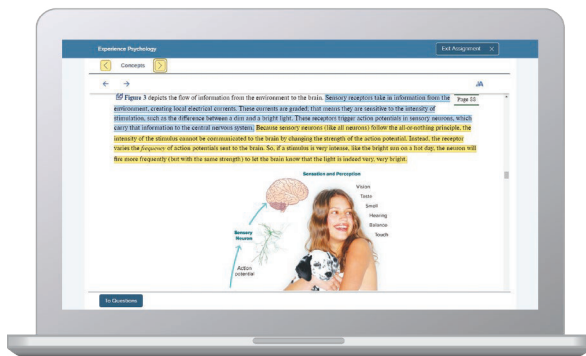
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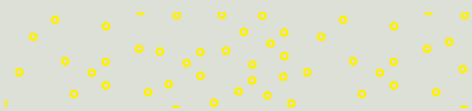
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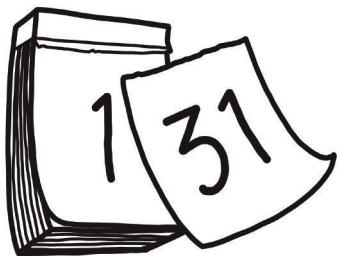
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Essentials of Marketing

A Marketing Strategy
Planning Approach

1

CHAPTER ONE

Believe in something.
Even if it means sacrificing everything.

 Just do it.

Source: Nike, Inc.

Marketing's Value to Consumers, Firms, and Society

3

When it's time to roll out of bed in the morning, does the Spotify app on your Samsung Galaxy phone play your "Waking Up Happy" playlist, or is it your roommate blasting The Chain-smokers? Do you throw on your Nike Flyknit shoes and get in a short run before breakfast? Maybe not this morning. You slept in and now you barely have time to throw on your Levi's jeans, shirt from Zara, and Chaco sandals as you race off to class. You are hungry. Will you open your GE refrigerator and choose a Chobani pineapple-flavored Greek yogurt and an Einstein's bagel with Philadelphia Cream Cheese? Or maybe you grab a Chicken Apple Sausage breakfast sandwich at Caribou Coffee in the student union. If you hurry, your roommate can give you a ride to school in her new Ford Fiesta, although you could ride your Big Shot Fixie bike or take the bus that the city bought from Mercedes-Benz. So many choices.

When you think about it, you can't get very far into a day without bumping into marketing—and what the whole marketing system does for you. It affects every aspect of our lives—often in ways we don't even consider.

In other parts of the world, people wake up each day to different kinds of experiences. A family in a rural African village may have little choice about what food they will eat or where their clothing will come from. In the world's more economically developed countries, consumers find plenty of choices on store shelves. And if no one buys a particular color, size, or style, then companies stop producing it. So, you may have trouble finding a Chicken Apple Sausage sandwich in Hangzhou, China, where the locals are more likely lined up waiting for GanQiShi's steamed buns.

One brand found around the world is Nike. How has Nike become the choice for so many professional and casual athletes around the world? Is it the more than \$1 billion Nike spends each year for endorsements from star athletes like LeBron James and Cristiano Ronaldo? Maybe it's the innovations, like Nike's self-lacing sneakers, lightweight Flyknit shoes, and its Nike+ software apps. What part do the 24,000 retailers that carry Nike products play? Do Nike's connections with tens of millions of customers on Twitter, Instagram, and Facebook build customer relationships? And just how much (if at all) do these marketing strategy decisions affect Nike's sales and profits?

More than 50 years ago, Phil Knight and his college track coach, Bill Bowerman, founded Blue Ribbon Sports (later renamed Nike) to distribute Japanese running shoes. A few years later they were designing, producing, and selling athletic shoes.

Nike really took off after signing basketball star Michael Jordan to endorse its basketball shoes. The Air Jordan line took the market by storm. Nike raced further ahead when its advertising agency came up with the "Just Do It!" slogan and an ad campaign that covered television, magazines, and billboards around the world. "Just Do It" helped carry Nike through the 1990s while profits soared on rising sales aided by low-cost foreign production.

Things haven't always gone smoothly for Nike. In the late 1990s, the company came under attack when it was reported that some of its suppliers used child labor. At first Nike denied responsibility, claiming it couldn't control how its suppliers operated. But public protest showed that society expected more from a large, successful corporation, and Nike began to closely monitor its suppliers' labor practices. Since then, Nike's social responsibility efforts have turned around its reputation. For example, Nike recently set an ambitious sustainability goal: to double its sales while halving its environmental impact. Already, three-quarters of its shoes and apparel contain some recycled material. Strategy decisions like these don't immediately increase Nike's profits, but Nike makes a better world when it recognizes "the future of sport is interlocked with the future of our planet" (Noel Kinder, Nike's chief sustainability officer).

Another Nike marketing decision was quite a bit more controversial. One of Nike's sponsored athletes, NFL quarterback Colin Kaepernick, became a divisive figure when he kneeled during the pregame playing of the national anthem. That choice divided a nation—with some supporting his stand for social justice and others claiming he was unpatriotic. It eventually cost Kaepernick his job when no team wanted to sign the controversial player.

Then Nike jumped into the fray with an advertising campaign featuring Kaepernick and the tagline "Believe in something. Even if it means sacrificing everything." Almost instantly, athletes, consumers, celebrities, and even the president of the

United States reacted—jumping in with full-throated support or harsh criticism of the ad. Nike thought many of its target customers—urban Millennials—would rally behind the cause and the Nike brand. Nike was right: sales jumped 10 percent and net income leapt 15 percent. The campaign brought attention to Nike and racial injustice, forcing more debate on just what makes the world a better place.

Innovation remains important to Nike's culture. For example, its Nike+ apps for smartphones include workouts hosted by athletes like tennis star Serena Williams and Chinese track and field star Su Bingtian, who act as virtual trainers. The apps encourage working out and build long-term customer relationships. When Nike released a new, limited edition Air Jordan basketball shoe, it experimented with direct-to-consumer distribution. The shoes could only be purchased through Snapchat—and sold out in just 23 minutes.

Nike's marketing adds value—it consistently ranks among the 20 most valuable brands in the world and annual sales exceed \$36 billion. But when it comes to athletic clothing and shoes, customers have plenty of choices. If it wants to stay ahead of a strong field of competitors that includes Adidas, Under Armour, Skechers (now the number two seller of athletic footwear in the United States), and Chinese upstart Li Ning, then Nike needs to continue to innovate and stay ahead of its customers' needs and wants.¹

LEARNING OBJECTIVES

In this chapter, you'll learn what marketing is all about and why it's important to you as a consumer. We'll also explore why it is so crucial to the success of individual firms and nonprofit organizations and the impact that it has on the quality of life in different societies.

When you finish this chapter, you should be able to

- 1** know what marketing is and why you should learn about it.
- 2** understand the difference between marketing and macro-marketing.
- 3** know the marketing functions and why marketing specialists—including intermediaries and collaborators—develop to perform them.
- 4** understand what a market-driven economy is and how it adjusts the macro-marketing system.
- 5** know what the marketing concept is—and how it should guide a firm or nonprofit organization.
- 6** understand what customer value is and why it is important to customer satisfaction.
- 7** know how social responsibility and marketing ethics relate to the marketing concept.
- 8** understand the important new terms (shown in **red**).

Marketing—What's It All About?

LO 1.1

Marketing is more than selling or advertising

How did all those bicycles get here?

Many people think that marketing means “selling” or “advertising.” It's true that these are parts of marketing. But *marketing is much more than selling and advertising.*

To illustrate some of the other important things that are included in marketing, think about all the bicycles being pedaled with varying degrees of energy by bike riders around the world. Most of us don't make our own bicycles. Instead, they are made by firms such as Trek, Specialized, Canyon, and Electra.

Most bikes do the same thing—get the rider from one place to another. But a bike rider can choose from a wide assortment of models. They are designed in different sizes and with or without gears. Off-road bikes have large knobby tires. Kids and older people may want more wheels—to make balancing easier. Some bikes need baskets or even trailers for cargo. You can buy a basic bike for less than \$100. Or you can spend more than \$5,000 for a custom frame.



Marketing helps make sure that each customer gets the bicycle that best meets his or her needs.

