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# MKTG 12

## PRINCIPLES OF MARKETING


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PRINCIPLES OF MARKETING

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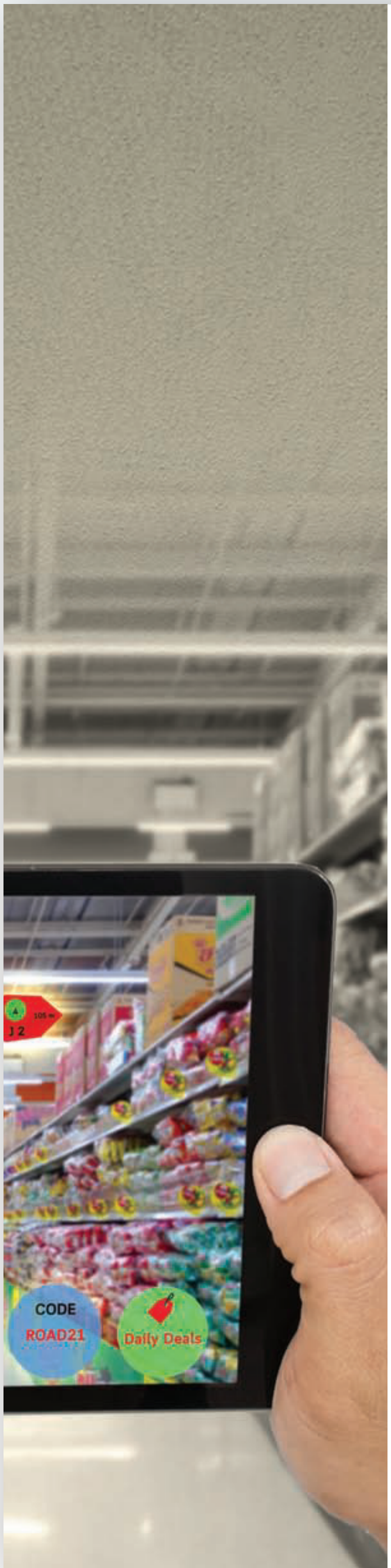


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# 1 An Overview of Marketing

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## LEARNING OUTCOMES

After studying this chapter, you will be able to . . .

- **1-1** Define the term *marketing*
- **1-2** Describe four marketing management philosophies
- **1-3** Discuss the differences between sales and market orientations
- **1-4** Describe several reasons for studying marketing

## 1-1 WHAT IS MARKETING?

**What does the term *marketing* mean to you?** Many people think *marketing* means personal selling. Others think it means advertising. Still others believe marketing has to do with making products available in stores, arranging displays, and maintaining inventories of products for future sales. Actually, marketing includes all of these activities and more.

Marketing has two facets. First, it is a philosophy, an attitude, a perspective, or a management orientation that stresses customer satisfaction. Second, marketing is an organization function and a set of processes used to implement this philosophy.

The American Marketing Association (AMA)'s definition of marketing focuses on the second facet. According to the AMA, **marketing** is the activity, set of institutions, and processes for creating, communicating, delivering, and exchanging offerings that have value for customers, clients, partners, and society at large.[1]

Marketing involves more than just activities performed by a group of people in a defined area or department. In the often-quoted words of David Packard, cofounder of Hewlett-Packard, "Marketing is too important to be left only to the marketing department." Marketing entails processes that focus on delivering value and benefits to customers, not just selling goods, services, and/or ideas. It uses communication, distribution, and pricing strategies to provide customers and other stakeholders with the goods, services, ideas, values, and benefits they desire when and where they want them. It involves building long-term, mutually rewarding relationships when these benefit all parties concerned. Marketing also entails an understanding that organizations have many connected stakeholder "partners," including employees, suppliers, stockholders, distributors, and others.

Research shows that 84 percent of consumers consider how companies treat their employees before deciding what to buy or where to shop.[2] In 2016, Google captured the number-one position in *Fortune*'s "100 Best Companies to Work For" for the fifth year in a row. The company pays 100 percent of employees' health care premiums, offers paid sabbaticals, and provides bocce courts, a bowling alley, and 25 cafés—all for free. Google also recently increased its parental leave benefits. New parents (including dads, domestic partners, adoptive parents, and surrogate parents) now receive up to 12 weeks of fully paid baby bonding time. Google also provides $500 of "Baby Bonding Bucks" for every new parent to use during the first three months of his or her child's life.[3]

> "Marketing is too important to be left only to the marketing department."
>
> —DAVID PACKARD, COFOUNDER OF HEWLETT-PACKARD

One desired outcome of marketing is an **exchange**—people giving up something in order to receive something else they would rather have. Normally, we think of money as the medium of exchange. We "give up" money to "get" the goods and services we want. Exchange does not require money, however. Two (or more) people may barter or trade such items as baseball cards or oil paintings.

An exchange can take place only if the following five conditions exist:

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

Exchange will not necessarily take place even if all these conditions exist,

**marketing** the activity, set of institutions, and processes for creating, communicating, delivering, and exchanging offerings that have value for customers, clients, partners, and society at large

**exchange** people giving up something in order to receive something else they would rather have


Uladzik Kryhin/Shutterstock.com

Google offers many amenities to its employees, part of the reason why, from 2012 to 2017, *Fortune* ranked it as the best company to work for.

but they must exist for exchange to be possible. For example, suppose you place an advertisement in your local newspaper, stating that your used automobile is for sale at a certain price. Several people may call you to ask about the car; some may test-drive it; and one or more may even make you an offer. All five conditions that are necessary for an exchange to occur exist in this scenario. But unless you reach an agreement with a buyer and actually sell the car, an exchange will not take place.

