

Marketing



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The business activities that make up a firm's marketing efforts are those most directly concerned with satisfying customers' needs. In this part, we explore these activities in some detail. Initially, we discuss markets, marketing mixes, marketing environment forces, marketing plans, and buying behavior. Then, we discuss the four elements that together make up a marketing mix: product, price, distribution, and promotion.

- > CHAPTER 12 Building Customer Relationships Through Effective Marketing
- > CHAPTER 13 Creating and Pricing Products that Satisfy Customers
- > CHAPTER 14 Wholesaling, Retailing, and Physical Distribution
- > CHAPTER 15 Developing Integrated Marketing Communications



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Learning Objectives

What you will be able to do once you complete this chapter:

- 1 Understand the meaning of *marketing* and the importance of management of customer relationships.
- 2 Explain how marketing adds value by creating several forms of utility.
- 3 Trace the development of the marketing concept and understand how it is implemented.
- 4 Understand what markets are and how they are classified.
- 5 Identify the four elements of the marketing mix and be aware of their importance in developing a marketing strategy.
- 6 Explain how the marketing environment affects strategic market planning.
- 7 Understand the major components of a marketing plan.
- 8 Describe how market measurement and sales forecasting are used.
- 9 Distinguish between a marketing information system and marketing research.
- 10 Identify the major steps in the consumer buying decision process and the sets of factors that may influence this process.

inside business

Gotta Have the New iWhats-It!

Since it began marketing computers in 1976, Apple has made top-quality user experience its top priority. The company's earliest computers—such as the Apple II and the small, boxy Macintosh—may seem chunky and slow by comparison to today's slim, stylish, and speedy Apple models. However, they were as innovative for their time as the iPod digital media player was when it was introduced in 2001 and the iPad tablet computer was when it debuted in 2010. Even the company's chain of retail stores broke new ground for the way customers try and buy electronics.

Today, Apple rings up \$43 billion in annual revenue worldwide from a wide range of electronics products. Every year, it sells 10 million Macintosh computers and 8 million iPod digital media gadgets. Apple's best-selling item is the iPhone, a touch-screen smart-phone that can do everything from playing music and taking photos to checking e-mail and surfing YouTube. One of Apple's newer products, the touch-screen iPad tablet, sold a whopping 1 million units in just 28 days.

Apple's wildly successful digital entertainment store, iTunes, has sold more than 10 billion songs since opening its virtual doors in 2003. Its App Store, which offers downloadable software to enhance the utility of iPhones and iPods, has also been extremely successful, serving up more than 2 billion downloads since 2008. Small wonder that competitors such as Nokia have followed Apple's lead and set up their own application stores to supplement smart-phone sales.

Through its international Apple Store retail chain, the company presents its ever-expanding line of electronics products in style. Instead of keeping products locked away, Apple displays them in the open so customers can stop by, test the keyboards or screens, and see exactly how things work before they buy. Every Apple store contains a Genius Bar tech support counter where customers can get answers to questions, take classes to learn each product's functions, and have their products serviced. It is all part of Apple's bid to make the user experience as friendly and satisfying as possible.¹

Numerous organizations, like Apple, use marketing efforts to provide customer satisfaction and value. Understanding customers' needs, such as “what's cool,” is crucial to provide customer satisfaction. Although marketing encompasses a diverse set of decisions and activities performed by individuals as well as both business and nonbusiness organizations, marketing always begins and ends with the customer. The American Marketing Association defines **marketing** as “The activity, set of institutions, and processes for creating, communicating, delivering, and exchanging offerings that have value for customers, clients, partners, and society at large.”² The marketing process involves eight major functions and numerous related activities (see Table 12.1). All these functions are essential if the marketing process is to be effective.

In this chapter, we examine marketing activities that add value to products. We trace the evolution of the marketing concept and describe how organizations practice it. Next, our focus shifts to market classifications and marketing strategy. We analyze the four elements of a marketing mix and also discuss uncontrollable factors in the marketing environment. Then we examine the major components of a marketing plan. We consider tools for strategic market planning, including market measurement, sales forecasts, marketing information systems, and marketing research. Last, we look at the forces that influence consumer and organizational buying behavior.

Did You Know?

Apple rings up \$43 billion in annual revenue, selling 10 million Macintosh computers, 8 million iPods, and 20 million iPhones every year.

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

Table 12.1 Major Marketing Functions

| |
|--|
| Exchange functions: All companies—manufacturers, wholesalers, and retailers—buy and sell to market their merchandise. |
| 1. Buying includes obtaining raw materials to make products, knowing how much merchandise to keep on hand, and selecting suppliers. |
| 2. Selling creates possession utility by transferring the title of a product from seller to customer. |
| Physical distribution functions: These functions involve the flow of goods from producers to customers. Transportation and storage provide time utility and place utility and require careful management of inventory. |
| 3. Transporting involves selecting a mode of transport that provides an acceptable delivery schedule at an acceptable price. |
| 4. Storing goods is often necessary to sell them at the best selling time. |
| Facilitating functions: These functions help the other functions to take place. |
| 5. Financing helps at all stages of marketing. To buy raw materials, manufacturers often borrow from banks or receive credit from suppliers. Wholesalers may be financed by manufacturers, and retailers may receive financing from the wholesaler or manufacturer. Finally, retailers often provide financing to customers. |
| 6. Standardization sets uniform specifications for products or services. Grading classifies products by size and quality, usually through a sorting process. Together, standardization and grading facilitate production, transportation, storage, and selling. |
| 7. Risk taking—even though competent management and insurance can minimize risks—is a constant reality of marketing because of such losses as bad-debt expense, obsolescence of products, theft by employees, and product-liability lawsuits. |
| 8. Gathering market information is necessary for making all marketing decisions. |

1

Understand the meaning of *marketing* and the importance of management of customer relationships.

Managing Customer Relationships

Marketing relationships with customers are the lifeblood of all businesses. Maintaining positive relationships with customers is an important goal for marketers. The term **relationship marketing** refers to “marketing decisions

and activities focused on achieving long-term, satisfying relationships with customers.” Relationship marketing continually deepens the buyer’s trust in the company, which, as the customer’s loyalty grows, increases a company’s understanding of the customer’s needs and desires. Successful marketers respond to customers’ needs and strive to continually increase value to buyers over time. Eventually, this interaction becomes a solid relationship that allows for cooperation and mutual trust. Sears, for example, offers Shop Your Way Rewards, a card-based program that provides incentives for frequent shoppers at any Sears or Kmart store, as well as their online sites. Members of this program receive rewards totaling 1 percent of their purchases, which can be used in a store, spent online, or saved for later use. Members are allowed to return any items they purchase without presenting a receipt, can take part in exclusive promotional events, and are also entered to win prizes. Such initiatives give stores the opportunity to build stronger relationships with customers.³

To build long-term customer relationships, marketers are increasingly turning to marketing research and information technology. **Customer relationship management (CRM)** focuses on using information about customers to create marketing strategies that develop and sustain desirable customer relationships. By increasing customer value over time, organizations try to retain and increase long-term profitability through customer loyalty.

Managing customer relationships requires identifying patterns of buying behavior and using this information to focus on the most promising and profitable customers. Companies must be sensitive to customers’ requirements and desires and



Building long-term customer relationships. Airlines, like many other organizations, spend considerable resources to develop and maintain long-term customer relationships.

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establish communication to build customers' trust and loyalty. In some instances, it may be more profitable for a company to focus on satisfying a valuable existing customer than to attempt to attract a new one who may never develop the same level of loyalty. This involves determining how much the customer will spend over his or her lifetime. The **customer lifetime value** is a measure of a customer's worth (sales minus costs) to a business during one's lifetime.⁴ However, there are also intangible benefits of retaining lifetime-value customers, such as their ability to provide feedback to a company and refer new customers of similar value. The amount of money a company is willing to spend to retain such customers is also a factor. In general, when marketers focus on customers chosen for their lifetime value, they earn higher profits in future periods than when they focus on customers selected for other reasons.⁵ Because the loss of a potential lifetime customer can result in lower profits, managing customer relationships has become a major focus of marketers.

relationship marketing

establishing long-term, mutually satisfying buyer–seller relationships

customer relationship management (CRM)

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

customer lifetime value

a measure of a customer's worth (sales minus costs) to a business over one's lifetime

Utility: The Value Added by Marketing

As defined in Chapter 8, **utility** is the ability of a good or service to satisfy a human need. A lunch at a Pizza Hut, an overnight stay at a Holiday Inn, and a Mercedes S500L all satisfy human needs. Thus, each possesses utility. There are four kinds of utility.

Form utility is created by converting production inputs into finished products. Marketing efforts may influence form utility indirectly because the data gathered as part of marketing research are frequently used to determine the size, shape, and features of a product.

The three kinds of utility that are created directly by marketing are place, time, and possession utility. **Place utility** is created by making a product available at a location where customers wish to purchase it. A pair of shoes is given place utility when it is shipped from a factory to a department store.

Time utility is created by making a product available when customers wish to purchase it. For example, Halloween costumes may be manufactured in April but not displayed until late September, when consumers start buying them. By storing the costumes until they are wanted, the manufacturer or retailer provides time utility.

Possession utility is created by transferring title (or ownership) of a product to a buyer. For a product as simple as a pair of shoes, ownership usually is transferred by means of a sales slip or receipt. For such products as automobiles and homes, the transfer of title is a more complex process. Along with the title to its products, the seller transfers the right to use that product to satisfy a need (see Figure 12.1).

Place, time, and possession utility have real value in terms of both money and convenience. This value is created and added to goods and services through a wide variety of marketing activities—from research indicating what customers want to product warranties ensuring that customers get what they pay for. Overall, these marketing activities account for about half of every dollar spent by consumers. When they are part of an integrated marketing program that delivers maximum utility to the customer, many would agree that they are worth the cost.

Place, time, and possession utility are only the most fundamental applications of marketing activities. In recent years, marketing activities have been influenced by a broad business philosophy known as the *marketing concept*.