(left): Jonathan Gelber/FStop Images GmbH/Alamy Stock Photo; (middle): Monkey Business Images/Shutterstock; (right): Pixtal/AGE Fotostock

This variety of styles and features complicates the production and sale of bicycles. The following list shows some of the things a manager should do before and after deciding to produce and sell a bike.

1. Analyze the needs of people who might buy a bike and decide if they want more or different models.
2. Determine how many of these people will want to buy bicycles, where in the world they live, and when they will want to buy.
3. Identify competing companies that also produce bikes, what kind they sell, and at what prices.
4. Predict the designs of bikes—frame and handlebar styles, derailleurs, types of wheels, brakes, and other accessories—different customers will want, and decide which of these people the firm will try to satisfy.
5. Determine whether to sell bikes directly to consumers or through retailers—and if retailers, which ones should be used.
6. Decide how to tell potential customers about the firm's bikes.
7. Estimate the prices potential customers are willing to pay for their bikes and if the firm can make a profit selling at those prices.
8. Figure out how to provide customer service if a customer has a problem after buying a bike.

The above activities are not part of **production**—actually *making* goods or *performing* services. Rather, they are part of a larger process—called *marketing*—that provides needed direction for production and helps make sure that the right goods and services are produced and find their way to consumers.

You'll learn much more about marketing activities in Chapter 2. For now, it's enough to see that marketing plays an essential role in providing consumers with need-satisfying goods and services and, more generally, in creating customer satisfaction. Simply put, **customer satisfaction** is the extent to which a firm fulfills a customer's needs, desires, and expectations.

Marketing Is Important to You

Marketing is important to every consumer

Marketing affects almost every aspect of your daily life. The choices you have among the goods and services you buy, the stores where you shop, and the radio and TV programs you tune in to are all possible because of marketing. In the process of providing

all these choices, marketing drives organizations to focus on what it takes to satisfy you, the customer. Most of the things you want or need are available conveniently *when* and *where* you want or need them.

Some courses are interesting when you take them but not directly relevant to your life once they're over. That's not so with marketing—you'll be a consumer dealing with marketing for the rest of your life regardless of what career you pursue. Moreover, as a consumer, you pay for the cost of marketing activities. In advanced economies, marketing costs about 50 cents of every consumer dollar. For some goods and services, the percentage is much higher. It makes sense to be an educated consumer and to understand what you get and don't get from all that spending.

Marketing will be important to your job

Another reason for studying marketing is that it offers many exciting and rewarding career opportunities. Throughout this book, you will find information about opportunities in different areas of marketing (see especially Appendix C).

If you're aiming for a nonmarketing job, knowing about marketing will help you do your job better. Throughout the book, we'll discuss ways that marketing interacts with other parts of the company—including finance, accounting, human resources, computer information systems, research and development, and more. Further, marketing is important to the success of every organization.

Beyond that, the same basic principles used to sell soap or breakfast cereal are used to “sell” ideas, politicians, health care services, environmental sustainability, museums, and even colleges. No matter what job you end up doing, you are very likely to have to understand others' needs, and perhaps persuade people to behave differently or change their minds about something. Doctors and nurses often need to persuade patients to take their medicine and change their eating habits. Managers have to understand people that work with them and convince them to change behaviors to increase their job performance. Marketing principles will help you achieve those goals and maybe help you get your next job.

A marketing approach can help you get your next job

You will probably be seeking a job sometime soon, offering your services—as an accountant, a salesperson, a computer programmer, a financial analyst, or perhaps a store manager. Or maybe you will be looking for an opportunity with more responsibility or higher pay where you currently work. You will have more success getting what you want when you take a marketing approach and try to figure out how to best satisfy the needs, interests, and desires of a current or prospective employer the same way a business looks at its customers. Much of what you learn about how businesses market their products and services to customers can be applied in the job market. Even your résumé is part of a marketing campaign to sell yourself to an employer. See Appendix C for more details on how to write your personal marketing plan.²

Marketing affects innovation and standard of living

An even more basic reason for studying marketing is that marketing plays a big part in economic growth and development. One key reason is that marketing encourages research and **innovation**—the development and spread of new ideas, goods, and services. As firms offer new and better ways of satisfying consumer needs, customers have more choices among products, which fosters competition for consumers' money. This competition drives down prices. Moreover, when firms develop products that really satisfy customers, fuller employment and higher incomes can result. The combination of these forces means that marketing has a big impact on consumers' standard of living—and it is important to the future of all nations.³

How Should We Define Marketing?

There are micro and macro views of marketing

In our bicycle example, we saw that a producer of bicycles has to perform many customer-related activities besides just making bikes. The same is true for an insurance company or an art museum. This supports the idea of marketing as a set of activities done by an individual organization to satisfy its customers.

On the other hand, people can't survive on bicycles and art museums alone! In advanced economies, it takes goods and services from thousands of organizations to satisfy the many needs of society. Further, a society needs some sort of marketing system to organize the efforts of all the producers, wholesalers, and retailers required to satisfy the varied needs of all its citizens. So marketing is also an important social process.

We can view marketing in two ways: *from a micro view as a set of activities performed by organizations* and also *from a macro view as a social process*. Yet, in everyday use when people talk about marketing, they have the micro view in mind. So that is the way we will define marketing here. However, the broader macro view that looks at the whole production–distribution system is also important, so later we will provide a separate definition and discussion of macro-marketing.

Marketing defined

Marketing is the performance of activities that seek to accomplish an organization's objectives by anticipating customer or client needs and directing a flow of need-satisfying goods and services from producer to customer or client. Let's look at this definition.⁴

Applies to profit and nonprofit organizations

Marketing applies to both profit and nonprofit organizations. Profit is the objective for most business firms. But other types of organizations may seek more members or acceptance of an idea. Customers or clients may be individual consumers, business firms, nonprofit organizations, government agencies, or even foreign nations. Although most customers and clients pay for the goods and services they receive, others may receive them free of charge or at a reduced cost through private or government support.

More than just persuading customers

Marketing isn't just selling and advertising. Unfortunately, some executives still think of it that way. They feel that the job of marketing is to "get rid of" whatever the company happens to produce. In fact, the aim of marketing is to identify customers' needs and meet those needs so well that the product almost "sells itself." This is true whether the product is a physical good, a service, or even an idea. If the whole marketing job has been done well, customers don't need much persuading. They should be ready to buy. And after they buy, they'll be satisfied and ready to buy the same way the next time.

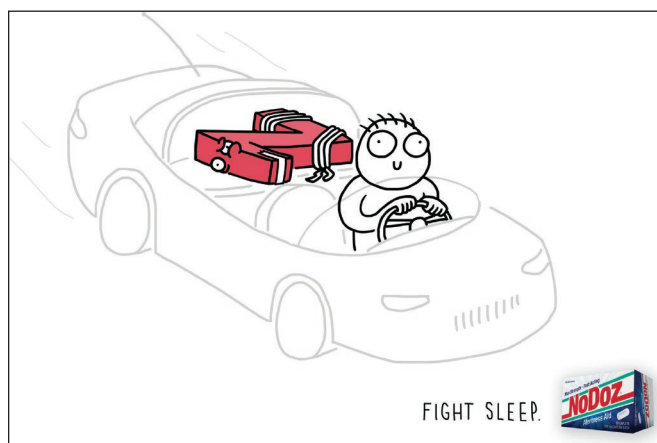
Begins with customer needs

Marketing should begin with potential customer needs—not with the production process. Marketing should try to anticipate needs. And then marketing, rather than production, should determine what goods and services are to be developed—including decisions about product features; design and packaging; prices or fees; transporting and storing policies; advertising and sales tactics; and, after the sale, installation, customer service, warranty, and perhaps even disposal and recycling policies.

Consider France's Sodebo, maker of fresh packaged meals (sandwiches and pasta) sold in grocery stores. Sodebo's consumer research found some customers had an

Marketing aims to identify customer needs and then meet those needs. NoDoz knows that at times, some people need to make sure they don't fall asleep.