Notice that marketing can occur even if an exchange does not occur. In the example just discussed, you would have engaged in marketing by advertising in the local newspaper, even if no one bought your used automobile.

## 1-2 MARKETING MANAGEMENT PHILOSOPHIES

**Four competing philosophies strongly influence an organization's marketing processes.** These philosophies are commonly referred to as production, sales, market, and societal marketing orientations.

**production orientation**
a philosophy that focuses on the internal capabilities of the firm rather than on the desires and needs of the marketplace

**sales orientation**
the belief that people will buy more goods and services if aggressive sales techniques are used and that high sales result in high profits

### 1-2a Production Orientation

A **production orientation** is a philosophy that focuses on the internal capabilities of the firm rather than on the desires and needs of the marketplace. A production orientation means that management assesses its resources and asks these questions: "What can we do best?" "What can our engineers design?" "What is easy to produce, given our equipment?" In the case of a service organization, managers ask, "What services are most convenient for the firm to offer?" and "Where do our talents lie?" The furniture industry is infamous for its disregard of customers and for its slow cycle times. For example, most traditional furniture stores (think Ashley or Haverty's) carry the same styles and varieties of furniture that they have carried for many years. They always produce and stock sofas, coffee tables, arm chairs, and end tables for the living room. Master bedroom suites always include at least a queen- or king-sized bed, two dressers, and two side tables. Regardless of what customers may actually be looking for, this is what they will find at these stores—and they have been so long-lived because what they produce has matched up with customer expectations. This has always been a production-oriented industry.

There is nothing wrong with assessing a firm's capabilities; in fact, such assessments are major considerations in strategic marketing planning (see Chapter 2). A production orientation can fall short if it does not consider whether the goods and services that the firm produces most efficiently also meet the needs of the marketplace. On the other hand, sometimes what a firm can best produce is exactly what the market wants. Apple has a history of production orientation, creating computers, operating systems, and other gadgetry because it can and hoping to sell the result. Some items have found a waiting market (early computers, iPod, iPhone). Other products, like the Newton, one of the first versions of a personal digital assistant (PDA), were simply flops.

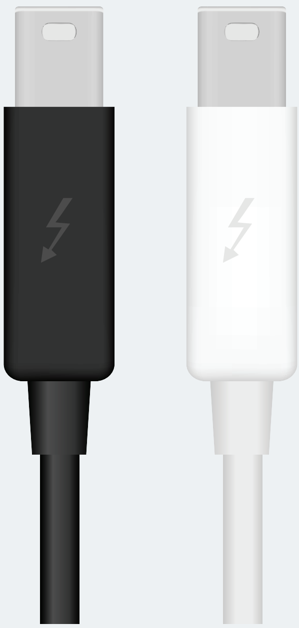
In some situations, as when competition is weak or demand exceeds supply, a production-oriented firm can survive and even prosper. More often, however, firms that succeed in competitive markets have a clear understanding that they must first determine what customers want and then produce it, rather than focus on what company management thinks should be produced and hope that the product is something customers want.

### 1-2b Sales Orientation

A **sales orientation** is based on the belief that people will buy more goods and services if aggressive sales techniques are used and that high sales result in high profits.

## Lightning Does Not Strike Twice

One of the dangers of a sales orientation is failing to understand what is important to the firm's customers. When that occurs, sales-oriented firms sometimes use aggressive incentives to drive sales. For example, after Apple received complaints about the $49 selling price of its Thunderbolt cable, the company reduced the cable's price to $39 and introduced a shorter $29 version. The company hoped to spark sales of the optical data transfer cable, compatible only with Apple's newest line of computers and laptops.[5]



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"Josh Lowensohn, "Apple's Thunderbolt Cable Gets a Price Drop, Shorter Version," CNET, January 9, 2013, http://news.CNET.com/8301-13579_3-57563157-37/apples-thunderbolt-cable-gets-a-price-drop-shorter-version (accessed January 10, 2015)."

Not only are sales to the final buyer emphasized, but intermediaries are also encouraged to push manufacturers' products more aggressively. To sales-oriented firms, marketing means selling things and collecting money.

The fundamental problem with a sales orientation, as with a production orientation, is a lack of understanding of the needs and wants of the marketplace. Sales-oriented companies often find that, despite the quality of their sales force, they cannot convince people to buy goods or services that are neither wanted nor needed.

### 1-2c Market Orientation

The **marketing concept** is a simple and intuitively appealing philosophy that articulates a market orientation. It states that the social and economic justification for an organization's existence is the satisfaction of customer wants and needs while meeting organizational objectives. What a business thinks it produces is not of primary importance to its success. Instead, what customers think they are buying—the perceived value—defines a business. The marketing concept includes the following:

- Focusing on customer wants and needs so that the organization can distinguish its product(s) from competitors' offerings
- Integrating all the organization's activities, including production, to satisfy customer wants
- Achieving long-term goals for the organization by satisfying customer wants and needs legally and responsibly

The recipe for success is to develop a thorough understanding of your customers and your competition, your distinctive capabilities that enable your company to execute plans on the basis of this customer understanding, and how to deliver the desired experience using and integrating all of the resources of the firm. For example, Kellogg's recently introduced Open for Breakfast, a forum the company uses to connect with consumers about what they are eating for breakfast. The program is also used to share stories about the foods the company makes and its pledge to care for the environment.[6]

Firms that adopt and implement the marketing concept are said to be **market oriented**, meaning they assume that a sale does not depend on an aggressive sales force but rather on a customer's decision to purchase a product. Achieving a market orientation involves obtaining information about customers, competitors, and markets; examining the information from a total business perspective; determining how to deliver superior customer value; and implementing actions to provide value to customers.