2

Explain how marketing adds value by creating several forms of utility.

utility the ability of a good or service to satisfy a human need

form utility utility created by converting production inputs into finished products

place utility utility created by making a product available at a location where customers wish to purchase it

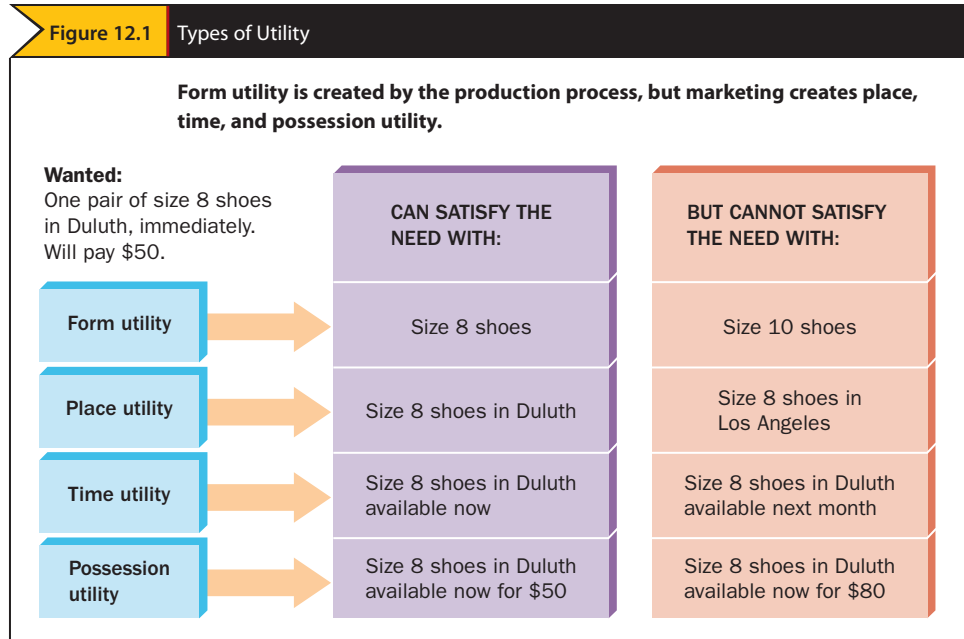
time utility utility created by making a product available when customers wish to purchase it

possession utility utility created by transferring title (or ownership) of a product to a buyer



Place and time utility. Marketing adds value by making the product available where and when customers want to purchase it.

Figure 12.1 Types of Utility



3

Trace the development of the marketing concept and understand how it is implemented.

The Marketing Concept

The **marketing concept** is a business philosophy that a firm should provide goods and services that satisfy customers' needs through a coordinated set of activities that allow the firm to achieve its objectives. Thus, initially, the firm must communicate with potential customers to assess their product needs. Then, the firm must develop a good or service to satisfy those needs. Finally, the firm must continue to seek ways to provide customer satisfaction. This process is an application of the marketing concept or marketing orientation. Ben & Jerry's, for example, constantly assesses customer demand for ice cream and sorbet. On its Web site, it maintains a "flavor



The marketing concept. Being focused on the customer and providing customer satisfaction is at the heart of the marketing concept.

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marketing concept a business philosophy that a firm should provide goods and services that satisfy customers' needs through a coordinated set of activities that allow the firm to achieve its objectives

graveyard” listing combinations that were tried and ultimately failed. It also notes its top ten flavors each month. Thus, the marketing concept emphasizes that marketing begins and ends with customers.

Evolution of the Marketing Concept

From the start of the Industrial Revolution until the early 20th century, business effort was directed mainly toward the production of goods. Consumer demand for manufactured products was so great that manufacturers could almost bank on selling everything they produced. Business had a strong *production orientation*, in which emphasis was placed on increased output and production efficiency. Marketing was limited to taking orders and distributing finished goods.

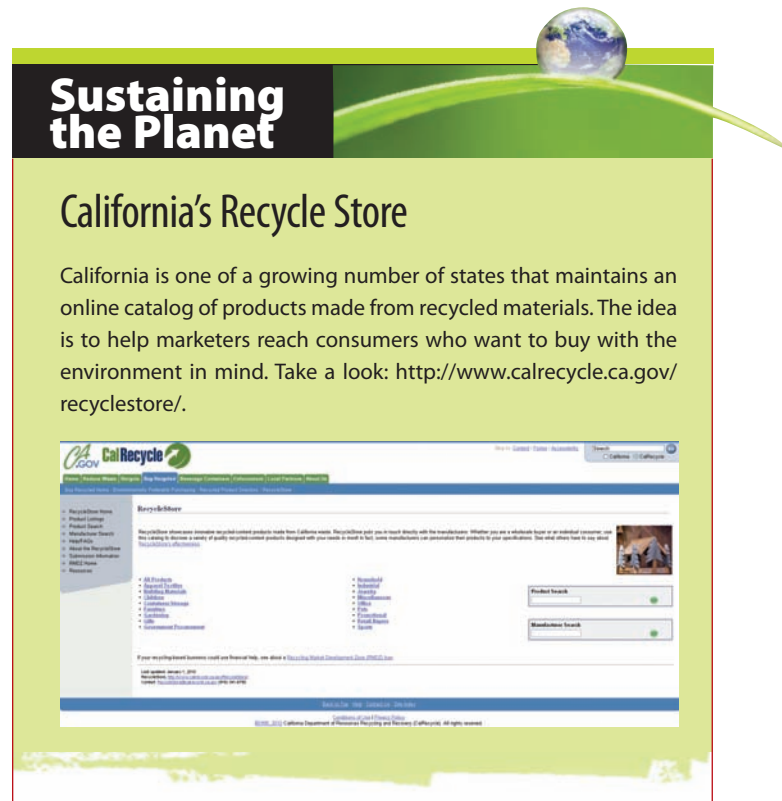
In the 1920s, production caught up with and began to exceed demand. Now producers had to direct their efforts toward selling goods rather than just producing goods that consumers readily bought. This new *sales orientation* was characterized by increased advertising, enlarged sales forces, and, occasionally, high-pressure selling techniques. Manufacturers produced the goods they expected consumers to want, and marketing consisted primarily of promoting products through personal selling and advertising, taking orders, and delivering goods.

During the 1950s, however, businesspeople started to realize that even enormous advertising expenditures and the most thoroughly proven sales techniques were not enough. Something else was needed if products were to sell as well as expected. It was then that business managers recognized that they were not primarily producers or sellers but rather were in the business of satisfying customers’ needs. Marketers realized that the best approach was to adopt a customer orientation—in other words, the organization had to first determine what customers need and then develop goods and services to fill those particular needs (see Table 12.2).

All functional areas—research and development, production, finance, human resources, and, of course, marketing—are viewed as playing a role in providing customer satisfaction.

Implementing the Marketing Concept

The marketing concept has been adopted by many of the most successful business firms. Some firms, such as Ford Motor Company and Apple Computer, have gone through minor or major reorganizations in the process. Because the marketing concept is essentially a business philosophy, anyone can say, “I believe in it.” To make it work, however, management must fully adopt and then implement it.



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Table 12.2 Evolution of Customer Orientation

| Business managers recognized that they were not primarily producers or sellers but were rather in the business of satisfying customers’ wants. | | |
|--|----------------------------|--------------------------------------|
| Production Orientation | Sales Orientation | Customer Orientation |
| Take orders | Increase advertising | Determine customer needs |
| Distribute goods | Enlarge sales force | Develop products to fill these needs |
| | Intensify sales techniques | Achieve the organization’s goals |

To implement the marketing concept, a firm first must obtain information about its present and potential customers. The firm must determine not only what customers' needs are but also how well these needs are being satisfied by products currently in the market—both its own products and those of competitors. It must ascertain how its products might be improved and what opinions customers have about the firm and its marketing efforts.

The firm then must use this information to pinpoint the specific needs and potential customers toward which it will direct its marketing activities and resources. (Obviously, no firm can expect to satisfy all needs. Also, not every individual or firm can be considered a potential customer for every product manufactured or sold by a firm.) Next, the firm must mobilize its marketing resources to (1) provide a product that will satisfy its customers, (2) price the product at a level that is acceptable to buyers and that will yield an acceptable profit, (3) promote the product so that potential customers will be aware of its existence and its ability to satisfy their needs, and (4) ensure that the product is distributed so that it is available to customers where and when needed.

Finally, the firm must again obtain marketing information—this time regarding the effectiveness of its efforts. Can the product be improved? Is it being promoted properly? Is it being distributed efficiently? Is the price too high or too low? The firm must be ready to modify any or all of its marketing activities based on information about its customers and competitors. Sears' Kenmore brand, for example, has become an iconic American brand of appliances, known for its high quality, dependability, and innovation. However, as the brand neared its 85-year mark, managers at Sears noticed that the aging brand was not in very high demand among the younger population. The company decided to rebrand Kenmore, modernizing it with a focus on sophisticated, contemporary styling and increased energy efficiency. Sears decided to market its new brand's vision mostly to women in their 20s to 50s, specifically "savvy moms" and young first-time home buyers. The company launched a new advertising campaign, with television advertisements, as well as online advertisements on Facebook, YouTube, and Twitter. All advertisements featured real customers or actual engineers at Kenmore, and used the tagline "Kenmore, That's Genius." Sears also launched the Kenmore.com site, where customers could view and purchase Kenmore products and use the "help me choose" tool to help them find the best model for their needs. Sears hopes that this rebranding will help Kenmore appeal to the younger generations as the market adjusts.⁶

4

Understand what markets are and how they are classified.

Markets and Their Classification

A **market** is a group of individuals or organizations, or both, that need products in a given category and that have the ability, willingness, and authority to purchase such products. The people or organizations must want the product. They must be able to purchase the product by exchanging money, goods, or services for it. They must be willing to use their buying power. Finally, they must be socially and legally authorized to purchase the product.

Markets are broadly classified as consumer or business-to-business markets. These classifications are based on the characteristics of the individuals and organizations within each market. Because marketing efforts vary depending on the intended market, marketers should understand the general characteristics of these two groups.

Consumer markets consist of purchasers and/or household members who intend to consume or benefit from the purchased products and who do not buy products to make profits. *Business-to-business markets*, also called *industrial markets*, are grouped broadly into producer, reseller, governmental, and institutional categories. These markets purchase specific kinds of products for use in making other products for resale or for day-to-day operations. *Producer markets* consist of individuals and business organizations that buy certain products to use in the manufacture of other products. *Reseller markets* consist of intermediaries such as wholesalers and retailers, who buy finished products and sell them for a profit. *Governmental markets* consist

market a group of individuals or organizations, or both, that need products in a given category and that have the ability, willingness, and authority to purchase such products

of federal, state, county, and local governments. They buy goods and services to maintain internal operations and to provide citizens with such products as highways, education, water, energy, and national defense. Governmental purchases total billions of dollars each year. *Institutional markets* include churches, not-for-profit private schools and hospitals, civic clubs, fraternities and sororities, charitable organizations, and foundations. Their goals are different from such typical business goals as profit, market share, or return on investment.