Source: Lil' Drug Store Products, Inc.



unmet need: they wanted to satisfy midday hunger in a healthy way. The research showed that whereas busy consumers were willing to buy a high-quality to-go salad, they found current choices skimpy and unsatisfying. Sodebo developed new salads that were convenient, delicious, and filling. On the way to market, Sodebo tested different recipes and packages to find what consumers and retailers liked best. By starting with customer needs, Sodebo's Salade & Compagnie line of 10 different boxed salads became a best seller.⁵

Does not do it alone

This does not mean that marketing should try to take over production, accounting, and financial activities. Rather, it means that marketing—by interpreting customers' needs—should provide direction for these activities and try to coordinate them.

Marketing involves exchanges

The idea that marketing involves a flow of need-satisfying offerings from a producer to a customer implies that there is an exchange of the need-satisfying offering for something else, such as the customer's money. Marketing focuses on facilitating exchanges. In fact, *marketing doesn't occur unless two or more parties are willing to exchange something for something else*. For example, in a **pure subsistence economy**—where each family unit produces everything it consumes—there is no need to exchange goods and services and no marketing is involved. (Although each producer-consumer unit is totally self-sufficient in such a situation, the standard of living is typically relatively low.)

Builds a relationship with the customer

Keep in mind that a marketing exchange is usually part of an ongoing relationship, not just a single transaction. Rather, the goal is continuing sales and an ongoing *relationship* with the customer. In the future, when the customer has the same need again—or some other need that the firm can meet—other sales will follow. A consumer does not visit her local Shell station once, but perhaps every week or two—as long as Shell's gas, coffee, or service satisfies her, she is likely to keep going to the same gas station. This *flow* of need-satisfying goods and services builds a long-lasting relationship that benefits both the firm and the customer.

The focus of this text—management-oriented micro-marketing

Because you are probably preparing for a career in management, the main focus of this text will be on managerial marketing, or the micro view of marketing. We will see marketing through the eyes of the marketing manager.

The marketing ideas we will be discussing throughout this text apply to a wide variety of situations. They are important for new ventures started by one person as well as big corporations, in domestic and international markets, and regardless of whether the focus is on marketing physical goods, services, or an idea or cause. They are equally critical whether the relevant customers or clients are individual consumers, businesses, or some other type of organization. For editorial convenience, we will sometimes use the term *firm* as a shorthand way of referring to any type of organization, whether it is a business, political party, a religious organization, a government agency, or the like. However, to reinforce the point that the ideas apply to all types of organizations, throughout the book we will illustrate marketing concepts in a wide variety of situations.

One of the challenges for many of today's consumer products companies involves addressing the needs of a growing market in developing countries. Makers of many health and beauty products, for example, have found a potential market with the rural poor. For an example of how effective micro-marketing can be used to appeal to this growing market, read *What's Next? Marketing to developing countries' rural poor*.

Although marketing within individual firms (micro-marketing) is the primary focus of the text, marketing managers must remember that their organizations are just small parts of a larger macro-marketing system. Therefore, next we will briefly look at the macro view of marketing. Then we will develop the managerial view more fully in later chapters.

What's Next? Marketing to developing countries' rural poor

In recent decades India has experienced rapid economic growth. Many of its citizens have more income and enjoy a higher quality of life. That helps explain why Unilever's Indian subsidiary, Hindustan Unilever Limited (HUL), has worked hard to build a 40 percent share of the Indian market with its product lines that include soaps, toothpaste, and packaged foods.

Previously, HUL focused on India's cities, where customers with money were concentrated. Yet, almost three-fourths of India's 1 billion plus people still live in rural areas. About a third of these rural villagers still lack access to electricity—and less than half have basic sanitation. Many of them have an income of less than \$2 a day. Conventional wisdom suggests that these poor rural villagers have too little money to be an attractive market. And it's expensive to distribute products to far-flung villages.

But now that is changing. HUL's marketing managers decided that Indian villagers represent an opportunity for growth—and that villagers might benefit if they could purchase the soaps, toothpaste, and packaged food products that HUL is successfully selling in urban areas of India.

HUL tailored a new marketing strategy to this target market. Many products are repackaged in "sachets"—small bags that contain a one- or two-day supply. HUL prices the small sachets so that villagers can afford them—and that in turn gives customers a chance to try quality products that were previously priced out of their reach.

HUL created its "Shakti Ammas" (women entrepreneurs) program to communicate the benefits of its products and distribute them in remote rural areas. The program sets up rural women as home-based distributors

and sales agents. These women stock HUL products at their homes and go door-to-door to sell them. They also organize meetings in local schools and at village fairs to educate fellow villagers on health and hygiene issues.

This program continues to evolve. To provide wider distribution, male entrepreneurs (Shaktimaan) were recruited and given bicycles. The bikes allow each Shaktimaan to cover five or six nearby villages—far more than the Shakti Ammas previously covered on foot. A partnership with a leading Indian telecom provider gives Shakti entrepreneurs an additional product to sell while on their rounds.

Today, more than 80,000 micro-entrepreneurs have their own businesses—operating in 162,000 villages and reaching over 4 million rural households across India. HUL's success in India spurred Unilever to adapt the model to developing countries around the globe. The Shakti have a new source of income and are learning about business—while they bring the health benefits of improved hygiene to rural villages. And, of course, HUL hopes to clean up with a new source of growth. To see and hear more about Project Shakti, check out this video: http://youtu.be/E7Hvp_CCTYY.

Through its marketing, HUL helps deliver a better quality of life to millions of India's poor. After seeing Unilever's success, many of its competitors developed similar programs around the world. Together, such changes create a better world for hundreds of millions of people.⁶

How do we see parts of the definition of marketing represented in this case study? What customer needs does the Shakti Ammas program address? How does it build a relationship between HUL and the customer?

Macro-Marketing

LO 1.2

Emphasis is on whole system

Macro-marketing is a social process that directs an economy's flow of goods and services from producers to consumers in a way that effectively matches supply and demand and accomplishes the objectives of society.⁷

With macro-marketing we are still concerned with the flow of need-satisfying goods and services from producer to consumer. However, the emphasis with macro-marketing is not on the activities of individual organizations. Instead, the emphasis is on *how the whole marketing system works*. This includes looking at how marketing affects society and vice versa.

Every society needs a macro-marketing system to help match supply and demand. Different producers in a society have different objectives, resources, and skills. Likewise, not all consumers share the same needs, preferences, and wealth. In other words,

within every society there are both heterogeneous (highly varied) supply capabilities and heterogeneous demands for goods and services. The role of a macro-marketing system is to effectively match this heterogeneous supply and demand *and* at the same time accomplish society's objectives.