Some firms are known for delivering superior customer value and satisfaction. For example, in 2016,

**marketing concept** the idea that the social and economic justification for an organization's existence is the satisfaction of customer wants and needs while meeting organizational objectives

**market orientation** a philosophy that assumes that a sale does not depend on an aggressive sales force but rather on a customer's decision to purchase a product; it is synonymous with the marketing concept

J.D. Power and Associates ranked Jaguar Audi highest in customer satisfaction with dealer service among luxury automotive brands, while Buick ranked highest among mass-market brands.[7] Rankings such as these, as well as word-of-mouth from satisfied customers, drive additional sales for these automotive companies.

Understanding your competitive arena and competitors' strengths and weaknesses is a critical component of a market orientation. This includes assessing what existing or potential competitors intend to do tomorrow and what they are doing today. For example, specialty clothing stores such as American Apparel have failed to recognize or successfully respond to their fast-fashion competitors. These competitors—particularly Zara and H&M—offer consumers up-to-date fashions more quickly and at more affordable prices than traditional retailers can. American Apparel has experienced increased debt and decreased sales, resulting in numerous store closings and a bankruptcy filing.[8]

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## 1-2d Societal Marketing Orientation

The **societal marketing orientation** extends the marketing concept by acknowledging that some products that customers want may not really be in their best interests or the best interests of society as a whole. This philosophy states that an organization exists not only to satisfy customer wants and needs and to meet organizational objectives but also to preserve or enhance individuals' and society's long-term best interests. Marketing products and containers that are less toxic than normal, are more durable, contain reusable materials, or are made of recyclable materials is consistent with a societal marketing orientation. The AMA's definition of marketing recognizes the importance of a societal marketing orientation by including "society at large" as one of the constituencies for which marketing seeks to provide value.

**societal marketing orientation** the idea that an organization exists not only to satisfy customer wants and needs and to meet organizational objectives but also to preserve or enhance individuals' and society's long-term best interests

Although the societal marketing concept has been discussed for more than 30 years, it did not receive widespread support until the early 2000s. Concerns such as climate change, the depleting of the ozone layer, fuel shortages, pollution, and health issues have caused consumers and legislators to become more aware of the need for companies and consumers to adopt measures that conserve resources and cause less damage to the environment.[9]

In the past 10 years, corporate responsibility has evolved from a nice-to-have silo to a fundamental strategic priority. Today, companies of all sorts are spurring change across a broad range of issues including climate change, education, and poverty. Many have also made a commitment to eliminate waste and reuse valuable materials within their own walls.

For example, Procter & Gamble has begun making the world's first recyclable shampoo bottle from up to 25 percent recycled beach plastic. The brand P&G launched this initiative with, Head & Shoulders, is the United States' leading shampoo brand in sales. The company also announced plans to use recycled plastic in all of its European hair care brands in 2018. This plan would result in 2,600 tons of recycled plastic being used to make half a billion shampoo bottles every year.[10]

## 1-2e Who Is in Charge?

The Internet and the widespread use of social media have accelerated the shift in power from manufacturers and retailers to consumers and business users. This shift began when customers began using books, electronics, and the Internet to access information, goods, and services. Customers use their widespread knowledge to shop smarter, leading executives such as former Procter & Gamble CEO A. G. Laffey to conclude that "the customer is boss."[11] Founder of Walmart and Sam's Club, Sam Walton, echoed this sentiment when he reportedly once said, "There is only one boss. The customer. And he can fire everybody in the company from the chairman on down, simply by spending his money somewhere else."[12] The following quotation, attributed to everyone, from L.L.Bean founder, Leon Leonwood Bean, to Mahatma Gandhi, has been a guiding business principle for more than 70 years: "A customer is the most important visitor on our premises. He is not dependent on us. We are dependent on him. He is not an interruption in our work. He is the purpose of it. He is not an outsider in our business. He is part of it.

We are not doing him a favor by serving him. He is doing us a favor by giving us an opportunity to do so."[13] And as Internet use and mobile devices become increasingly pervasive, that control will continue to grow. This means that companies must create strategy from the outside in by offering distinct and compelling customer value.[14] This can be accomplished only by carefully studying customers and using deep market insights to inform and guide companies' outside-in view.[15]

## 1-3 DIFFERENCES BETWEEN SALES AND MARKET ORIENTATIONS

**The differences between sales and market orientations are substantial.** The two orientations can be compared in terms of five characteristics: the organization's focus, the firm's business, those to whom the product is directed, the firm's primary goal, and the tools used to achieve the organization's goals.

### 1-3a The Organization's Focus

Personnel in sales-oriented firms tend to be inward looking, focusing on selling what the organization makes rather than making what the market wants. Many of the historic sources of competitive advantage—technology, innovation, economies of scale—allowed companies to focus their efforts internally and prosper. Today, many successful firms derive their competitive advantage from an external, market-oriented focus. A market orientation

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Shake Shack appeals to higher-income customers, with high-quality products and superior customer service.

has helped companies such as Zappos.com and Bob's Red Mill Natural Foods outperform their competitors. These companies put customers at the center of their business in ways most companies do poorly or not at all.