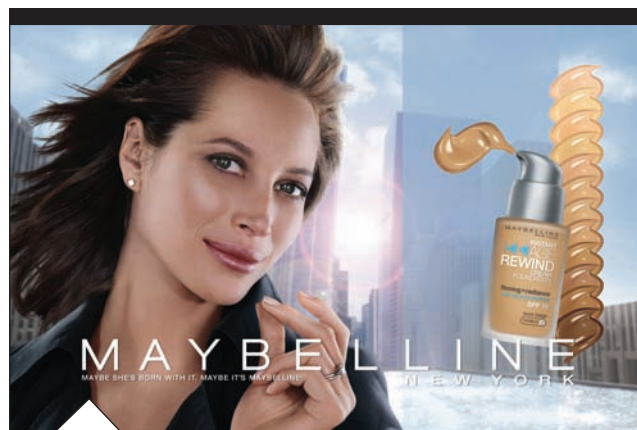
Developing Marketing Strategies

A **marketing strategy** is a plan that will enable an organization to make the best use of its resources and advantages to meet its objectives. A marketing strategy consists of (1) the selection and analysis of a target market and (2) the creation and maintenance of an appropriate **marketing mix**, a combination of product, price, distribution, and promotion developed to satisfy a particular target market.

Target Market Selection and Evaluation

A **target market** is a group of individuals or organizations, or both, for which a firm develops and maintains a marketing mix suitable for the specific needs and preferences of that group. In selecting a target market, marketing managers examine potential markets for their possible effects on the firm's sales, costs, and profits. The managers attempt to determine whether the organization has the resources to produce a marketing mix that meets the needs of a particular target market and whether satisfying these needs is consistent with the firm's overall objectives. They also analyze the strengths and number of competitors already marketing to people in this target market. Marketing managers may define a target market as a sizable number of people or a relatively small group. The Nissan Cube, for example, definitely has features to attract the teens and early 20-somethings, including an upgraded Rockford Fosgate subwoofer, an interface system for the iPod, smaller cup holders for energy drinks, and the option to add more than 40 accessories. Nissan also ensured that its promotion, price, and distribution were appropriate for this target market. The price point for the Cube starts at just under \$14,000. Ideas for promoting this vehicle came straight from U.S. college students who competed to have their marketing strategy adopted by Nissan and are part of this vehicle's target market.⁷ On the other hand, Rolls-Royce targets its automobiles toward a small, very exclusive market: wealthy people who want the ultimate in prestige in an automobile. Other companies target multiple markets with different products, prices, distribution systems, and promotion for each one. Nike uses this strategy, marketing different types of shoes to meet specific needs of cross-trainers, rock climbers, basketball players, aerobics enthusiasts, and other athletic-shoe buyers. When selecting a target market, marketing managers generally take either the undifferentiated approach or the market segmentation approach.

Undifferentiated Approach A company that designs a single marketing mix and directs it at the entire market for a particular product is using an **undifferentiated approach** (see Figure 12.2). This approach assumes that individual customers in the target market for a specific kind of product have similar needs and that the organization therefore can satisfy most customers with a single marketing mix. This single marketing mix consists of one type of product with little or no variation, one price, one promotional program aimed at everyone, and one distribution system to reach all customers in the total market. Products that can be marketed successfully with the undifferentiated approach include staple food items, such as sugar and salt, and certain kinds of farm produce. An undifferentiated approach is useful in only a limited number of situations because for most product categories buyers have



Segmentation based on gender. This Maybelline product is aimed specifically at women.

marketing strategy a plan that will enable an organization to make the best use of its resources and advantages to meet its objectives

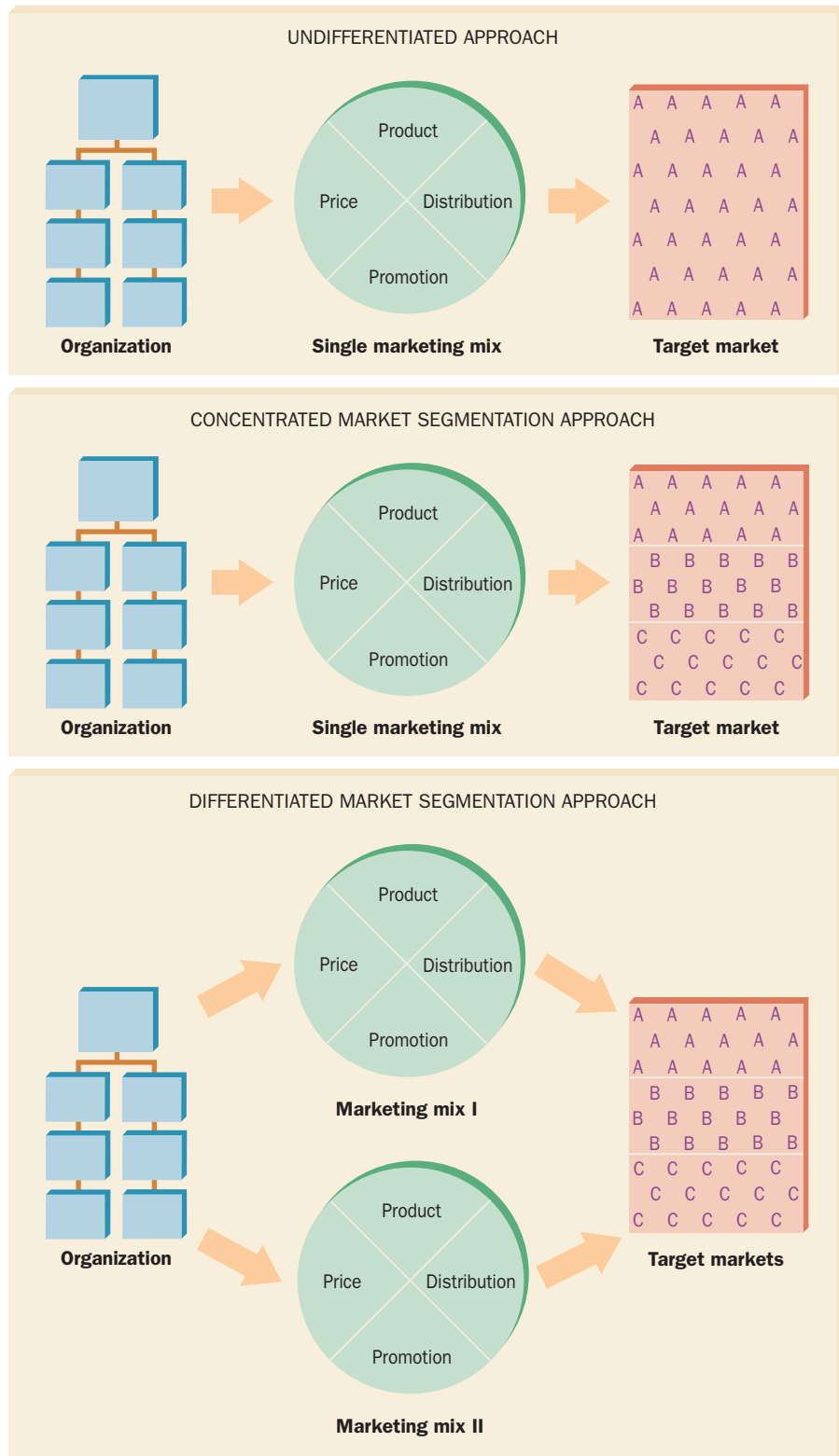
marketing mix a combination of product, price, distribution, and promotion developed to satisfy a particular target market

target market a group of individuals or organizations, or both, for which a firm develops and maintains a marketing mix suitable for the specific needs and preferences of that group

undifferentiated approach directing a single marketing mix at the entire market for a particular product

Figure 12.2 General Approaches for Selecting Target Markets

The undifferentiated approach assumes that individual customers have similar needs and that most customers can be satisfied with a single marketing mix. When customers' needs vary, the market segmentation approach—either concentrated or differentiated—should be used.



NOTE: The letters in each target market represent potential customers. Customers that have the same letters have similar characteristics and similar product needs.

Source: William M. Pride and O. C. Ferrell, *Marketing: Concepts and Strategies*, 16th ed. (Mason, OH: South-Western/Cengage Learning, 2012). Adapted with permission.

different needs. When customers' needs vary, a company should use the market segmentation approach.

Market Segmentation Approach A firm that is marketing 40-foot yachts would not direct its marketing effort toward every person in the total boat market. Some might want a sailboat or a canoe. Others might want a speedboat or an outboard-powered fishing boat. Still others might be looking for something resembling a small ocean liner. Marketing efforts directed toward such boat buyers would be wasted.

Instead, the firm would direct its attention toward a particular portion, or *segment*, of the total market for boats. A **market segment** is a group of individuals or organizations within a market that shares one or more common characteristics. The process of dividing a market into segments is called **market segmentation**. As shown in Figure 12.2, there are two types of market segmentation approaches: concentrated and differentiated. When an organization uses *concentrated* market segmentation, a single marketing mix is directed at a single market segment. If *differentiated* market segmentation is used, multiple marketing mixes are focused on multiple market segments.

In our boat example, one common characteristic, or *basis*, for segmentation might be “end use of a boat.” The firm would be interested primarily in the market segment whose uses for a boat could lead to the purchase of a 40-foot yacht. Another basis for segmentation might be income, still another might be geographic location. Each of these variables can affect the type of boat an individual might purchase. When choosing a basis for segmentation, it is important to select a characteristic that relates to differences in people’s needs for a product. The yacht producer, for example, would not use religion to segment the boat market because people’s needs for boats do not vary based on religion.

Marketers use a wide variety of segmentation bases. Bases most commonly applied to consumer markets are shown in Table 12.3. Each may be used as a single basis for market segmentation or in combination with other bases. OfficeMax, for example, is typically considered to be in a not-so-dazzling industry with a very broad definition for its target market (people and businesses that need office supplies). Therefore, the company recently decided to completely reposition itself. No longer a dull office

Undifferentiated approach. The producer of Morton Salt uses an undifferentiated approach because people's needs for salt are homogeneous.