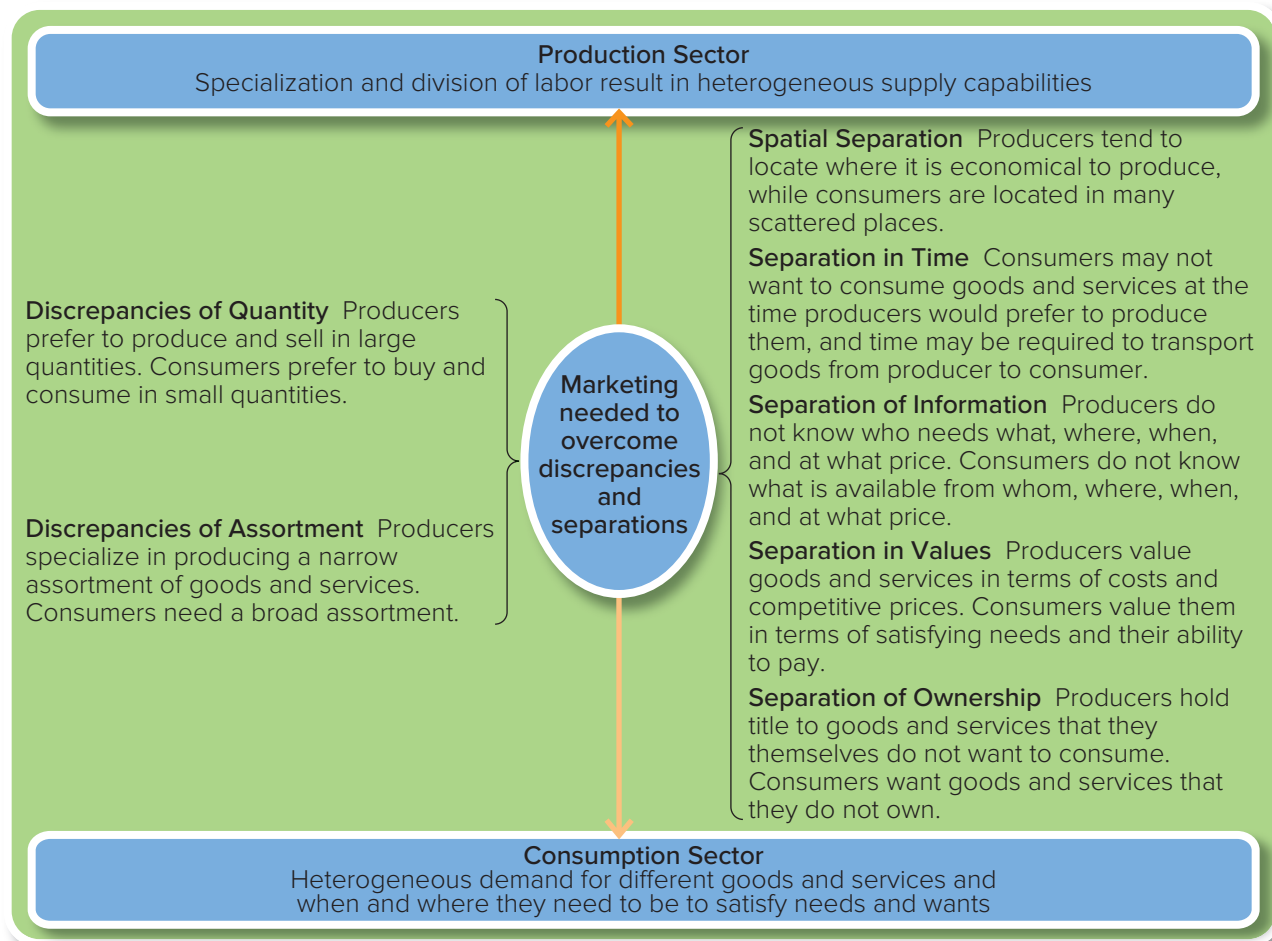
An effective macro-marketing system delivers the goods and services that consumers want and need. It gets products to them at the right time, in the right place, and at a price they're willing to pay. It keeps consumers satisfied after the sale and brings them back to purchase again when they are ready. That's not an easy job—especially if you think about the variety of goods and services a highly developed economy can produce and the many kinds of goods and services consumers want.

Separation between producers and consumers

Effective marketing in an advanced economy is difficult because producers and consumers are often separated in several ways. As Exhibit 1-1 shows, exchange between producers and consumers is hampered by *spatial separation*; *separation in time*; *separation of information*; *separation in values*; and *separation of ownership*. You may love your cell phone, but you probably don't know when or where it was produced or how it got to you. The people in the factory that produced it don't know about you or how you live. The producer knows it wants to make that phone at a low cost and isn't sure what features and benefits you are seeking.

In addition, most firms specialize in producing and selling large amounts of a narrow assortment of goods and services. This allows them to take advantage of mass production with its **economies of scale**—which means that as a company produces larger numbers of a particular product, the cost of each unit of the product goes down. Yet most

Exhibit 1-1 Marketing Facilitates Production and Consumption



consumers want to buy only a small quantity; they also want a wide assortment of different goods and services. Apple makes millions of iPhones in a few factories in China, but most customers want to buy just one. And most smartphone buyers like to go to a store with several different phones from different companies. These “discrepancies of quantity” and “discrepancies of assortment” further complicate exchange between producers and consumers (Exhibit 1-1). That is, each producer specializes in producing and selling large amounts of a narrow assortment of goods and services, but each consumer wants only small quantities of a wide assortment of goods and services.⁸

The purpose of a macro-marketing system is to overcome these separations and discrepancies. The “universal functions of marketing” help solve these problems.

Marketing functions help narrow the gap

LO 1.3

The **universal functions of marketing** are buying, selling, transporting, storing, standardization and grading, financing, risk taking, and market information. They must be performed in all macro-marketing systems. *How* these functions are performed—and *by whom*—may differ among nations and economic systems. But they are needed in any macro-marketing system. Let’s take a closer look at them now.

Any kind of exchange usually involves buying and selling. The **buying function** means looking for and evaluating goods and services. The **selling function** involves promoting the product. It includes the use of personal selling, advertising, customer service, and other direct and mass-selling methods to tell customers about the product. This is probably the most visible function of marketing.

The **transporting function** means the movement of goods from one place to another. The **storing function** involves holding goods until customers need them.

Standardization and grading involve sorting products according to size and quality. This makes buying and selling easier because it reduces the need for inspection and sampling. **Financing** provides the necessary cash and credit to produce, transport, store, promote, sell, and buy products. **Risk taking** involves bearing the uncertainties that are part of the marketing process. A firm can never be sure that customers will want to buy its products. Products can also be damaged, stolen, or outdated. The **market information function** involves the collection, analysis, and distribution of all the information needed to plan, carry out, and control marketing activities, whether in the firm’s own neighborhood or in a market overseas. Together these universal functions of marketing address the discrepancies and separations in Exhibit 1-1.

Acai berries are popular in the United States as a supplement and as an ingredient in juices and smoothies. A range of marketing functions are needed to overcome the spatial separation between the Central and South American farms, where the fruit is harvested from acai palms, and U.S. consumers. Consider the process: standardizing and grading the berries, transporting and storing the fruit and its juice, financing production of the acai end products, as well as the buying and selling functions—all are necessary to bring a tasty fruit smoothie to a thirsty lady. (top-left): Brasil2/iStock/Getty Images; (bottom-left): Andre Penner/AP Images; (right): zjuzjaka/Shutterstock



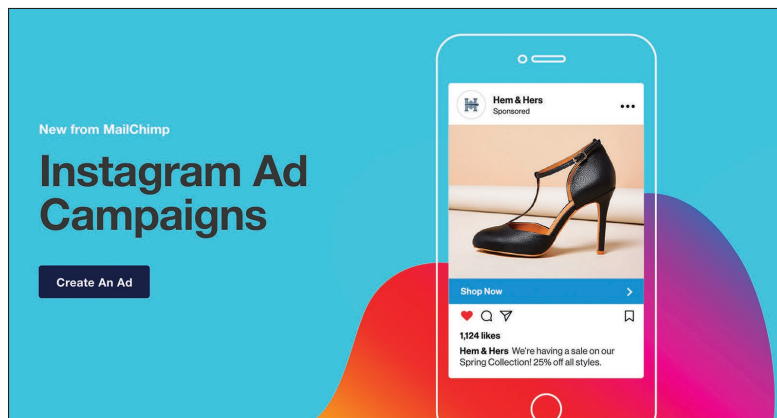
Producers, consumers, and marketing specialists perform functions

Producers and consumers sometimes handle some of the marketing functions themselves. However, exchanges are often easier or less expensive when a marketing specialist performs some of the marketing functions. For example, both producers and consumers may benefit when an **intermediary**—someone who specializes in trade rather than production—plays a role in the exchange process. In Chapters 10, 11, and 12 we'll cover the variety of marketing functions performed by the two basic types of intermediaries: retailers and wholesalers. Imagine what it would be like to shop at many different factories and farms for the wide variety of brands of packaged foods that you like rather than at a well-stocked local grocery store. Although wholesalers and retailers must charge for services they provide, this charge is usually offset by the savings of time, effort, and expense that would be involved without them. So these intermediaries can help make the whole macro-marketing system more efficient and effective.

A wide variety of other marketing specialists may also help smooth exchanges among producers, consumers, or intermediaries. These specialists are **collaborators**—firms that facilitate or provide one or more of the marketing functions other than buying. These collaborators include advertising agencies, marketing research firms, independent product-testing laboratories, Internet service providers, public warehouses, transporting firms, communications companies, and financial institutions (including banks). Walmart and Google recently partnered to allow customers to shop by voice with Google Assistant. The collaboration helps both parties advance their marketing goals.