**CUSTOMER VALUE** The relationship between benefits and the sacrifice necessary to obtain those benefits is known as **customer value**. Customer value is not simply a matter of high quality. A high-quality product that is available only at a high price will not be perceived as a good value, nor will bare-bones service or low-quality goods selling for a low price. Price is a component of value (a $4,000 handbag is perceived as being more luxurious and of higher quality than one selling for $100), but low price is not the same as good value. Instead, customers value goods and services that are of the quality they expect and that are sold at prices they are willing to pay.

Value can be used to sell a Mercedes-Benz as well as a Tyson frozen chicken dinner. In other words, value is something that shoppers of all markets and at all income levels look for. Lower-income consumers are price sensitive, so they may respond positively to special offers and generic brands. Low-income consumers who are both paid and shop by the day may respond to reduced packaging sizes that lower the cost per unit while still offering quality and value for the money.[16] Conversely, higher-income customers may value—and be willing to pay for—high-quality products and superior customer service. Shake Shack is a fast-casual burger restaurant that targets people who care about how their food tastes and where it comes from. The company sells its burgers for higher-than-average prices, but it uses humanely raised, antibiotic- and hormone-free meat that is ground fresh from full muscle cuts instead of scraps. This meat is shipped fresh—not frozen—to all of Shake Shack's locations. Further, the company pledges not to use genetically modified organisms (GMOs) in its hamburger buns. Shake Shack's superior service, which founder Danny Meyer calls "enlightened hospitality," places a major emphasis on the happiness of its employees and customers. This service philosophy is based on the belief that white-tablecloth service is not just for expensive restaurants.[17]

**CUSTOMER SATISFACTION** The customers' evaluation of a good or service in terms of whether that good or service has met their needs and expectations is called **customer satisfaction**. Failure to meet needs and expectations results

**customer value** the relationship between benefits and the sacrifice necessary to obtain those benefits

**customer satisfaction** customers' evaluation of a good or service in terms of whether it has met their needs and expectations in dissatisfaction with the good or service. Some companies, in their passion to drive down costs, have damaged their relationships with customers. Bank of America, Comcast, Dish Network, and AT&T are examples of companies where executives lost track of the delicate balance between efficiency and service.[18] Firms that have a reputation for delivering high levels of customer satisfaction do things differently from their competitors. Top management is obsessed with customer satisfaction, and employees throughout the organization understand the link between their job and satisfied customers. The culture of the organization is to focus on delighting customers rather than on selling products.

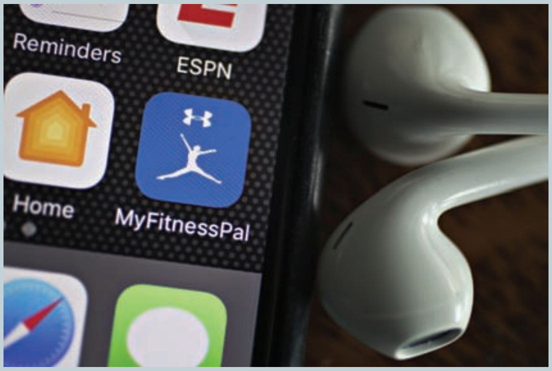
Coming back from customer dissatisfaction can be tough, but there are some key ways that companies begin to improve customer satisfaction. Forrester Research discovered that when companies experience gains in the firm's Customer Experience Index (CxPi), they have implemented one of two major changes. Aetna, a major health insurance provider, executed the first type of change—changing its decentralized, part-time customer service group into a full-time, centralized customer service team. Aetna's CxPi score rose six points in one year. The second type of change involves offering customers what they need. In 2016, the banking industry's American Customer Satisfaction Index scores increased more than 5 percent. Satisfying bank customers involves more personalized service and lower fees.[20]

**BUILDING RELATIONSHIPS** Attracting new customers to a business is only the beginning. The best companies view new-customer attraction as the launching point for developing and enhancing a long-term relationship. Companies can expand market share in three ways: attracting new customers, increasing business with existing customers, and retaining current customers. Building relationships with existing customers directly addresses two of the three possibilities and indirectly addresses the other.

## MARKETERS INTERESTED IN CUSTOMER VALUE . . .

**. . . understand that they need to provide a superior user experience that goes beyond the basic product or service offering. An increasing number of global brands are hoping to generate long-term customer loyalty by creating deeper engagement through unique user experiences. Some examples:**

- **Under Armour purchased fitness apps MyFitnessPal and MapMyFitness, which allow users to book fitness classes directly through the apps. The company knows that the more people exercise, the more likely they are to buy workout apparel. Under Armour has also introduced a smart running shoe that connects workout data to the MapMyRun app and informs the wearer when he or she needs to buy a new pair of shoes.**
- **Mothercare, a UK retailer of baby equipment, clothing, and toys, is attempting to build a community among its customers. The initiative, launching with the slogan "Welcome to the Club," will offer customer experiences like new mother meet-ups, sessions for expectant parents, and a personal shopping service. Online blogs and communities will post digital content and information for parents.**
- **Starbucks wants to make the customer experience as easy and as comfortable as possible. For example, the company installed LCD screens that let customers know what song is playing as they wait for their drinks. Starbucks also built wireless charging rings into tables, and the company's loyalty program, My Starbucks Rewards, is a pioneer of mobile payments. Most recently, Starbucks introduced a system whereby customers can use the GPS on their phones to locate a nearby store, order drinks, and pay for them so they are ready to go when the customers arrive.**



Andrew Harrer/Bloomberg/Getty Images

- **Disney World Hotels in Florida launched a contactless wristband called MagicBand that guests can use as room keys, park tickets, credit cards (to purchase food and souvenirs), and to upload professional photos to their accounts. The company also has a portal on its website where visitors can plan their trips and share that data with their individual MagicBands.[19]**

**Relationship marketing** is a strategy that focuses on keeping and improving relationships with current customers. It assumes that many consumers and business customers prefer to have an ongoing relationship with one organization rather than switch continually among providers in their search for value. Activision, a leading publisher of the American video game market, engages in relationship marketing by providing continued service to its gamers. For example, Activision monitors social media conversations that are relevant to its products, and follows up on those conversations.[21] This long-term focus on customer needs is a hallmark of relationship marketing.