Table 12.3 Common Bases of Market Segmentation

| Demographic | Psychographic | Geographic | Behavioristic |
|-------------------|------------------------|------------------------|----------------------|
| Age | Personality attributes | Region | Volume usage |
| Gender | Motives | Urban, suburban, rural | End use |
| Race | Lifestyles | Market density | Benefit expectations |
| Ethnicity | | Climate | Brand loyalty |
| Income | | Terrain | Price sensitivity |
| Education | | City size | |
| Occupation | | County size | |
| Family size | | State size | |
| Family life cycle | | | |
| Religion | | | |
| Social class | | | |

Source: William M. Pride and O. C. Ferrell, *Marketing: Concepts and Strategies*, 16th ed. (Mason, OH: South-Western/Cengage Learning, 2012). Adapted with permission.

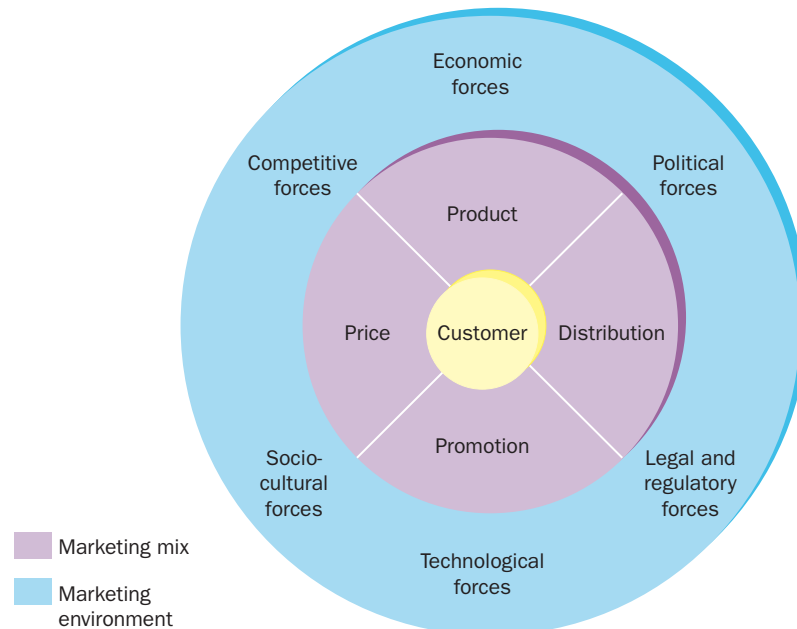
market segment a group of individuals or organizations within a market that share one or more common characteristics

market segmentation the process of dividing a market into segments and directing a marketing mix at a particular segment or segments rather than at the total market

© Photo courtesy of Susan Van Etten

Figure 12.3 The Marketing Mix and the Marketing Environment

The marketing mix consists of elements that the firm controls—product, price, distribution, and promotion. The firm generally has no control over forces in the marketing environment.



Source: William M. Pride and O. C. Ferrell, *Marketing: Concepts and Strategies*, 16th ed. (Mason, OH: South-Western/Cengage Learning, 2012). Adapted with permission.

supply store, it is now a fun, more intimate, retail outlet that appeals to women. The company repositioned itself through its campaign called “Life Is Beautiful, Work Can Be Too,” which featured stylish new private-label product lines, a spiced up catalog, and appearances at venues like Mercedes-Benz Fashion Week in New York. OfficeMax has made a huge effort to separate itself from other office supply stores by further defining its target market and centering all of its marketing around “her.”⁸

5

Identify the four elements of the marketing mix and be aware of their importance in developing a marketing strategy.

Creating a Marketing Mix

A business firm controls four important elements of marketing that it combines in a way that reaches the firm’s target market. These are the *product* itself, the *price* of the product, the means chosen for its *distribution*, and the *promotion* of the product. When combined, these four elements form a marketing mix (see Figure 12.3). Nissan, for example, recently released the LEAF and developed a marketing mix that included an affordable, zero-emission electric vehicle with seating for five; a price starting at just over \$25,000; distribution through straightforward online reservations and orders; and promotion through an extensive and interactive global tour, which included 63 stops in the United States.⁹

A firm can vary its marketing mix by changing any one or more of these ingredients. Thus, a firm may use one marketing mix to reach one target market and a second, somewhat different, marketing mix to reach another target market. For example, most automakers produce several different types and models of vehicles and aim them at different market segments based on the potential customers’ age, income, and other factors.

The *product* ingredient of the marketing mix includes decisions about the product’s design, brand name, packaging, warranties, and the like. When McDonald’s decides on brand names, package designs, sizes of orders, flavors of sauces, and recipes, these choices are all part of the product ingredient.

The *pricing* ingredient is concerned with both base prices and discounts of various kinds. Pricing decisions are intended to achieve particular goals, such as



Limits to Online Privacy?

Can online targeting go too far? When consumers do an online search or download a digital coupon, marketers can follow their electronic movements. For example, Jackson Hewitt recently offered digital coupons for its tax preparation services. Each coupon's bar code was unique, allowing the company's ad agency to track an individual consumer's search history leading up to the download.

The purpose of tracking online behavior is to do a better job of targeting communications and tailoring offers to customers' needs and interests. However, consumers are not always aware of exactly what information is being gathered and how it will be used. This raises questions about the limits of online privacy.

"Imagine that you were walking through a shopping mall, and there was someone that was walking behind you . . . taking notes on

everywhere you went," says the head of the Federal Trade Commission. Moreover, the data would be available "to every shop or anyone who was interested, for a small fee." Privacy advocates also worry about identity theft and about the possibility of "online redlining," marketers restricting access to products based on what consumers do or say on the Internet. As experts debate the limits of online privacy, regulators are formulating new privacy protections and industry groups are developing new ways for consumers to opt out of tracking systems if they choose.

Sources: Wendy Davis, "Report: Marketers Limit Behavioral Targeting Due to Privacy Worries," *MediaPost*, May 2, 2010, <http://www.mediapost.com>; Bob Garfield, "FTC Privacy Review Could Mean Trouble for Online Marketing," *Advertising Age*, April 19, 2010, <http://www.adage.com>; Stephanie Clifford, "Web Coupons Know Lots About You, and They Tell," *New York Times*, April 16, 2010, <http://www.nytimes.com>; Laurie Burkitt, "Ad Industry to Regulators: We Can Take Care of Ourselves," *Forbes*, April 14, 2010, <http://www.forbes.com>; Steve Lohr, "How Privacy Vanishes Online," *New York Times*, March 16, 2010, <http://www.nytimes.com>.

to maximize profit or even to make room for new models. The rebates offered by automobile manufacturers are a pricing strategy developed to boost low auto sales. Product and pricing are discussed in detail in Chapter 13.

The *distribution* ingredient involves not only transportation and storage but also the selection of intermediaries. How many levels of intermediaries should be used in the distribution of a particular product? Should the product be distributed as widely as possible or should distribution be restricted to a few specialized outlets in each area? Video rental retailers have had to make numerous decisions regarding distribution. Currently, vending machines like Redbox make up 19 percent of the video rental market, mail rental services like Netflix have 36 percent, and brick-and-mortar stores like Blockbuster own 45 percent. Fifteen years ago, almost all videos were distributed through brick-and-mortar stores. Distribution decisions and activities are discussed in more detail in Chapter 14.¹⁰

The *promotion* ingredient focuses on providing information to target markets. The major forms of promotion are advertising, personal selling, sales promotion, and public relations. These four forms are discussed in Chapter 15.

These ingredients of the marketing mix are controllable elements. A firm can vary each of them to suit its organizational goals, marketing goals, and target markets. As we extend our discussion of marketing strategy, we will see that the marketing environment includes a number of *uncontrollable* elements.

Marketing Strategy and the Marketing Environment

The marketing mix consists of elements that a firm controls and uses to reach its target market. In addition, the firm has control over such organizational resources as finances and information. These resources may be used to accomplish marketing goals, too. However, the firm's marketing activities are also affected by a number of external—and generally uncontrollable—forces. As Figure 12.3 illustrates, the following forces make up the external *marketing environment*:

- *Economic forces*—the effects of economic conditions on customers' ability and willingness to buy

6

Explain how the marketing environment affects strategic market planning.

HOW DO YOU GET ALL THE MOISTURE WITHOUT THE MUCK?

| BEESWAX | VS. | PETROLATUM |
|--|-----|---|
| Naturally replenishing moisturizer made by bees. | | Non-removable hydrocarbon made from crude oil. |
| Hydrating barrier that keeps lips moisturized. | | Greasy film that could contain contaminants. |
| With prunella oil, keeps lips smooth & supple. | | Sometimes used to strip corrosion on car batteries. |

HAVE YOU READ YOUR LIP BALM LABEL LATELY?

BURT'S BEES REPLENISHING LIP BALM
Honesty being important to us. It's our commitment to the Greater Good.

Developing a marketing mix. The maker of this product has developed a marketing mix (product, price, distribution, and promotion) specifically for this product.

- *Sociocultural forces*—influences in a society and its culture that result in changes in attitudes, beliefs, norms, customs, and lifestyles
- *Political forces*—influences that arise through the actions of elected and appointed officials
- *Competitive forces*—the actions of competitors, who are in the process of implementing their own marketing plans
- *Legal and regulatory forces*—laws that protect consumers and competition and government regulations that affect marketing
- *Technological forces*—technological changes that can create new marketing opportunities or cause products to become obsolete almost overnight

These forces influence decisions about marketing-mix ingredients. Changes in the environment can have a major impact on existing marketing strategies. In addition, changes in environmental forces may lead to abrupt shifts in customers' needs. Consider the effect technological forces have had on printed newspapers: years ago, very few people would have predicted that consumers would one day have no need for their daily newspaper. However, that day has come; with 24-hour up-to-the-second news online, fewer people are buying newspapers. Consumers want today's news now and are able to access it, most of the time for free, from computers, smart-phones, and other devices with Internet access.¹¹

7

Understand the major components of a marketing plan.

Developing a Marketing Plan

A **marketing plan** is a written document that specifies an organization's resources, objectives, marketing strategy, and implementation and control efforts to be used in marketing a specific product or product group. The marketing plan describes the firm's current position or situation, establishes marketing objectives for the product, and specifies how the organization will attempt to achieve these objectives. Marketing plans vary with respect to the time period involved. Short-range plans are for one year or less, medium-range plans cover from over one year to five years, and long-range plans cover periods of more than five years.