Functions can be shifted and shared

From a macro-marketing viewpoint, all of the marketing functions must be performed by someone—an individual producer or consumer, an intermediary, a marketing collaborator, or, in some cases, even a nation's government. No function can be completely eliminated. However, from a micro viewpoint, not every firm must perform all of the functions. Rather, responsibility for performing the marketing functions can be shifted and shared in a variety of ways. Further, not all goods and services require all the functions at every level of their production. “Pure services”—like a plane ride—don't need storing, for example. But storing is required in the production of the plane and while the plane is not in service.



Intermediaries and collaborators develop and offer specialized services that facilitate exchange between producers and consumers. Instagram offers services that help a firm create advertising campaigns. Instagram is a collaborator; it facilitates its clients' selling function. Companies that produce building supplies work with an intermediary such as Home Depot to better serve the electricians, plumbers, and carpenters that buy and use its products.

Sources: (left) Instagram: The Rocket Science Group; (right) Home Depot: Homer TLC, Inc.



Regardless of who performs the marketing functions, in general they must be performed effectively and efficiently or the performance of the whole macro-marketing system will suffer. With many different possible ways for marketing functions to be performed in a macro-marketing system, how can a society hope to arrive at a combination that best serves the needs of its citizens? To answer this question, we can look at the role of marketing in different types of economic systems.

The Role of Marketing in Economic Systems

LO 1.4

All societies must provide for the needs of their members. Therefore, every society needs some sort of **economic system**—the way an economy organizes to use scarce resources to produce goods and services and distribute them for consumption by various people and groups in the society.

How an economic system operates depends on a society's objectives and the nature of its political institutions.⁹ But regardless of what form these take, all economic systems must develop some method—along with appropriate economic institutions—to decide what and how much is to be produced and distributed by whom, when, to whom, and why.

Government officials may make the decisions

Forty or fifty years ago, many countries' economies—including China's and Russia's—were directed by government officials. In a **command economy**, government officials decide what and how much is to be produced and distributed by whom, when, to whom, and why. These decisions are usually part of an overall government plan, so command economies are also called “planned” economies. It sounds good for a government to have a plan, but as a practical matter, attempts by a government to dictate an economic plan often don't work out as intended. Countries with command economies often had little variety, so consumers had few choices. And because the government struggled to forecast what consumers would want, there were often shortages of goods and services. As a result, consumers were often dissatisfied with the systems. Over time, most planned economies transitioned to a system that left decision making to customers and producers.

A market-directed economy adjusts itself

In a **market-directed economy**, the individual decisions of the many producers and consumers make the macro-level decisions for the whole economy. In a pure

Artists and craftworkers in developing economies do not often have a large local market for their products. Ten Thousand Villages operates retail stores and an e-commerce website that help artisans reach more customers and promote economic development in their communities.

Source: Ten Thousand Villages



market-directed economy, consumers make a society's production decisions when they make their choices in the marketplace. They decide what is to be produced and by whom—through their dollar “votes.”

In a market-directed economy, consumers choose from a range of options that may meet their needs. They are not forced to buy any goods or services, except those judged as good for society—things such as national defense, police and fire protection, roads, public schools, and public health services. These are provided by the community—and citizens' taxes pay for them.

Similarly, producers are free to do whatever they wish—provided that they stay within the rules of the game set by government *and* receive enough dollar “votes” from consumers. If they do their job well, they earn a profit and stay in business. But profit, survival, and growth are not guaranteed.

In a market-directed economy, the system is governed by the words and actions of consumers and citizens, with the government setting the boundaries.

Prices customers pay determine a measure of value

Prices in the marketplace are a rough measure of how society values particular goods and services. If consumers are willing to pay the market prices, then they are getting at least their money's worth. If prices and profits are high, then consumers either stop buying or competitors enter the market. Similarly, the cost of labor and materials is a rough measure of the value of the resources used in the production of goods and services to meet these needs. New consumer needs that can be served profitably—not just the needs of the majority—will probably be met by some profit-minded businesses.

Customers use “voices” to gain power in the market

The rise of digital and social media gives customers more power in the market. These days if customers feel they have been wronged by a company, they can share their dissatisfaction with more than just their immediate friends and family. A review on a website or a social media post may be read by hundreds or thousands of other people.

When musician Dave Carroll's guitar was damaged by United Airlines—and baggage handlers and the airline refused to compensate him—Carroll's band made a YouTube video. The funny video, “United Breaks Guitars,” went viral, millions saw it, and lo and behold, United offered Carroll a new guitar.

Not every customer will make a video of a bad experience, but many will make social media posts—or “like” or pass along someone else's story. Prospective customers often search the web to learn about companies before buying. They can easily find positive and negative information on the Internet, giving firms an extra incentive to play by the socially accepted rules of the game.

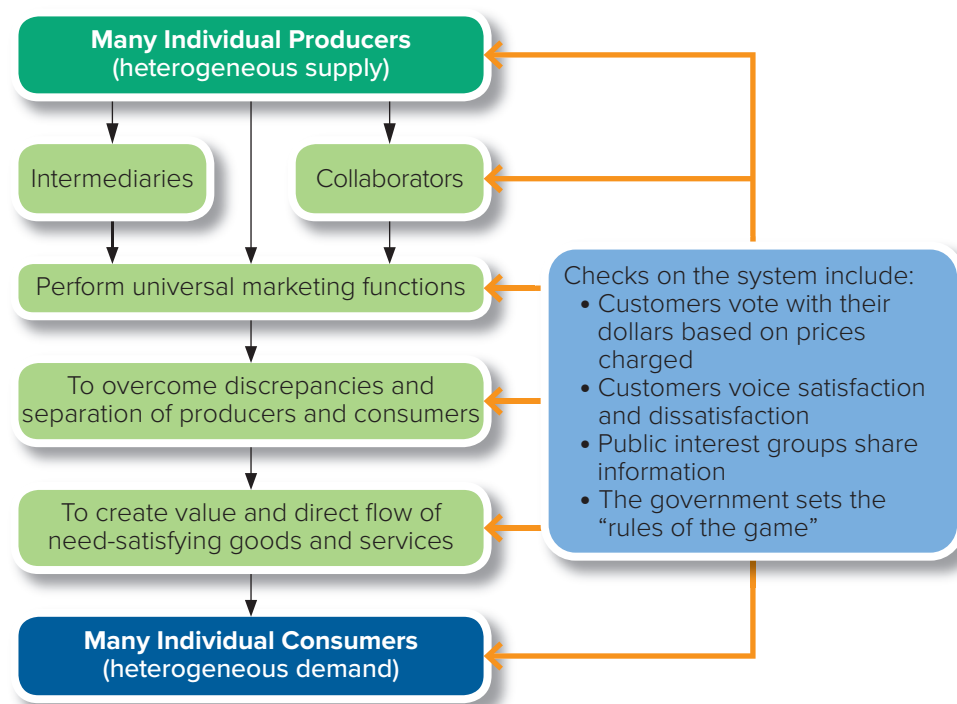
Public interest groups

In many Western economies, public interest groups and consumers provide an additional check on a market-directed economy. For example, the Center for Science in the Public Interest (CSPI) is a consumer watchdog group that pressures food companies to make healthier products. CSPI regularly issues reports on unhealthy foods like the high fat content in movie theater popcorn and Chinese food. The consulting firm UL Terra-Choice regularly exposes firms that make false or exaggerated environmental claims about their products.

Government enforces the “rules of the game”

The American economy and most other Western economies are mainly market-directed—but not completely. Society assigns supervision of the system to the government. For example, besides setting and enforcing the “rules of the game,” government agencies control interest rates and the supply of money. They also set import and export rules that affect international competition, regulate radio and TV broadcasting, sometimes control wages and prices, and so on. Government also tries to be sure that property is protected, contracts are enforced, individuals are not exploited, no group unfairly monopolizes markets, advertising is honest, and producers deliver the kinds and quality of goods and services they claim to be offering.

Exhibit 1-2 Model of a Market-Directed Macro-Marketing System



Macro-marketing systems adjust over time

So far, we have described how a market-directed macro-marketing system adjusts to become more effective and efficient by responding to customers and public interest groups and staying within government regulations (see Exhibit 1-2). As you read this book, you'll learn more about how marketing affects society and vice versa. You'll also learn more about specific marketing activities and be better informed when drawing conclusions about how fair and effective the macro-marketing system is. For now, however, we'll return to our general emphasis on a managerial view of the role of marketing in individual organizations.