Most successful relationship marketing strategies depend on customer-oriented personnel, effective training programs, employees with the authority to make decisions and solve problems, and teamwork.

**Customer-Oriented Personnel** For an organization to be focused on building relationships with customers, employees' attitudes and actions must be customer oriented. An employee may be the only contact a particular customer has with the firm. In that customer's eyes, the employee *is* the firm. Any person, department, or division that is not customer oriented weakens the positive image of the entire organization. For example, a potential customer who is greeted discourteously may well assume that the employee's attitude represents the whole firm.

Customer-oriented personnel come from an organizational culture that supports its people. Costco believes that treating employees well contributes to good customer service. The company not only pays its employees well at $22 per hour, it also provides them with generous benefits including full health and dental coverage (even to its part-time employees); a 401(k) with stock options after a year; liberal vacation time; and family leave. Employees are also given a great deal of responsibility, which translates into higher motivation. The company's retention rate for employees who have been there a year is 94 percent—significantly higher than that of its competitors.[22]

Some companies, such as Coca-Cola, Delta Air Lines, Hershey, Kellogg, Nautilus, and Sears, have appointed chief customer officers (CCOs). These customer advocates provide an executive voice for customers and report directly to the CEO. Their responsibilities include ensuring that the company maintains a customer-centric culture and that all company employees remain focused on delivering customer value.

**The Role of Training** Leading marketers recognize the role of employee training in customer service and relationship building. Sales staff at the Container Store receive more than 240 hours of training and generous benefits compared to an industry average of 8 hours of training and modest benefits.

Tim Boyle/Getty Images News/Getty Images

Thanks to Costco's high pay, generous benefits, and trust in its employees, the company's retention rate is 94 percent—significantly higher than that of its competitors.

**Empowerment** In addition to training, many market-oriented firms are giving employees more authority to solve customer problems on the spot. The term used to describe this delegation of authority is **empowerment**. Employees develop ownership attitudes when they are treated like part-owners of the business and are expected to act the part. These employees manage themselves, are more likely to work hard, account for their own performance and that of the company, and take prudent risks to build a stronger business and sustain the company's success. In order to empower its workers, the Ritz-Carlton chain of luxury hotels developed a set of 12 "Service Values" guidelines. These brief, easy-to-understand guidelines include statements such as "I am empowered to create unique, memorable and personal experiences for our guests" and "I own and immediately resolve guest problems." The 12 Service Values are printed on cards distributed to employees, and each day a particular value is discussed at length in Ritz-Carlton team meetings. Employees talk about what the value means to them and offer examples of how the value can be put into practice that day.[23]

**relationship marketing** a strategy that focuses on keeping and improving relationships with current customers

**empowerment** delegation of authority to solve customers' problems quickly—usually by the first person the customer notifies regarding a problem

**Teamwork** Many organizations that are frequently noted for delivering superior customer value and providing high levels of customer satisfaction, such as Southwest Airlines and Walt Disney World, assign employees to teams and teach them team-building skills. **Teamwork** entails collaborative efforts of people to accomplish common objectives. Job performance, company performance, product value, and customer satisfaction all improve when people in the same department or work group begin supporting and assisting each other and emphasize cooperation instead of competition. Performance is also enhanced when cross-functional teams align their jobs with customer needs. For example, if a team of telecommunications service representatives is working to improve interaction with customers, back-office people such as computer technicians or training personnel can become part of the team, with the ultimate goal of delivering superior customer value and satisfaction.

### 1-3b The Firm's Business

A sales-oriented firm defines its business (or mission) in terms of goods and services. A market-oriented firm defines its business in terms of the benefits its customers seek. People who spend their money, time, and energy expect to receive benefits, not just goods and services. This distinction has enormous implications. For example, Microsoft's original mission was "A computer on every desk and in every home," which is product centered. Its current, benefit-oriented mission is "To empower every person and every organization on the planet to achieve more."[24] Answering the question "What is this firm's business?" in terms of the benefits customers seek, instead of goods and services, offers at least three important advantages:

- It ensures that the firm keeps focusing on customers and avoids becoming preoccupied with goods, services, or the organization's internal needs.
- It encourages innovation and creativity by reminding people that there are many ways to satisfy customer wants.
- It stimulates an awareness of changes in customer desires and preferences so that product offerings are more likely to remain relevant.