Although time-consuming, developing a clear, well-written marketing plan is important. The plan will be used for communication among the firm's employees. It covers the assignment of responsibilities, tasks, and schedules for implementation. It specifies how resources are to be allocated to achieve marketing objectives. It helps marketing managers monitor and evaluate the performance of the marketing strategy. Because the forces of the marketing environment are subject to change, marketing plans have to be updated frequently. Disney, for example, recently made changes to its marketing plans by combining all activities and licensing associated with the Power Rangers, Winnie the Pooh, and Disney Princess into one marketing plan with a \$500 million budget. The primary goal is to send consistent messages about branding to customers. As the new marketing plan is implemented, Disney will have to respond quickly to customers' reactions and make adjustments to the plan. The major components of a marketing plan are shown in Table 12.4.

marketing plan a written document that specifies an organization's resources, objectives, strategy, and implementation and control efforts to be used in marketing a specific product or product group

8

Describe how market measurement and sales forecasting are used.

Market Measurement and Sales Forecasting

Measuring the sales potential of specific types of market segments helps an organization to make some important decisions, such as the feasibility of entering new segments. The organization can also decide how best to allocate its marketing resources

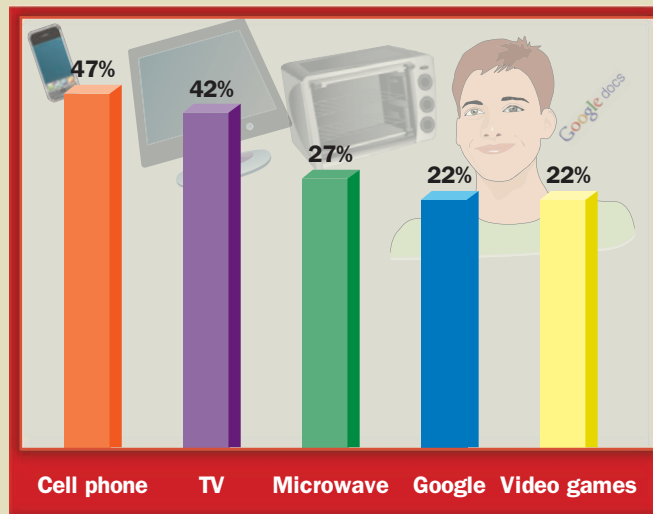
and activities among market segments in which it is already active. All such estimates should identify the relevant time frame. As with marketing plans, these estimates may be short-range plans, covering periods of less than one year; medium-range plans, covering one to five years; or long-range plans, covering more than five years. The estimates should also define the geographic boundaries of the forecast. For example, sales potential can be estimated for a city, county, state, or group of nations. Finally, analysts should indicate whether their estimates are for a specific product item, a product line, or an entire product category.

A **sales forecast** is an estimate of the amount of a product that an organization expects to sell during a certain period of time based on a specified level of marketing effort. Managers in different divisions of an organization rely on sales forecasts when they purchase raw materials, schedule production, secure financial resources, consider plant or equipment purchases, hire personnel, and plan inventory levels. Because the accuracy of a sales forecast is so important, organizations often use several forecasting methods, including executive judgments, surveys of buyers or sales personnel, time-series analyses, correlation analyses, and market tests. The specific methods used depend on the costs involved, type of product, characteristics of the market, time span of the forecast, purposes for which the forecast is used, stability of historical sales data, availability of the required information, and expertise and experience of forecasters.

SPOTLIGHT



When You Are 12–17 Years Old, What Is a Necessity?



Source: Information from Lemelson-MIT Invention Index Survey of 500 teens.

Table 12.4 Components of the Marketing Plan

| Plan Component | Component Summary | Highlights |
|--------------------------|---|--|
| Executive summary | One- to two-page synopsis of the entire marketing plan | |
| Environmental analysis | Information about the company's current situation with respect to the marketing environment | <ol style="list-style-type: none"> 1. Assessment of marketing environment factors 2. Assessment of target market(s) 3. Assessment of current marketing objectives and performance |
| SWOT analysis | Assessment of the organization's strengths, weaknesses, opportunities, and threats | <ol style="list-style-type: none"> 1. Strengths 2. Weaknesses 3. Opportunities 4. Threats |
| Marketing objectives | Specification of the firm's marketing objectives | Qualitative measures of what is to be accomplished |
| Marketing strategies | Outline of how the firm will achieve its objectives | <ol style="list-style-type: none"> 1. Target market(s) 2. Marketing mix |
| Marketing implementation | Outline of how the firm will implement its marketing strategies | <ol style="list-style-type: none"> 1. Marketing organization 2. Activities and responsibilities 3. Implementation timetable |
| Evaluation and control | Explanation of how the firm will measure and evaluate the results of the implemented plan | <ol style="list-style-type: none"> 1. Performance standards 2. Financial controls 3. Monitoring procedures (audits) |

Source: William M. Pride and O. C. Ferrell, *Marketing: Concepts and Strategies*, 16th ed. (Mason, OH: South-Western/Cengage Learning, 2012). Reprinted with permission.

sales forecast an estimate of the amount of a product that an organization expects to sell during a certain period of time based on a specified level of marketing effort



Marketing Yourself via Webcam

How can you market yourself during a webcam job interview? All kinds of companies are saving money and time by interviewing candidates via webcam. Recruiters for Zappos, the online retailer, screen applicants by calling them on Skype. While they listen to candidates talk, they also learn a lot by observing body language and facial expressions.

If you're asked to participate in a webcam interview, use the following tips to get ready.

- Check that your computer, camera, and microphone are all in working order.
- Plan to sit facing a good light source so that your face can be seen.



- Tidy up the area visible on camera and remove any inappropriate or distracting decorations.
- Close the windows to keep out street noise and close the doors for privacy. You want recruiters to focus on you, not on pets or people who happen to wander in during the interview.

- Plan to make a good impression by wearing appropriate business attire.
- Anticipate questions you might be asked and rehearse brief but meaty answers.

Do a run-through with a friend to be sure that you look professional on-screen and that your answers can be heard. Remember, your interview may be replayed several times before managers make any hiring decisions. Are you ready for your webcam close-up?

© carlosseller/Shutterstock.com

9

Distinguish between a marketing information system and marketing research.

Marketing Information

The availability and use of accurate and timely information are critical to make effective marketing decisions. A wealth of marketing information is obtainable. There are two general ways to obtain it: through a marketing information system and through marketing research.

Marketing Information Systems

A **marketing information system** is a system for managing marketing information that is gathered continually from internal and external sources. Most of these systems are computer based because of the amount of data the system must accept, store, sort, and retrieve. *Continual* collection of data is essential if the system is to incorporate the most up-to-date information.

In concept, the operation of a marketing information system is not complex. Data from a variety of sources are fed into the system. Data from *internal* sources include sales figures, product and marketing costs, inventory levels, and activities of the sales force. Data from *external* sources relate to the organization's suppliers, intermediaries, and customers; competitors' marketing activities; and economic conditions. All these data are stored and processed within the marketing information system. Its output is a flow of information in the form that is most useful for making marketing decisions. This information might include daily sales reports by territory and product, forecasts of sales or buying trends, and reports on changes in market share for the major brands in a specific industry. Both the information outputs and their form depend on the requirements of the personnel in the organization. Anheuser-Busch, for example, uses a system called BudNet that compiles information about past sales at individual stores, inventory, competitors' displays and prices, and a host of other information collected by distributors' sales representatives on handheld computers. BudNet allows

marketing information system a system for managing marketing information that is gathered continually from internal and external sources

Retrieving Information Worldwide - On Command

- Internet Surveys
- Online Panel
- CATI Interviews
- IVR
- Focus Groups



Specializing in:

- Consumer and B2B
- Low Incidence
- IT Decision Makers
- Physicians and Patients
- C-Level
- Hispanics
- International Physicians
(UK, EU, Japan, Brazil, Mexico)

22+ Million Online Panelists WORLDWIDE (50+ countries)

Programming with Online Real-Time Reporting and Analytical Capabilities Available
Over 400 Segmentation Variables Available

Marketing research. Marketing research service companies provide a variety of marketing research services to organizations that have information needs.

managers to respond quickly to changes in social trends or competitors' strategies with an appropriate promotional message, package, display, or discount.¹²

Marketing Research

Marketing research is the process of systematically gathering, recording, and analyzing data concerning a particular marketing problem. Thus, marketing research is used in specific situations to obtain information not otherwise available to decision makers. It is an intermittent, rather than a continual, source of marketing information.

JCPenney, for example, conducted extensive research to learn more about a core segment of shoppers who were not being adequately reached by department stores: middle-income mothers between 35 and 54 years old. The research involved asking 900 women about their casual clothes preferences. Later, the firm conducted in-depth interviews with 30 women about their clothing needs, feelings about fashion, and shopping experiences. The research helped the company recognize that this “missing middle” segment of shoppers was frustrated with the choices and quality of the clothing available in their price range and stressed out by the experience of shopping for clothes for themselves. Armed with this information, JCPenney launched two new lines of moderately priced, quality casual women's clothing, including one by designer Nicole Miller.¹³ A study by SPSS Inc. found that the most common reasons for conducting marketing research surveys included determining satisfaction (43 percent); product development (29 percent); branding (23 percent); segmentation (18 percent); awareness, trend tracking, and concept testing (18 percent); and business markets (11 percent).¹⁴

Table 12.5 outlines a six-step procedure for conducting marketing research. This procedure is particularly well-suited to test new products, determine various characteristics of consumer markets, and evaluate promotional activities. Food-processing companies, such as Kraft Foods and Kellogg's, use a variety of marketing research methods to avoid costly mistakes in introducing the wrong products, not to mention introducing products in the wrong way or at the wrong time. They have been particularly interested in using marketing research to learn more about the African-American and Hispanic markets. Understanding of the food preferences, loyalties, and purchase motivators of these groups enables companies to serve them better.

marketing research the process of systematically gathering, recording, and analyzing data concerning a particular marketing problem

Courtesy of ReRez

Table 12.5 The Six Steps of Marketing Research

| | |
|--------------------------------------|---|
| 1. Define the problem. | In this step, the problem is stated clearly and accurately to determine what issues are involved in the research, what questions to ask, and what types of solutions are needed. This is a crucial step that should not be rushed. |
| 2. Make a preliminary investigation. | The objective of preliminary investigation is to develop both a sharper definition of the problem and a set of tentative answers. The tentative answers are developed by examining internal information and published data and by talking with persons who have some experience with the problem. These answers will be tested by further research. |
| 3. Plan the research. | At this stage, researchers know what facts are needed to resolve the identified problem and what facts are available. They make plans on how to gather needed but missing data. |
| 4. Gather factual information. | Once the basic research plan has been completed, the needed information can be collected by mail, telephone, or personal interviews; by observation; or from commercial or government data sources. The choice depends on the plan and the available sources of information. |
| 5. Interpret the information. | Facts by themselves do not always provide a sound solution to a marketing problem. They must be interpreted and analyzed to determine the choices available to management. |
| 6. Reach a conclusion. | Sometimes the conclusion or recommendation becomes obvious when the facts are interpreted. However, in other cases, reaching a conclusion may not be so easy because of gaps in the information or intangible factors that are difficult to evaluate. If and when the evidence is less than complete, it is important to say so. |

Using Technology to Gather and Analyze Marketing Information

Technology is making information for marketing decisions increasingly accessible. The ability of firms to track the purchase behaviors of customers electronically and to better determine what they want is changing the nature of marketing. The integration of telecommunications with computing technology provides marketers with access to accurate information not only about customers and competitors but also about industry forecasts and business trends. Among the communication tools that are radically changing the way marketers obtain and use information are databases, online information services, and the Internet.