Marketing's Role Has Changed a Lot over the Years

It's clear that marketing decisions are very important to a firm's success. But marketing hasn't always been so complicated. In fact, understanding how marketing thinking has evolved makes the modern view clearer, so we will discuss five stages in marketing evolution: (1) the simple trade era, (2) the production era, (3) the sales era, (4) the marketing department era, and (5) the marketing company era. We'll talk about these eras as if they applied generally to all firms—but keep in mind that *some managers still have not made it to the final stages*. They are stuck in the past with old ways of thinking.

Simple trade era to production era

When societies first moved toward some specialization of production and away from a subsistence economy where each family raised and consumed everything it produced, traders played an important role. Early "producers for the market" made products that were needed by themselves and their neighbors. As bartering became more difficult, societies moved into the **simple trade era**—a time when families traded or sold their "surplus" output to local distributors. These specialists resold the goods to other consumers or other distributors. This was the early role of marketing—and it is still the focus of marketing in many less-developed areas of the world. In fact, even in the United States, the United Kingdom, and other more advanced economies, marketing didn't change much until the Industrial Revolution brought larger factories more than 150 years ago.

In the past, many banks created products but left it to the marketing department to sell them. In today's more competitive environment, banks conduct research to discover customer needs, then develop products that meet those needs. This leads to more satisfied customers. When Bank of the Wichitas added an online branch, it decided to use an untraditional approach and called it Redneck Bank. Redneck Bank offers customers "flat out free checking" and convenience served with a healthy dollop of humor. The approach has been successful, and the small bank from Oklahoma quickly added customers from all over the United States.

Source: Bank of the Wichitas®



From the production to the sales era

From the Industrial Revolution until the 1920s, many companies were in the production era—some still are today. The **production era** is a time when a company focuses on production of a few specific products—perhaps because few of these products are available in the market. “If we can make it, it will sell” is management thinking characteristic of the production era. Because of product shortages, many nations—including some of the postcommunist republics of eastern Europe—continue to operate with production era approaches.

By about 1930, most companies in the industrialized Western nations had more production capability than ever before. Now the problem wasn't just to produce—but to beat the competition and win customers. This led many firms to enter the sales era. The **sales era** is a time when a company emphasizes selling because of increased competition.

To the marketing department era

For most firms in advanced economies, the sales era continued until at least 1950. By then, sales were growing rapidly in most areas of the economy. The problem was deciding where to put the company's effort. Someone was needed to tie together the efforts of research, purchasing, production, shipping, and sales. As this situation became more common, the sales era was replaced by the marketing department era. The **marketing department era** is a time when all marketing activities are brought under the control of one department to improve short-run policy planning and to try to integrate the firm's activities.

To the marketing company era

Since 1960, most firms have developed at least some managers with a marketing management outlook. Many of these firms have even graduated from the marketing department era into the marketing company era. The **marketing company era** is a time when, in addition to short-run marketing planning, marketing people develop long-range plans—sometimes five or more years ahead—and the whole-company effort is guided by the marketing concept.

What Does the Marketing Concept Mean?

LO 1.5

The **marketing concept** means that an organization aims *all* of its efforts at satisfying its *customers*—at a *profit*. The marketing concept is a simple but very important idea.

The marketing concept is not a new idea—it has been around for a long time. But some managers show little interest in customers' needs. These managers still have a **production orientation**—making whatever products are easy to produce and *then* trying to sell them. They think of customers existing to buy the firm's output rather than of firms existing to serve customers and—more broadly—the needs of society.¹⁰

Well-managed firms have replaced this production orientation with a marketing orientation. A **marketing orientation** means trying to carry out the marketing concept. Instead of just trying to get customers to buy what the firm has produced, a marketing-oriented firm tries to offer customers what they need.

Three basic ideas are included in the definition of the marketing concept: (1) customer satisfaction, (2) a total company effort, and (3) profit (and/or other measures of long-term success)—not just sales—as an objective. See Exhibit 1–3. These ideas warrant further discussion.

Customer satisfaction guides the whole system

“Give the customers what they need” seems so obvious that it may be hard for you to see why the marketing concept requires special attention. However, people don't always do the logical thing—especially when it means changing what they've done in the past. When customers have choices, they choose companies that best meet their needs, desires, and expectations. They purchase again from these companies, and they tell their friends about the great experience. This all starts with customer satisfaction.

The whole company works together to satisfy customers

Ideally, all managers should work together as a team. Every department may directly or indirectly impact customer satisfaction. But some managers tend to build “fences” around their own departments. There may be meetings to try to get them to work together—but they come and go from the meetings worried only about protecting their own turf.

Exhibit 1-3

Organizations with a Marketing Orientation Carry Out the Marketing Concept



We use the term *production orientation* as a shorthand way to refer to this kind of narrow thinking—and lack of a central focus—in a business firm. But keep in mind that this problem may be seen in sales-oriented sales representatives, advertising-oriented agency people, finance-oriented finance people, directors of nonprofit organizations, and so on. It is not a criticism of people who manage production. They aren't necessarily any more guilty of narrow thinking than anyone else.

The fences come down in an organization that has accepted the marketing concept. There may still be departments because specialization often makes sense. But the total system's effort is guided by satisfying customers' needs and wants—instead of what each department would like to do. The marketing concept provides a guiding focus that *all* departments adopt. It must be a philosophy of the whole organization, not just an idea that applies to the marketing department.

Profit, revenues, and costs are examples of **marketing metrics** which refer to numeric data that allow marketing managers to evaluate performance, often against a set target or goal.¹¹ At a basic level, marketing managers use these metrics to calculate how well a strategy performs. For example, consider a student who wants to sell T-shirts on campus to support a student organization. The student could estimate profits in advance and then evaluate the profits later. The Marketing Analytics in Action: Revenue, Cost, and Profit exercise describes this in more detail.

Survival and success require a profit

Firms must satisfy customers. But keep in mind that it may cost more to satisfy some needs than any customers are willing to pay. Or it may be much more costly to try to attract new customers than it is to build a strong relationship with—and encourage repeat purchases from—existing customers. So profit—the difference between a firm's revenue and its total costs—is the bottom-line measure of the firm's success and ability to survive. It is the balancing point that helps the firm determine what needs it will try to satisfy with its total (sometimes costly!) effort.

Some organizations have other measures of long-term success. Most nonprofit organizations need revenues to exceed costs to survive long term—but they may have other goals valued by employees and supporters. For example, a food bank may measure success by the number of meals it serves to the homeless. Many for-profit organizations consider more than profit; for example, many are concerned with the environment or their community.

Marketing Analytics in Action: Revenue, Cost, and Profit

Marketing managers pay close attention to profit—that also means monitoring revenues and costs. And whereas marketing managers want to know a company's overall profits, they are also likely to examine revenues, costs, and profits for individual products, perhaps in different geographic markets. This suggests some simple metrics that can be calculated with the following formulas:

- Revenue = Price × Quantity sold
- Profit = Revenue − Cost

To better understand how a marketing manager might use these numbers, let's look at a simple example. Julie Tyler is a college student in charge of fundraising for a student organization. Last year the group successfully sold T-shirts to raise money and awareness for the group. They made 250 T-shirts for \$12 each and sold them at a price of \$20 per T-shirt. This year Julie wants to buy a higher-quality shirt that will cost \$15, and she believes she can sell them for \$30. However, at the higher price she expects to sell only 200 shirts.

1. Calculate the profits the group earned last year.
2. Calculate the profits Julie would earn this year using these prices and assuming her sales projections are accurate.
3. What else could Julie do to increase profits?