Because of the limited way it defines its business, a sales-oriented firm often misses opportunities to serve customers whose wants can be met through a wide range of product offerings instead of through specific products. For example, in 1989, 220-year-old Britannica had estimated revenues of $650 million and a worldwide sales force of 7,500. Just five years later, after three consecutive years of losses, the sales force had collapsed to as few as 280 representatives. How did this respected company sink so low? Britannica managers saw that competitors were beginning to use CD-ROMs to store huge masses of information but chose to ignore the new computer technology as well as an offer to team up with Microsoft. In 2012, the company announced that it would stop printing its namesake books and instead focus on selling its reference works to subscribers through its website and apps for tablets and smartphones.[25]

**teamwork** collaborative efforts of people to accomplish common objectives

Having a market orientation and a focus on customer wants does not mean offering customers everything they want. It is not possible, for example, to profitably manufacture and market automobile tires that will last for 100,000 miles for $25. Furthermore, customers' preferences must be mediated by sound professional judgment as to how to deliver the benefits they seek. Consumers have a limited set of experiences. They are unlikely to request anything beyond those experiences because they are not aware of benefits they may gain from other potential offerings. For example, before the Internet, many people thought that shopping for some products was boring and time-consuming but could not express their need for electronic shopping.

Rawpixel/Shutterstock.com

An emphasis on cooperation over competition can help a company's performance improve. That is why many companies have moved to using teams to get jobs done.

## 1-3c Those to Whom the Product Is Directed

A sales-oriented organization targets its products at "everybody" or "the average customer." A market-oriented organization aims at specific groups of people. The fallacy of developing products directed at the average user is that relatively few average users actually exist. Typically, populations are characterized by diversity. An average is simply a midpoint in some set of characteristics. Because most potential customers are not "average," they are not likely to be attracted to an average product marketed to the average customer. Consider the market for shampoo as one simple example. There are shampoos for oily hair, dry hair, and dandruff. Some shampoos remove the gray or color hair. Special shampoos are marketed for infants and elderly people. There are even shampoos for people with average or normal hair (whatever that is), but this is a fairly small portion of the total market for shampoo.

A market-oriented organization recognizes that different customer groups want different features or benefits. It may therefore need to develop different goods, services, and promotional appeals. A market-oriented organization carefully analyzes the market and divides it into groups of people who are fairly similar in terms of selected characteristics. Then the organization develops marketing programs that will bring about mutually satisfying exchanges with one or more of those groups. For example, the 116-year-old department store chain Nordstrom has introduced initiatives to attract millennial shoppers, who typically avoid department stores. These include themed pop-up shops, shop-in-shops featuring new fashion designers, and Nike concept shops.[26]

**CUSTOMER RELATIONSHIP MANAGEMENT** Beyond knowing to whom they are directing their products or services, companies must also develop a deeper understanding of their customers. One way of doing this is through *customer relationship management*. **Customer relationship management (CRM)** is a company-wide business strategy designed to optimize profitability, revenue, and customer satisfaction by focusing on highly defined and precise customer groups. This is accomplished by organizing the company around customer segments, establishing and tracking customer interactions with the company, fostering customer-satisfying behaviors, and linking all processes of the company from its customers through its suppliers. The difference between CRM and traditional mass marketing can be compared to shooting a rifle versus a shotgun. Instead of scattering messages far and wide across the spectrum of mass media (the shotgun approach), CRM marketers now are homing in on ways to effectively communicate with each customer (the rifle approach).

Companies that adopt CRM systems are almost always market oriented, customizing product and service offerings based on data generated through interactions between the customer and the company. This strategy transcends all functional areas of the business, producing an internal system where all of the company's decisions and actions are a direct result of customer information. We will examine specific applications of CRM in several chapters throughout this book.

The emergence of **on-demand marketing** is taking CRM to a new level. As technology evolves and becomes more sophisticated, consumer expectations of their decision- and buying-related experiences have risen. Consumers (1) want to interact anywhere, anytime; (2) want to do new things with varied kinds of information in ways that create value; (3) expect data stored about them to be targeted specifically to their needs or to personalize their experiences; and (4) expect all interactions with a company to be easy. In response to these expectations, companies are developing new ways to integrate and personalize each stage of a customer's decision journey, which in turn should increase relationship-related behaviors. On-demand marketing delivers relevant experiences throughout the consumer's decision and buying process that are integrated across both physical and virtual environments. Trends such as the growth of mobile connectivity, better-designed websites, inexpensive communication through technology, and advances in handling big data have allowed companies to start designing on-demand marketing programs that appeal to consumers. For on-demand marketing to be successful, companies must deliver high-quality experiences across all touch points with the customer, including sales, service, product use, and marketing.

Many more companies are offering on-demand services. For example, Instacart will deliver groceries to a customer's door, typically within an hour of ordering. Many restaurant chains are now a part of online service GrubHub, which allows customers to type in their zip codes, pick a restaurant, and order items for delivery—all

**customer relationship management (CRM)** a company-wide business strategy designed to optimize profitability, revenue, and customer satisfaction by focusing on highly defined and precise customer groups

**on-demand marketing** delivering relevant experiences, integrated across both physical and virtual environments, throughout the consumer's decision and buying process without leaving the GrubHub website. Uber and Lyft provide on-demand transportation by connecting customers to drivers using their own cars—a service that Uber has leveraged into a GrubHub competitor called UberEats.[27]

### 1-3d The Firm's Primary Goal

A sales-oriented organization seeks to achieve profitability through sales volume and tries to convince potential customers to buy, even if the seller knows that the customer and product are mismatched. Sales-oriented organizations place a higher premium on making a sale than on developing a long-term relationship with a customer. In contrast, the ultimate goal of most market-oriented organizations is to make a profit by creating customer value, providing customer satisfaction, and building long-term relationships with customers. The exception is so-called nonprofit organizations that exist to achieve goals other than profits. Nonprofit organizations can and should adopt a market orientation. Nonprofit organization marketing is explored further in Chapter 12.