A *database* is a collection of information arranged for easy access and retrieval. Using databases, marketers tap into internal sales reports, newspaper articles, company news releases, government economic reports, bibliographies, and more. Many marketers use commercial databases, such as LEXIS-NEXIS, to obtain useful information for marketing decisions. Many of these commercial databases are available in printed form (for a fee), online (for a fee), or on purchasable CD-ROMs. Other marketers develop their own databases in-house. Some firms sell their databases to other organizations. *Reader's Digest*, for example, markets a database that provides information on 100 million households. Dunn & Bradstreet markets a database that includes information on the addresses, phone numbers, and contacts of businesses located in specific areas.

Information provided by a single firm on household demographics, purchases, television viewing behavior, and responses to promotions such as coupons and free samples is called *single-source data*. For example, Behavior Scan, offered by Information Resources, Inc., screens about 60,000 households in 26 U.S. markets. This single-source information service monitors household televisions and records the programs and commercials viewed. When buyers from these households shop in stores equipped with scanning registers, they present Hotline cards (similar to credit cards) to cashiers. This enables each customer's identification to be coded electronically so that the firm can track each product purchased and store the information in a database.

Online information services offer subscribers access to e-mail, Web sites, files for downloading (such as with Acrobat Reader), news, databases, and research materials. By subscribing to mailing lists, marketers can receive electronic newsletters and participate in online discussions with other network users. This ability to communicate online with customers, suppliers, and employees improves the capability of a firm's marketing information system and helps the company track its customers' changing desires and buying habits.

The *Internet* has evolved as a powerful communication medium, linking customers and companies around the world via computer networks with e-mail, forums, Web pages, and more. Growth in Internet use has given rise to an entire industry that makes marketing information easily accessible to both companies and customers. Among the many Web pages useful for marketing research are the home pages of Nielsen marketing research and *Advertising Age*. While most Web pages are open to all Internet users, some companies, such as U.S. West and Turner Broadcasting System, also maintain internal Web pages, called *intranets*, that allow employees to access internal data and facilitate communication among departments.

Table 12.6 contains a variety of sources of secondary information, which is existing information that has been gathered by other organizations. Many of these sources are available through Web sites. As can be seen in Table 12.6, secondary information can be obtained from a variety of sources including government sources, trade associations, general publications and news sources, and corporate information.

A tool that has recently gained popularity as a means of marketing research is social media. There are many companies that have begun using various social media outlets to solicit feedback from customers on the company's existing or upcoming products. Not all information that a company receives will be solicited, however. A part of being involved in social media is exposing your company to unwanted or

Table 12.6 Sources of Secondary Information

| Government sources | |
|--|---|
| Economic census | http://www.census.gov/econ/census07/ |
| Export.gov—country and industry market research | http://www.export.gov/mrktresearch/index.asp |
| National Technical Information Services | http://www.ntis.gov/ |
| STAT-USA | http://www.stat-usa.gov/ |
| Strategis—Canadian trade | http://strategis.ic.gc.ca/engdoc/main.html |
| Trade associations and shows | |
| American Society of Association Executives | http://www.asaecenter.org/ |
| Directory of Associations | http://www.marketingsource.com/associations/ |
| Trade Show News Network | http://www.tsnn.com/ |
| Magazines, newspapers, video, and audio news programming | |
| Blinkx | http://www.blinkx.com/ |
| FindArticles.com | http://findarticles.com/p/articles/tn_bus/?tag=trunk |
| Google Video Search | http://video.google.com/ |
| Media Jumpstation | http://www.directcontactpr.com/jumpstation/ |
| Google News Directory | http://www.google.com/Top/News/ |
| Yahoo! Video Search | http://video.search.yahoo.com/ |
| Corporate information | |
| Annual Report Service | http://www.annualreportservice.com/ |
| Bitpipe | http://www.bitpipe.com/ |
| Business Wire—press releases | http://www.businesswire.com/ |
| Hoover's Online | http://www.hoovers.com/ |
| Open Directory Project | http://dmoz.org/ |
| PR Newswire—press releases | http://www.prnewswire.com/ |

Source: Adapted from "Data Collection: Low-Cost Secondary Research," *KnowThis.com*, <http://www.knowthis.com/principles-of-marketing-tutorials/data-collection-low-cost-secondary-research/> (accessed September 10, 2010).

Identify the major steps in the consumer buying decision process and the sets of factors that may influence this process.

negative information from the general public. Nevertheless, these comments need to be regarded as useful and viable information from a marketing research standpoint. Customer complaints are opportunities for improvement; if handled correctly, they can be an invaluable source of data.

Types of Buying Behavior

Buying behavior may be defined as the decisions and actions of people involved in buying and using products.¹⁵ **Consumer buying behavior** refers to the purchasing of products for personal or household use, not for business purposes. **Business buying behavior** is the purchasing of products by producers, resellers, governmental units, and institutions. Because a firm's success depends greatly on buyers' reactions to a particular marketing strategy, it is important to understand buying behavior. Marketing managers are better able to predict customer responses to marketing strategies and to develop a satisfying marketing mix if they are aware of the factors that affect buying behavior.

Consumer Buying Behavior

Consumers' buying behaviors differ when they buy different types of products. For frequently purchased low-cost items, a consumer uses routine response behavior involving very little search or decision-making effort. The buyer uses limited decision making for purchases made occasionally or when more information is needed about an unknown product in a well-known product category. When buying an unfamiliar, expensive item or one that is seldom purchased, the consumer engages in extensive decision making.

A person deciding on a purchase goes through some or all of the steps shown in Figure 12.4. First, the consumer acknowledges that a problem exists. A problem is usually the lack of a product or service that is desired or needed. Then, the buyer looks for information, which may include brand names, product characteristics, warranties, and other features. Next, the buyer weighs the various alternatives he or she has discovered and then finally makes a choice and acquires the item. In the after-purchase stage, the consumer evaluates the suitability of the product. This

buying behavior the decisions and actions of people involved in buying and using products

consumer buying behavior the purchasing of products for personal or household use, not for business purposes

business buying behavior the purchasing of products by producers, resellers, governmental units, and institutions



OLAY
DEFINITY

Because younger-looking eyes never go out of fashion

Olay is my secret to brighter-looking eyes

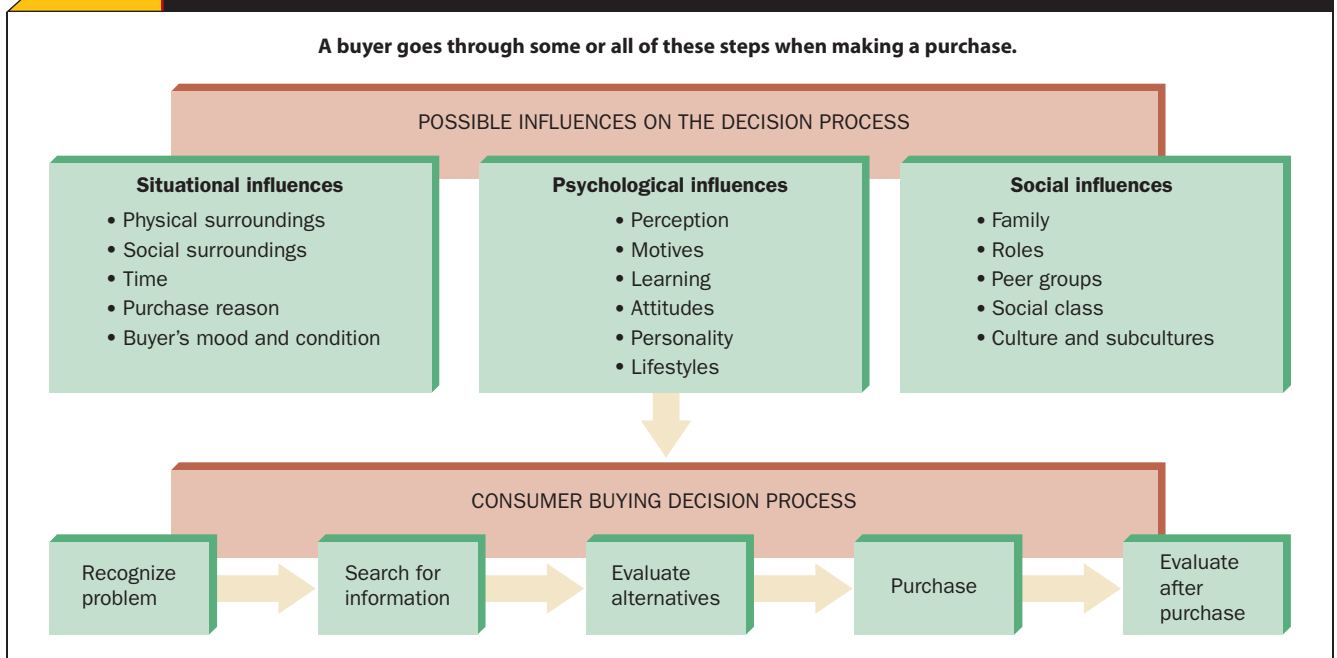
Olay Definity eye illuminator. Reduces the look of wrinkles and dark circles for brighter, younger-looking eyes.

Shop at lovelooks.com Only at 

Recognizing a problem. Some advertisements, such as this one for Olay Definity, are aimed at a particular stage of the consumer buying-decision process. This ad is meant to stimulate the problem-recognition stage of the buying-decision process.

Image courtesy of The Advertising Archives

Figure 12.4 Consumer Buying Decision Process and Possible Influences on the Process



Source: William M. Pride and O. C. Ferrell, *Marketing: Concepts and Strategies*, 16th ed. (Mason, OH: South-Western/Cengage Learning, 2012). Adapted with permission.

judgment will affect future purchases. As Figure 12.4 shows, the buying process is influenced by situational factors (physical surroundings, social surroundings, time, purchase reason, and buyer’s mood and condition), psychological factors (perception, motives, learning, attitudes, personality, and lifestyle), and social factors (family, roles, reference groups, online social networks, social class, culture, and subculture).