Many organizations go beyond profit

Even many for-profit businesses have measures that go beyond profit(s) alone. Many organizations explicitly consider a **triple bottom line**—which measures an organization's economic, social, and environmental outcomes—as a measure of long-term success. *Profit* is the economic outcome. *Social* refers to how the company's business activities affect its employees and other people in the communities where it operates. The third bottom line takes into account *environmental responsibility*, usually seeking to at least not harm the natural environment. Together, these are sometimes referred to as measures of people, planet, and profit.¹²

Consider Namaste Solar, which actively seeks economic profits while also measuring the impact on its local community and the planet. For example, the company gives 20 percent of its after-tax earnings to support projects such as a community bicycle-recycling program or the local children's museum. Namaste Solar's core products help the planet, but the company also offers grants of up to \$30,000 to help schools and nonprofits install their own solar systems. The company also self-monitors and reduces its waste. It recycles or reuses 90 percent of its office supplies and employs a zero waste company kitchen. Many of Namaste Solar's customers and employees value its triple bottom line orientation.¹³

Adoption of the marketing concept is not universal

The marketing concept may seem obvious, but it is easy to maintain a production-oriented way of thinking. Producers of industrial commodities such as steel, coal, and chemicals have tended to remain production-oriented in part because buyers see little difference among competitors. Some industries with limited competition, including electric utilities and cable television providers, have also been slow to adopt the marketing concept. When an industry gets competitive, consumers have choices and flock to those that deliver customer satisfaction. This provides an incentive for more firms to practice the marketing concept.¹⁴

Take a look at Exhibit 1-4. It shows some differences in outlook between adopters of the marketing concept and typical production-oriented managers. As the exhibit suggests, the marketing concept forces the company to think through what it is doing—and why.

Exhibit 1-4 Some Differences in Outlook between Adopters of the Marketing Concept and Typical Production-Oriented Managers

Topic	Marketing Orientation	Production Orientation
Attitudes toward customers	Customer needs determine company plans	Customers 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

The Marketing Concept and Customer Value

LO 1.6

Take the customer's point of view

A manager who adopts the marketing concept sees customer satisfaction as the path to profits. To better understand what it takes to satisfy a customer, it is useful to take the customer's point of view.

A customer may look at a market offering from two perspectives. One deals with the potential benefits of that offering; the other concerns what the customer has to give up to get those benefits. Consider a student who has just finished an exam and is thinking about getting an iced coffee from Starbucks. Our coffee lover might see this as a great-tasting treat, a quick pick-me-up, a quiet place to relax and meet friends, or as a way to get to know an attractive classmate. Clearly, different needs are associated with these different benefits. The cost of getting these benefits would include the price of the coffee and any tip to the server, but there might be other nonmonetary costs. For example, how difficult it is to find parking is a convenience cost. Slow service could be an aggravation.

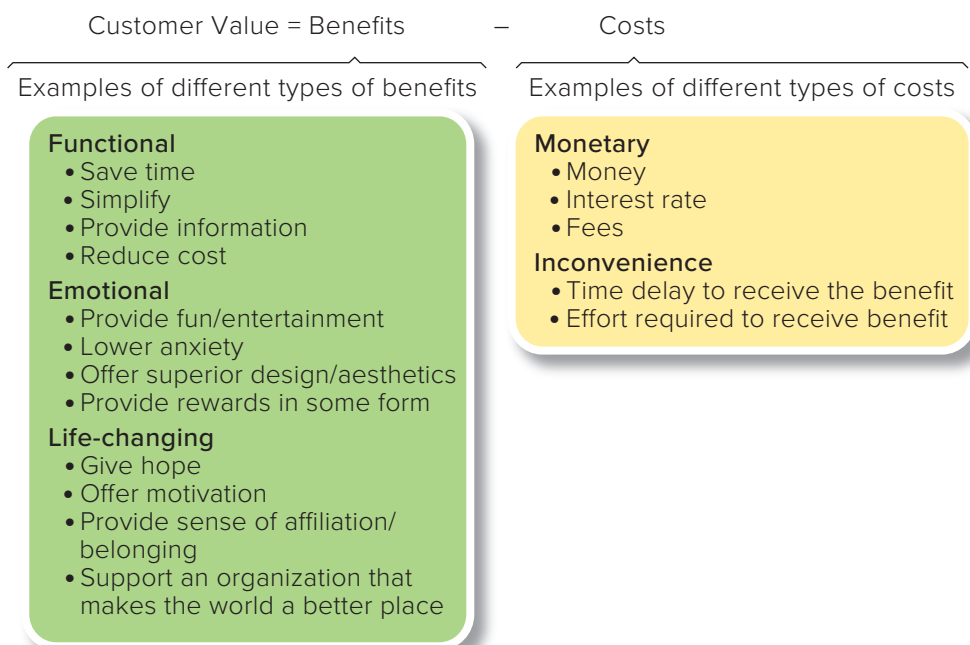
Customer value reflects benefits and costs

As this example suggests, both benefits and costs can take many different forms. They also may vary depending on the situation. However, it is the *customer's view* of the various benefits and costs that is important. We want to repeat this important distinction: it is the *customer's view* of costs and benefits that is important. A company may want to offer a more fun atmosphere at its coffee shop—but whether it succeeds depends on the customer's perception.

This leads us to the concept of **customer value**—the difference between the benefits a customer sees from a market offering and the costs of obtaining those benefits. Exhibit 1-5 shows the wide range of different types of benefits; for example *functional benefits* could save a customer time or effort, *emotional benefits* might deliver fun and entertainment or design and aesthetics, and *life-changing benefits* could increase motivation or feelings of belonging.¹⁵

Exhibit 1-5 also recognizes costs. Some people think that higher customer value comes from a low price. But that may not be the case at all. A good or service that doesn't meet a customer's needs results in low customer value, even if the price is very low. A high price may be more than acceptable when it obtains the desired benefits. Think again about our Starbucks example. You can get a cup of coffee for a much lower price, but Starbucks offers more than just a cup of coffee.

Exhibit 1-5 Customer Value Equals Benefits Minus Costs



Our definition of customer value might help you start thinking about how Starbucks could offer more customer value. Starbucks probably needs to start by providing a great-tasting cup of coffee—but what else can increase customer value? Although Starbucks could easily increase value by lowering prices, it prefers to seek out ways to increase benefits. Do some Starbucks customers experience benefits when a drive-through window saves them time in the morning? Does the Starbucks app, with the option of preordering your coffee and skipping the line, save a customer time and reduce effort? Does the Starbucks Rewards program, which leads to free cups of coffee, deliver benefits? Does Starbucks' commitment to ethically sourced coffee make a customer *feel* better? Any of these potential value-enhancing activities depends on Starbucks' customers' interpretation of their value.

Customers may not think about it very much

It is useful for a manager to evaluate ways to improve the benefits, or reduce the costs, of what the firm offers customers. However, this doesn't mean that customers stop and compute some sort of customer value score before making each purchase. If they did, there wouldn't be much time in life for anything else. So a manager's objective and thorough analysis may not accurately reflect the customer's impressions. Yet it remains the customer's view that matters—even when the customer has not thought about it.

Where does competition fit?

You can't afford to ignore competition. Consumers usually have choices about how they will meet their needs. If a firm hopes to win and keep customers over the long haul, that firm must offer a level of customer value greater than that offered by competitors. Consumers have choices—and they tend to choose options that deliver the most value.

Companies recognize that an offering with high value can change if the competition offers something better. Competition drives innovation and continuous improvements in most markets. When Uber entered the “taxi” market with a more convenient way to hail a ride, many taxi companies developed their own apps and improved service. After Tesla introduced its \$50,000 Model S60 electric car with a range of 208 miles per charge, General Motors (GM) upped its game to bring out the \$30,000 Chevrolet Bolt with a 238-mile range. Of course, there are other benefits to car ownership, and Tesla hopes its newest model delivers what some customers see as a better value than the Bolt.¹⁶

Build relationships with customer value

Firms that embrace the marketing concept seek ways to build a profitable long-term relationship with each customer. Even the most innovative firm faces competition sooner or later. Trying to get new customers by taking them away from a competitor is usually more costly than retaining current customers by really satisfying their needs. Satisfied customers buy again and again, whereas dissatisfied customers often tell others not to buy. With a long-term relationship, the customer's buying job is easier, and it also increases the selling firm's profits.