### 1-3e Tools the Organization Uses to Achieve Its Goals

Sales-oriented organizations seek to generate sales volume through intensive promotional activities, mainly personal selling and advertising. In contrast, market-oriented organizations recognize that promotion decisions are only one of four basic marketing mix decisions that must be made: product decisions, place (or distribution) decisions, promotion decisions, and pricing decisions. A market-oriented organization recognizes that each of these four components is important. Furthermore, market-oriented organizations recognize that marketing is not just a responsibility of the marketing department. Interfunctional coordination means that skills and resources throughout the organization are needed to create, communicate, and deliver superior customer service and value.

### 1-3f A Word of Caution

This comparison of sales and market orientations is not meant to belittle the role of promotion, especially personal selling, in the marketing mix. Promotion is the means by which organizations communicate with present and prospective customers about the merits and characteristics of their organization and products. Effective promotion is an essential part of effective marketing. Salespeople who work for market-oriented organizations are generally perceived by their customers to be problem solvers and important links to supply sources and new products. Chapter 18 examines the nature of personal selling in more detail.

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Using the correct tools for the job will help an organization achieve its goals. Marketing tools for success are covered throughout this book.

## 1-4 WHY STUDY MARKETING?

**Now that you understand the meaning of the term *marketing*, why it is important to adopt a marketing orientation, and how organizations implement this philosophy, you may be asking, "What's in it for me?" or "Why should I study marketing?"** These are important questions whether you are majoring in a business field other than marketing (such as accounting, finance, or management information systems) or a nonbusiness field (such as journalism, education, or agriculture). There are several important reasons to study marketing: Marketing plays an important role in society, marketing is important to businesses, marketing offers outstanding career opportunities, and marketing affects your life every day.

### 1-4a Marketing Plays an Important Role in Society

The total population of the United States exceeds 324 million people.[28] Think about how many transactions are needed each day to feed, clothe, and shelter a population of this size. The number is huge. And yet it all works quite well, partly because the well-developed U.S. economic system efficiently distributes the output of farms and factories. The average American eats almost 2,000 pounds of food a year.[29] Marketing makes food available when we want it, in desired quantities, at accessible locations, and in sanitary and convenient packages and forms (such as instant and frozen foods).

### 1-4b Marketing Is Important to Businesses

The fundamental objectives of most businesses are survival, profits, and growth. Marketing contributes directly to achieving these objectives. Marketing includes the following activities, which are vital to business organizations: assessing the wants and satisfactions of present and potential customers, designing and managing product offerings, determining prices and pricing policies, developing distribution strategies, and communicating with present and potential customers.

All businesspeople, regardless of specialization or area of responsibility, need to be familiar with the terminology and fundamentals of accounting, finance, management, and marketing. People in all business areas need to be able to communicate with specialists in other areas. Furthermore, marketing is not just a job done by people in a marketing department. Marketing is a part of the job of everyone in the organization. Therefore, a basic understanding of marketing is important to all businesspeople.

### 1-4c Marketing Offers Outstanding Career Opportunities

Between one-fourth and one-third of the entire civilian workforce in the United States performs marketing activities. Marketing offers great career opportunities in such areas as professional selling, marketing research, advertising, retail buying, distribution management, product management, product development, and wholesaling. Marketing career opportunities also exist in a variety of nonbusiness organizations, including hospitals, museums, universities, the armed forces, and various government and social service agencies.

### 1-4d Marketing in Everyday Life

Marketing plays a major role in your everyday life. You participate in the marketing process as a consumer of goods and services. About half of every dollar you spend pays for marketing costs, such as marketing research, product development, packaging, transportation, storage, advertising, and sales expenses. By developing a better understanding of marketing, you will become a better-informed consumer. You will better understand the buying process and be able to negotiate more effectively with sellers. Moreover, you will be better prepared to demand satisfaction when the goods and services you buy do not meet the standards promised by the manufacturer or the marketer.

## STUDY TOOLS 1

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# 2 Strategic Planning for Competitive Advantage


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After finishing this chapter go to **PAGE 29** for **STUDY TOOLS**

## LEARNING OUTCOMES

After studying this chapter, you will be able to . . .

- 2-1 Understand the importance of strategic planning
- 2-2 Define strategic business units (SBUs)
- 2-3 Identify strategic alternatives and know a basic outline for a marketing plan
- 2-4 Develop an appropriate business mission statement
- 2-5 Describe the components of a situation analysis
- 2-6 Identify sources of competitive advantage
- 2-7 Explain the criteria for stating good marketing objectives
- 2-8 Discuss target market strategies
- 2-9 Describe the elements of the marketing mix
- 2-10 Explain why implementation, evaluation, and control of the marketing plan are necessary
- 2-11 Identify several techniques that help make strategic planning effective

## 2-1 THE NATURE OF STRATEGIC PLANNING

**Strategic planning is the managerial process of creating and maintaining a fit between the organization's objectives and resources and the evolving market opportunities.** The goal of strategic planning is long-run profitability and growth. Thus, strategic decisions require long-term commitments of resources.

A strategic error can threaten a firm's survival. On the other hand, a good strategic plan can help protect and grow the firm's resources. For instance, if the March of Dimes had decided to focus only on fighting polio, the organization would no longer exist because polio is widely viewed as a conquered disease. The March of Dimes survived by making the strategic decision to switch to fighting birth defects.