Consumer buying behavior is also affected by the ability to buy or one’s buying power, which is largely determined by income. As every taxpayer knows, not all income is available for spending. For this reason, marketers consider income in three different ways. **Personal income** is the income an individual receives from all sources *less* the Social Security taxes the individual must pay. **Disposable income** is personal income *less* all additional personal taxes. These taxes include income, estate, gift, and property taxes levied by local, state, and federal governments. About 3 percent of all disposable income is saved. **Discretionary income** is disposable income *less* savings and expenditures on food, clothing, and housing. Discretionary income is of particular interest to marketers because consumers have the most choice in spending it. Consumers use their discretionary income to purchase items ranging from automobiles and vacations to movies and pet food.

Business Buying Behavior

Business buyers consider a product’s quality, its price, and the service provided by suppliers. Business buyers are usually better informed than consumers about products and generally buy in larger quantities. In a business, a committee or a group of people, rather than just one person, often decides on purchases. Committee members must consider the organization’s objectives, purchasing policies, resources, and personnel. Business buying occurs through description, inspection, sampling, or negotiation. A number of organizations buy a variety of products online.

personal income the income an individual receives from all sources *less* the Social Security taxes the individual must pay

disposable income personal income *less* all additional personal taxes

discretionary income disposable income *less* savings and expenditures on food, clothing, and housing

Apple

Apple, a pioneer of the personal computer, has always been interested in making its products user-friendly. In the days when computers were room-size and had numbers instead of names, Apple stood out by making easy-to-use desktop computers with easy-to-remember names. Thanks to savvy marketing and positive word of mouth, Apple's products are now in such high demand that many customers camp out in front of Apple Stores to be the first to buy new items.

When Apple launched its first touch-screen iPhone, it sold 1 million units in 74 days. A few years later, its touch-screen iPad tablet computer reached the 1-million mark in just 28 days. Initial

response to the iPad was so strong, in fact, that Apple struggled to meet demand and had to temporarily delay release of the new product outside of the United States. What exciting new innovations are in Apple's marketing plans for the coming years?

Questions

1. How is Apple adding value by creating form, place, time, and possession utility?
2. What do you see as Apple's strengths, weaknesses, opportunities, and threats? How might this SWOT analysis affect Apple's marketing of new products?

SUMMARY

Summary

1 Understand the meaning of *marketing* and the importance of management of customer relationships.

Marketing is an organizational function and a set of processes for creating, communicating, and delivering value to customers and for managing customer relationships in ways that benefit the organization and its stakeholders. Maintaining positive relationships with customers is crucial. Relationship marketing is establishing long-term, mutually satisfying buyer-seller relationships. Customer relationship management uses information about customers to create marketing strategies that develop and sustain desirable customer relationships. Managing customer relationships requires identifying patterns of buying behavior and focusing on the most profitable customers. Customer lifetime value is a combination of purchase frequency, average value of purchases, and brand-switching patterns over the entire span of a customer's relationship with the company.

2 Explain how marketing adds value by creating several forms of utility.

Marketing adds value in the form of utility or the power of a product or service to satisfy a need. It creates place utility by making products available where customers want them, time utility by making products available when customers want them, and possession utility by transferring the ownership of products to buyers.

3 Trace the development of the marketing concept and understand how it is implemented.

From the Industrial Revolution until the early 20th century, businesspeople focused on the production of goods; from the 1920s to the 1950s, the emphasis moved to the selling of goods. During the 1950s, however, businesspeople recognized that their enterprises involved not only producing and selling products but also satisfying customers' needs. They began to implement the marketing concept, a business philosophy that involves the entire organization in the dual processes of meeting the customers' needs and achieving the organization's goals.

Implementation of the marketing concept begins and ends with customers—first to determine what customers' needs are and then to evaluate how well the firm is meeting these needs.

4 Understand what markets are and how they are classified.

A market consists of people with needs, the ability to buy, and the desire and authority to purchase. Markets are classified as consumer and industrial (producer, reseller, governmental, and institutional) markets.

5 Identify the four elements of the marketing mix and be aware of their importance in developing a marketing strategy.

A marketing strategy is a plan for the best use of an organization's resources to meet its objectives.

Developing a marketing strategy involves selecting and analyzing a target market and creating and maintaining a marketing mix that will satisfy the target market. A target market is chosen through either the undifferentiated approach or the market segmentation approach. A market segment is a group of individuals or organizations within a market that have similar characteristics and needs. Businesses that use an undifferentiated approach design a single marketing mix and direct it at the entire market for a particular product. The market segmentation approach directs a marketing mix at a segment of a market.

The four elements of a firm's marketing mix are product, price, distribution, and promotion. The product ingredient includes decisions about the product's design, brand name, packaging, and warranties. The pricing ingredient is concerned with both base prices and various types of discounts. Distribution involves not only transportation and storage but also the selection of intermediaries. Promotion focuses on providing information to target markets. The elements of the marketing mix can be varied to suit broad organizational goals, marketing objectives, and target markets.

6 Explain how the marketing environment affects strategic market planning.

To achieve a firm's marketing objectives, marketing-mix strategies must begin with an assessment of the marketing environment, which, in turn, will influence decisions about marketing-mix ingredients. Marketing activities are affected by a number of external forces that make up the marketing environment. These forces include economic forces, sociocultural forces, political forces, competitive forces, legal and regulatory forces, and technological forces. Economic forces affect customers' ability and willingness to buy. Sociocultural forces are societal and cultural factors, such as attitudes, beliefs, and lifestyles, that affect customers' buying choices. Political forces and legal and regulatory forces influence marketing planning through laws that protect consumers and regulate competition. Competitive forces are the actions of competitors who are implementing their own marketing plans. Technological forces can create new marketing opportunities or quickly cause a product to become obsolete.

7 Understand the major components of a marketing plan.

A marketing plan is a written document that specifies an organization's resources, objectives, strategy, and implementation and control efforts to be used in marketing a specific product or product group. The marketing

plan describes a firm's current position, establishes marketing objectives, and specifies the methods the organization will use to achieve these objectives. Marketing plans can be short-range plans, covering one year or less; medium-range plans, covering two to five years; or long-range plans, covering periods of more than five years.

8 Describe how market measurement and sales forecasting are used.

Market measurement and sales forecasting are used to estimate sales potential and predict product sales in specific market segments.

9 Distinguish between a marketing information system and marketing research.

Strategies are monitored and evaluated through marketing research and the marketing information system that stores and processes internal and external data in a form that aids marketing decision making. A marketing information system is a system for managing marketing information that is gathered continually from internal and external sources. Marketing research is the process of systematically gathering, recording, and analyzing data concerning a particular marketing problem. It is an intermittent rather than a continual source of marketing information. Technology is making information for marketing decisions more accessible. Electronic communication tools can be very useful for accumulating accurate information with minimal customer interaction. Information technologies that are changing the way marketers obtain and use information are databases, online information services, and the Internet. Some companies are using social media to obtain feedback from customers.

10 Identify the major steps in the consumer buying decision process and the sets of factors that may influence this process.

Buying behavior consists of the decisions and actions of people involved in buying and using products. Consumer buying behavior refers to the purchase of products for personal or household use. Organizational buying behavior is the purchase of products by producers, resellers, governments, and institutions. Understanding buying behavior helps marketers to predict how buyers will respond to marketing strategies. The consumer buying decision process consists of five steps, that is, recognizing the problem, searching for information, evaluating alternatives, purchasing, and evaluating after purchase. Factors affecting the consumer buying decision process fall into three categories: situational influences, psychological influences, and social influences.

Key Terms

You should now be able to define and give an example relevant to each of the following terms:

| | | | |
|--|--------------------------|------------------------------------|--------------------------------|
| marketing (335) | place utility (337) | undifferentiated | marketing research (349) |
| relationship marketing (337) | time utility (337) | approach (341) | buying behavior (352) |
| customer relationship management (CRM) (337) | possession utility (337) | market segment (343) | consumer buying behavior (352) |
| customer lifetime value (337) | marketing concept (338) | market segmentation (343) | business buying behavior (352) |
| utility (337) | market (340) | marketing plan (346) | personal income (353) |
| form utility (337) | marketing strategy (341) | sales forecast (347) | disposable income (353) |
| | marketing mix (341) | marketing information system (348) | discretionary income (353) |
| | target market (341) | | |

Review Questions

- How, specifically, does marketing create place, time, and possession utility?
- What is relationship marketing?
- How is a marketing-oriented firm different from a production-oriented firm or a sales-oriented firm?
- What are the major requirements for a group of individuals and organizations to be a market? How does a consumer market differ from a business-to-business market?
- What are the major components of a marketing strategy?
- What is the purpose of market segmentation? What is the relationship between market segmentation and the selection of target markets?
- What are the four elements of the marketing mix? In what sense are they “controllable”?
- Describe the forces in the marketing environment that affect an organization’s marketing decisions.
- What is a marketing plan, and what are its major components?
- What major issues should be specified before conducting a sales forecast?
- What is the difference between a marketing information system and a marketing research project? How might the two be related?
- What new information technologies are changing the ways that marketers keep track of business trends and customers?
- What are the major sources of secondary information?
- Why do marketers need to understand buying behavior?
- How are personal income, disposable income, and discretionary income related? Which is the best indicator of consumer purchasing power?

Discussion Questions

- What problems might face a company that focuses mainly on its most profitable customers?
- In what way is each of the following a marketing activity?
 - The provision of sufficient parking space for customers at a suburban shopping mall.
 - The purchase by a clothing store of seven dozen sweaters in assorted sizes and colors.
 - The inclusion of a longer and more comprehensive warranty on an automobile.
- How might adoption of the marketing concept benefit a firm? How might it benefit the firm’s customers?
- Is marketing information as important to small firms as it is to larger firms? Explain.
- How does the marketing environment affect a firm’s marketing strategy?

Video Case 12.1

E*Trade Builds Long-Term Customer Relationships

Even if you are not an active investor, you probably already know e*Trade, the online investing service, from its wildly successful series of funny television commercials. The ads feature an irreverent talking baby wielding a laptop and boasting about his investing expertise to all his admiring baby friends. The commercials were inspired by e*Trade's desire to come up with a marketing message that would not only be memorable and funny but would also create an overall sense of unity in its marketing efforts. (Before the baby appeared, each new advertisement was a start-from-scratch proposition.)