Building relationships with customers requires that everyone in a firm work together to provide customer value before *and after* each purchase. If there is a problem with a customer's bill, the accounting people can't just leave it to the salesperson to straighten it out or, even worse, act like it's “the customer's problem.” These hassles raise customers' costs of doing business. The long-term relationship with the customer—and the lifetime value of the customer's future purchases—is threatened unless everyone works together to make things right for the customer. Similarly, the firm's advertising might encourage a customer to buy once, but if the firm doesn't deliver on the benefits promised in its ads, the customer is likely to go elsewhere the next time the need arises. In other words, anytime the customer value is reduced—because the benefits to the customer decrease or the costs increase—the relationship is weakened.¹⁷

Exhibit 1-6 Satisfying Customers with Superior Customer Value to Build Profitable Relationships

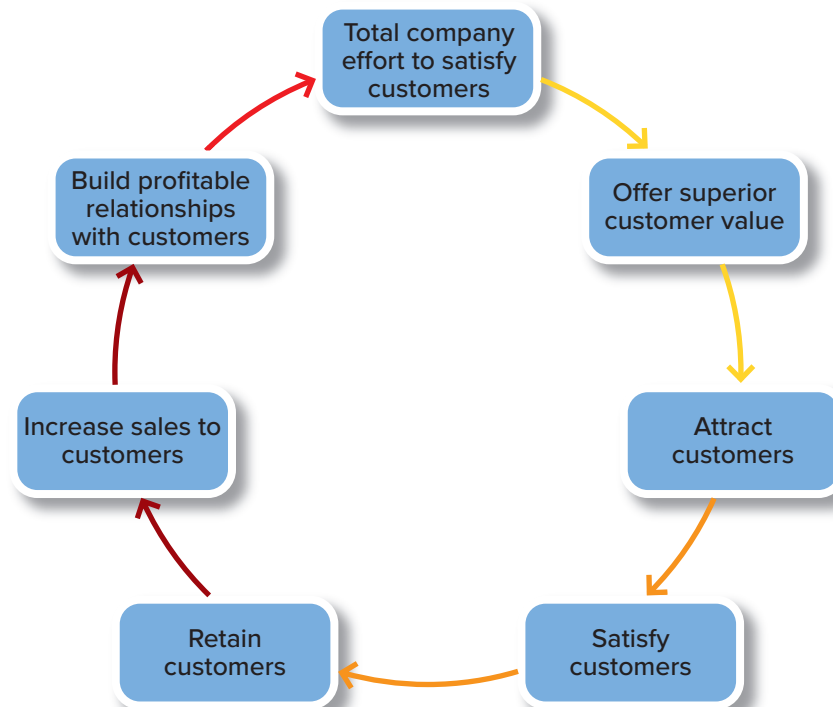
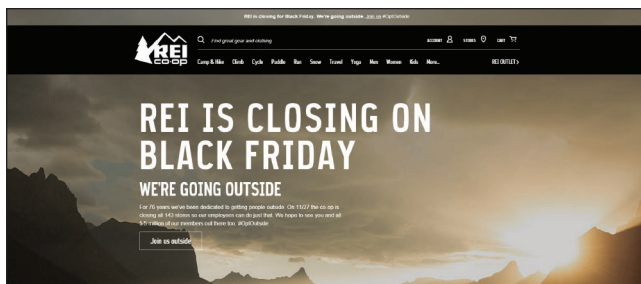


Exhibit 1-6 summarizes these ideas. In a firm that has adopted the marketing concept, everyone focuses on customer satisfaction. They look for ways to offer superior customer value. That helps attract customers in the first place—and keeps them satisfied after they buy. So when they are ready to make repeat purchases, the firm is able to keep them as customers. Sales may increase further because satisfied customers are likely to buy other products offered by the firm. In this way, the firm builds profitable relationships with its customers. In other words, when a firm adopts the marketing concept, it wins and so do its customers.

REI's value delivers satisfied customers—again and again

One company that illustrates these ideas is the retail store Recreational Equipment, Inc., better known as REI. REI specializes in outdoor recreation, including camping supplies, sporting goods, travel gear, and clothing. The company has built enduring relationships with customers who shop at its more than 140 stores or its website. REI customers see superior value in the company's knowledgeable store staff and large selection of high-quality outdoor gear. The company attracts customers who learn about it from already satisfied customers, who see its stores in their town, or who hear about its clever promotions—like when it tells its customers it is closing on Black Friday (one of the biggest shopping days of the year) because everyone should go outside and enjoy nature.

Customers typically enjoy their shopping experiences at REI—and they become satisfied and repeat customers after using the outdoor equipment they purchase. REI's outdoorsy customers also appreciate that REI leads hundreds of outdoor companies in defending public lands. REI is operated as a co-op and is owned by its six million active members, who become lifetime members by paying \$20. This sense of community also helps REI to retain customers. Members get special members-only coupons and an annual 10 percent rebate on all purchases. These extras enhance customer value and keep customers coming back. And when these loyal customers buy more next year, REI becomes even more profitable. Everyone at REI—from buyers who choose the merchandise it sells to



Source: Recreational Equipment, Inc.

associates offering advice on the sales floor—focuses on increasing customer satisfaction. This virtuous cycle (see Exhibit 1-6) has helped REI become one of the hottest brands in retail.¹⁸

The Marketing Concept Applies in Nonprofit Organizations

Newcomers to marketing thinking

The marketing concept is as important for nonprofit organizations as it is for business firms. In fact, marketing applies to all sorts of public and private nonprofit organizations—ranging from government agencies, health care organizations, educational institutions, and religious groups to charities, political parties, and fine arts organizations.

Support may not come from satisfied “customers”

As with any business firm, a nonprofit organization needs resources and support to survive and achieve its objectives. Yet support often does not come directly from those who receive the benefits the organization produces. For example, the World Wildlife Fund protects animals. If supporters of the World Wildlife Fund are not satisfied with its efforts—if they don't think the benefits are worth what it costs to provide them—they will put their time and money elsewhere.

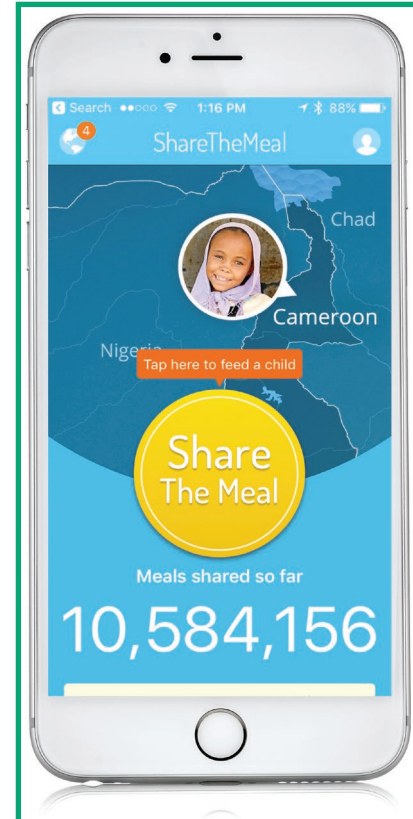
Just as most firms face competition for customers, most nonprofits face competition for the resources and support they need. The Air Force faces a big problem if it can't attract new recruits. A shelter for homeless individuals may fail if supporters decide to focus on some other cause, such as AIDS education.

What is the “bottom line”?

As with a business, a nonprofit must take in as much money as it spends or it won't survive. However, a nonprofit organization does not measure “profit” in the same way as a firm. And its key measures of long-term success are also different. The YMCA, colleges, symphony orchestras, and the United Way, for example, all seek to achieve different objectives and need different measures of success. When everyone in an organization agrees to *some* measure(s) of long-run success, it helps the organization focus its efforts. Most nonprofit organizations have defined some way they hope to make the world a better place.

May not be organized for marketing

Some nonprofits face other challenges in organizing to adopt the marketing concept. Often no one has overall responsibility for marketing activities. Even when some leaders do the marketing thinking, they may have trouble getting unpaid volunteers with many different interests to all agree with the marketing strategy. Volunteers tend to do what they feel like doing!¹⁹



#M4BW Although nonprofits are newcomers to marketing, some are finding creative approaches to raise money. The United Nations' World Food Programme (WFP) aims to fight hunger. WFP used marketing to reduce the number of hungry children. It developed a smartphone app that allows people to “share the meal” with hungry children. Each time they “tap” the gold medallion, they donate \$0.50, which feeds one child for a day. The app has led to sharing of more than 10 million meals, with many more shared each day.

Source: World Food Program; (smartphone frame): Oleg Gawriloff/Shutterstock