Strategic marketing management addresses two questions: (1) What is the organization's main activity at a particular time? (2) How will it reach its goals? Here are some examples of strategic decisions:

- Furniture retailer West Elm wanted to sustain growth without opening too many new stores. Thinking outside the box, the company decided to launch a chain of boutique hotels that it would design, furnish, and market. Partner DDK, a management and development company, would operate the hotels, but the interiors would be all West Elm. Guests, of course, could purchase the room furniture and decor online.[1]
- In 2016, Walmart decided to close its small-format Walmart Express locations. These stores were designed to target geographical areas that its larger stores could not, such as urban centers. Profitability proved a challenge at these locations because they were not big enough to sell higher-margin products like appliances and apparel.[2]
- Starbucks recently decided to end its "Evenings" program, during which it offers beer and wine at more than 400 Starbucks locations. Launched in 2010, the Evenings program was designed to help increase traffic at night, when demand for coffee typically decreases. However, Starbucks determined that the program simply did not deliver the results it wanted. The company decided to add new menu items to increase sales during lunch instead.[3]

All these decisions have affected or will affect each organization's long-run course, its allocation of resources, and ultimately its financial success. In contrast, an operating decision, such as changing the package design for Post Grape-Nuts cereal or altering the sweetness of a Kraft salad dressing, probably will not have a big impact on the long-run profitability of the company.

> "There are a lot of great ideas that have come and gone in [the digital advertising] industry. Implementation many times is more important than the actual idea."
> —DAVID MOORE, CEO OF 24/7 REAL MEDIA

## 2-2 STRATEGIC BUSINESS UNITS

**Large companies may manage a number of very different businesses, called strategic business units (SBUs).** Each SBU has its own rate of return on investment, growth potential, and associated risks, and requires its own strategies and funding. When properly created, an SBU has the following characteristics:

- A distinct mission and a specific target market
- Control over its resources
- Its own competitors
- A single business or a collection of related businesses
- Plans independent of the other SBUs in the total organization.

In theory, an SBU should have its own resources for handling basic

**strategic planning** the managerial process of creating and maintaining a fit between the organization's objectives and resources and the evolving market opportunities

**strategic business unit (SBU)** a subgroup of a single business or collection of related businesses within the larger organization business functions: accounting, engineering, manufacturing, and marketing. In practice, however, because of company tradition, management philosophy, and production and distribution economies, SBUs sometimes share manufacturing facilities, distribution channels, and even top managers.

**EXHIBIT 2.1 ANSOFF'S OPPORTUNITY MATRIX**

| | Present Product | New Product |
|---|---|---|
| **Present Market** | *Market Penetration*<br>Starbucks sells more coffee to customers who register their reloadable Starbucks cards. | *Product Development*<br>Starbucks develops powdered instant coffee called Via. |
| **New Market** | *Market Development*<br>Starbucks opens stores in Brazil and Chile. | *Diversification*<br>Starbucks launches Hear Music and buys Ethos Water. |

## 2-3 STRATEGIC ALTERNATIVES

**Several tools are available that a company, or SBU, can use to manage the strategic direction of its portfolio of businesses.** Three of the most commonly used tools are Ansoff's strategic opportunity matrix, the Boston Consulting Group model, and the General Electric model. Selecting which strategic alternative to pursue depends on which of two philosophies a company maintains about when to expect profits—right away or after increasing market share. In the long run, market share and profitability are compatible goals. For example, Amazon lost hundreds of millions of dollars its first few years by offering deep discounts on books and movies. Today, Amazon has a strong and loyal customer base, particularly among its Prime members. The company's current strategy is to charge the lowest online prices for just a selection of products and to charge the same or more than other retailers for the rest. This practice has increased overall profitability for the company.[4]

### 2-3a Ansoff's Strategic Opportunity Matrix

One method for developing alternatives is Ansoff's strategic opportunity matrix (see Exhibit 2.1), which matches products with markets. Firms can explore these four options:

- **Market penetration:** A firm using the **market penetration** alternative would try to increase market share among existing customers. Fast-food giant McDonald's introduced all day Breakfast in 2015 in an attempt to encourage its breakfast-loving customers to visit the restaurant more often.[5]
- **Market development:** **Market development** means attracting new customers to existing products. Ideally, new uses for old products stimulate additional sales among existing customers while also bringing in new buyers. McDonald's, for example, has opened restaurants in Russia, China, and Italy and is eagerly expanding into Eastern European countries. In the nonprofit arena, the growing emphasis on continuing education and executive development by colleges and universities is a market development strategy.
- **Product development:** A **product development** strategy entails the creation of new products for present markets. In 2016, Abbott Laboratories introduced a new line of healthy snacks called Curate Bars to complement its Ensure and Glucerna meal-replacement lines and its Similac infant formula line. These bars feature unique flavors, rich textures, and healthy ingredients to appeal to the growing health-conscious market.[6]
- **Diversification:** **Diversification** is a strategy of increasing sales by introducing new products into new

**market penetration** a marketing strategy that tries to increase market share among existing customers

**market development** a marketing strategy that entails attracting new customers to existing products

**product development** a marketing strategy that entails the creation of new products for present markets

**diversification** a strategy of increasing sales by introducing new products into new markets


Gerardo Mora/Getty Images/Getty Images Entertainment/Getty Images

Television personality Brody Jenner serves up some Egg McMuffins at the 2016 Daytona 500 in honor of McDonald's new all day Breakfast.