The theme of ease of use that the baby conveys has proven effective through several e*Trade advertising campaigns and Super Bowl spots. The ads' light-hearted appeal has also helped the company strengthen its brand name, particularly among hard-to-reach and highly desirable 20-somethings. Even the outtake reels have proven popular, and an online "Baby Mail" campaign in which viewers can insert their own words or their own pictures and share them with friends has successfully extended the marketing message from television to the Internet and from passive to interactive. "We are one of the largest online advertisers," says the company's senior vice president of marketing. "And we're an online company, so it stands to reason that we'd find different types of interactive ways to be able to reach consumers through the Internet as well."

E*Trade is a publicly traded financial and banking services company that encourages customers to take control of their own financial futures with an array of quick and easy-to-use online tools, products, and services. These are available online and also through a network of customer service representatives reachable both via telephone and in person at one of e*Trade's 28 retail branches across the United States. Mobile applications for the iPhone and the BlackBerry include access to a stripped-down e*Trade Web site and target both experienced and novice investors.

Securities can be traded instantaneously (when the stock exchanges are open; otherwise, the next trading day) or when a particular security meets the customer's desired buy or sell price.

E*Trade can accommodate customers' long- and short-term financial goals and prides itself on its ability to offer customers exactly what they need, often by replicating, as nearly as possible, the experience of talking to a financial advisor. Even if a user is just looking for information about investing, the company's online Investor Resource Center provides free educational articles, brief three-minute videos, webinars, and seminars about many different types of investment topics, from basic to sophisticated, as well as access to independent research about investment options. "Education has become a really major component for us and for our customers," says one of the company's vice presidents. A new feedback link on the company's Web site allows users to tell e*Trade what they like or don't like about a page on the Resource Center so improvements can be made. "It's really a core lesson in listening to your customers, what they want, and not always thinking that you know what they want," says a company executive.

Meanwhile, e*Trade's baby is unlikely to grow up very soon. "When people see that baby," says a company executive, "they stop their DVRs and they watch. I think the real challenge for us is being able to blend the combination of humor, magic, and the overall value proposition and message in a way that none of it gets buried."¹⁶

Questions

1. How does e*Trade manage its customer relationships?
2. How many different kinds of utility does e*Trade provide for its customers?
3. Why are young adults a desirable target market for a company like e*Trade?

Case 12.2

PepsiCo Tailors Tastes to Tantalize Tastebuds of Target Markets

PepsiCo, the world's leading snack marketer, aims to gobble up more market share through careful targeting and creative marketing. Most of PepsiCo's sales come from North and South America, where it has traditionally been a strong competitor. Among its ever-expanding pantry of brands, 19 are already billion-dollar businesses, including Pepsi-Cola, Diet Pepsi, and Mountain Dew soft drinks; Lay's, Doritos, and Tostitos chips; Lipton teas; Tropicana fruit drinks; Gatorade sports drinks; Quaker foods; and Aquafina bottled waters.

The company faces aggressive competition from Coca-Cola and Draft Foods, both of which are making mar-

keting waves in the Americas, across Europe, and in Asia. It must also deal with a variety of local brands that, in some cases, have large and loyal customer bases. Therefore, PepsiCo's marketers constantly research customers' needs and study the influence of environmental forces so that they can develop the right marketing mix for the right market.

One global trend that PepsiCo's marketers have identified is increased interest in healthier eating. Several years ago, the U.K. government mounted a campaign warning consumers of the dangers of high salt intake and urged them to

change their diets. In response, PepsiCo slashed the amount of sodium in its locally popular Walkers snacks by 25 percent. With U.S. health experts also calling for lower salt in processed foods, PepsiCo is now reducing the level of salt in many other snacks worldwide. It is also lightening up on fats and sugar and making nutrition labeling more prominent so that consumers can make educated choices. “What we want to do with our ‘fun for you’ products is to make them the healthiest ‘fun for you’ products,” says the CEO.

Another trend that PepsiCo’s marketers noticed is sharply higher use of digital media among teenagers and young adults, a large and lucrative target market for snacks and beverages. As a result, PepsiCo has stepped up its use of the Internet, blogs, Twitter, Facebook, and YouTube to communicate with and influence these consumers. Its Dewmocracy campaigns, for example, invite customers to vote online for their favorite new Mountain Dew flavors. It has also run contests asking customers to create and submit homemade television commercials for Doritos chips. After posting the finalists online for public viewing and voting, PepsiCo airs the winning advertisements during the Super Bowl, giving winners cash prizes and their 30 seconds of fame.

PepsiCo’s recent Refresh Project, one of its more unusual marketing efforts, combined digital marketing with social responsibility. During the year-long program, PepsiCo invited consumers to apply online for grants to make a difference in their community. Every month, the public voted

on which grants they thought were most deserving of funding. In all, PepsiCo awarded nearly \$20 million in grants, got tens of thousands of customers interested in the project, and earned positive publicity for its good works. Of course, PepsiCo hoped that customers would also notice and respond to its social responsibility when they were making buying decisions about snacks and beverages.

These days, PepsiCo is keeping up a steady stream of new product introductions, based on marketing research that helps it understand the preferences of customers in each country. For example, catering to Russian palates, it offers Lay’s chips flavored with red caviar. In China, its Cao Ben Le drinks feature herb flavors that local customers favor. In Japan, knowing that its customers look forward to seasonal variety, the company has launched a series of limited-edition soft drinks such as Pepsi Baobab (with the tang of African fruit flavor). In India, it markets Nimbooz by 7Up, its unique twist on a traditional lemon drink. What will PepsiCo do next in its quest to satisfy its global customer base?¹⁷

Questions

1. What is PepsiCo’s approach to target marketing?
2. How are forces in the marketing environment affecting PepsiCo’s marketing strategy?
3. Which influences on consumer buying behavior should PepsiCo pay particular attention to, and why?

Building Skills for Career Success



1 JOURNALING FOR SUCCESS

Discovery statement: This chapter emphasized the importance of keeping the customer at the core of every marketing decision.

Assignment

1. Think about the businesses from which you have purchased goods or services. Select the organization that you believe has adopted the marketing concept. Discuss the reasons why you believe that this company has adopted the marketing concept.
2. Describe the marketing mix this company has created for the brand that you purchase from this company.
3. Which two companies are the strongest competitors of this organization? Explain why.
4. Besides competition, which environmental forces have the greatest impact on this company for which you are a customer?
5. Calculate your customer lifetime value to this company. After recording your customer lifetime value, describe how you calculated it.

2 EXPLORING THE INTERNET

Consumer products companies with a variety of famous brand names known around the world are making their presence known on the Internet through Web sites and online banner advertising. The giants in consumer products include U.S.-based Procter & Gamble (<http://www.pg.com/>), Swiss-based Nestlé (<http://www.nestle.com/>), and U.K.-based Unilever (<http://www.unilever.com/>).

According to a spokesperson for the Unilever Interactive Brand Center in New York, the firm is committed to making the Internet part of its marketing strategy. The center carries out research and development and serves as a model for others now in operation in the Netherlands and Singapore. Information is shared with interactive marketers assigned to specific business units. Eventually, centers will be established globally, reflecting the fact that most of Unilever’s \$52 billion in sales takes place in about 100 countries around the world.

Unilever’s view that online consumer product sales are the way of the future was indicated by online alliances established with Microsoft Network, America Online, and NetGrocer.com. Creating an online dialogue with consumers on a global scale

is no simple task. Cultural differences are often subtle and difficult to explain but nonetheless are perceived by the viewers interacting with a site. Unilever's Web site, which is its connection to customers all over the world, has a global feel to it. The question is whether it is satisfactory to each target audience. Visit the text Web site for updates to this exercise.

Assignment

1. Examine the Unilever, Procter & Gamble, and Nestlé sites and describe the features that you think would be most interesting to consumers.
2. Describe the features you do not like and explain why.
3. Do you think that the sites can contribute to better consumer buyer behavior? Explain your thinking.

3 DEVELOPING CRITICAL-THINKING SKILLS

Market segmentation is the process of breaking down a larger target market into smaller segments. One common base of market segmentation is demographics. Demographics for the consumer market, which consists of individuals and household members who buy goods for their own use, include criteria such as age, gender, race, religion, income, family size, occupation, education, social class, and marital status. Liz Claiborne, Inc., retailer of women's apparel, uses demographics to target a market it calls *Liz Lady*. The company knows Liz Lady's age, income range, professional status, and family status, and it uses this profile to make marketing decisions.

Assignment

1. Identify a company that markets to the consumer.
2. Identify the company's major product.
3. Determine the demographics of one of the company's markets.
 - a. From the list that follows, choose the demographics that apply to this market. (Remember that the demographics chosen must relate to the interest, need, and ability of the customer to purchase the product.)
 - b. Briefly describe each demographic characteristic.

| Consumer | Market | Description |
|----------------|--------|-------------|
| Age | | |
| Gender | | |
| Race | | |
| Ethnicity | | |
| Income | | |
| Occupation | | |
| Family size | | |
| Education | | |
| Religion | | |
| Homeowner | | |
| Marital status | | |
| Social class | | |

4. Summarize your findings in a statement that describes the target market for the company's product.

4 BUILDING TEAM SKILLS

Review the text definitions of *market* and *target market*. Markets can be classified as consumer or industrial. Buyer behavior consists of the decisions and actions of those involved in buying and using products or services. By examining aspects of a company's products, you usually can determine the company's target market and the characteristics important to members of that target market.

Assignment

1. Working in teams of three to five, identify a company and its major products.
2. List and discuss characteristics that customers may find important. These factors may include price, quality, brand name, variety of services, salespeople, customer service, special offers, promotional campaign, packaging, convenience of use, convenience of purchase, location, guarantees, store/office decor, and payment terms.
3. Write a description of the company's primary customer (target market).

5 RESEARCHING DIFFERENT CAREERS

Before interviewing for a job, you should learn all you can about the company. With this information, you will be prepared to ask meaningful questions about the firm during the interview, and the interviewer no doubt will be impressed with your knowledge of the business and your interest in it. To find out about a company, you can conduct some market research.

Assignment

1. Choose at least two local companies for which you might like to work.
2. Contact your local Chamber of Commerce. (The Chamber of Commerce collects information about local businesses, and most of its services are free.) Ask for information about the companies.
3. Call the Better Business Bureau in your community and ask if there are any complaints against the companies.
4. Prepare a report summarizing your findings.