Chapter 1

The Marketing Management Process

This chapter provides an overview of the marketing management process. It focuses on the tasks marketers must perform to manage the marketing activities of their organizations and the environment of marketing decisions. First, we will review the definition of marketing, the marketing concept, and the focus of effective marketing before turning our attention to these tasks.

WHAT IS MARKETING?

The American Marketing Association defines marketing as follows: "the process of planning and executing the conception, pricing, promotion, and distribution of ideas, goods, and services to create exchanges that satisfy individual and organizational goals."[1] Several key ideas are expressed in this definition. First, marketing is a managerial function involving both planning and execution. Thus marketing is not a group of unrelated activities but tasks that are planned and executed to attain identifiable objectives. Second, marketing involves the management of specific elements or functions: product, pricing, promotion, and distribution. These functions constitute the work or substance of what marketing is all about. To be involved in marketing means being involved in the planning, execution, and/or control of these activities. Third, marketing is goal oriented. Its aim is to create exchanges that satisfy individual and organizational objectives. Marketing's concern is with customers and meeting a need in the marketplace. However, its concern is not just with any customers or all customers but those preselected by management as the market segment(s) on which the company will concentrate. Thus, specific customers with their specific needs become the focal point of an organization's marketing activities.

THE MARKETING CONCEPT

The marketing concept is a business orientation that focuses on satisfying customers' needs at acceptable levels of revenues and costs. In for-profit organizations, acceptable levels of revenues and costs are defined in terms of a target return on investment; in not-for-profit organizations, the focus is on achieving a balance between revenues and costs.

Organizations having a true "marketing orientation" focus on addressing the needs and wants of one or more targeted segments of the market. However, other business philosophies may be put into practice by managers with marketing titles, which in reality do not reflect authentic marketing thought. Table 1.1 shows five different business orientations that have been used as the operating philosophies behind management decision making. The term *dominant* in the table identifies the core objective which gives the orientation its name. *Present* means that the orientation includes that objective but does not use it as the centrally controlling goal in orienting the manager's thoughts about his or her company, its products, or its customers. *Not pertinent* means that objective has no relevance, pertinence, or connection with the orientation described. This table makes it clear that the production, product, and selling orientations are internally driven. Managers

TABLE 1.1. Business Orientations

Characteristic	**Production orientation**	**Product orientation**	**Selling orientation**	**Marketing orientation**	**Societal marketing orientation**
Desire to capitalize on synergies and efficiencies in production process	Dominant	Present	Present	Present	Present
Attention to designing and production of a quality product	Not pertinent	Dominant	Present	Present	Present
Dedicated resources to stimulating interest and desire for product purchase	Not pertinent	Not pertinent	Dominant	Present	Present
Focus on identifying and satisfying needs and wants of customers	Not pertinent	Not pertinent	Not pertinent	Dominant	Present
Consideration of the short- and long-term effects of actions on customers and on society	Not pertinent	Not pertinent	Not pertinent	Not pertinent	Dominant

using such orientations determine what they want to dictate to the market. Only the last two orientations—marketing and societal marketing—contain the elements of an "outside-in," "market-driven," or "customer-oriented" philosophy which stresses discovery of market opportunities, marketplace input regarding the organization's claim of a competitive advantage, and the integration of effort across all aspects of the organization to deliver customer satisfaction. These two orientations reflect the competitive realities facing organizations of all types as a new millennium begins.

The societal marketing orientation is particularly well suited to internal and external environmental forces currently facing managers. It includes all of the positive contributions of the other four philosophies but adds concern for the long-term effects of the organization's actions and products on its customers, as well as the desire to consider the effects of the organization's actions on society at large. In other words, it recognizes the sovereignty of the marketplace and uses as ethical framework both deontological (rights of the individual) and teleological (impact on society) views in the decision-making process. Putting this philosophy into practice requires a planning procedure that transforms the consumer orientation into marketing activities.

The societal marketing orientation believes that the only social and economic justification for the existence of a business enterprise is the satisfaction of customer needs, at a profit, and with due diligence for the long-term welfare of the customer and of society. A firm's existence is justified socially in meeting customer needs—directly through provision of goods and services, and indirectly through being a good citizen of its operating environment. In the U.S. economy, this philosophy is exactly why businesses were given the right by society to own and use resources to produce goods and services. A firm finds economic justification by making a profit. Profit rewards the owners' investment in the organization and assures continued availability of funds. Customer needs become the focus of firms that operate under this philosophy.

Managers adopting the marketing philosophy must continually survey the environment to detect changes in consumer needs or other related variables that warrant altering their marketing activities. Sales revenues, in effect, become votes to help management judge the effectiveness of its efforts in meeting market needs compared to those

of competitors; profits serve to judge the efficiency of management in this attempt.

MARKETING MANAGEMENT IN THE NEW MILLENNIUM

In recent years, marketing management has increasingly focused on four key elements to enhance market share, profits, and efficiency. These elements are quality, value, relationships, and customer satisfaction.

Product Quality and Value-Based Marketing Strategy

One of the most significant trends in recent marketing practice has been the emphasis on *value*—the right combination of product quality, service support, and timely delivery at a reasonable price. This concern with value by customers has forced many firms to reconsider their views of product quality and customer service in order to meet the demands of a global marketplace. For example, consider the differences between the traditional view of product quality and the total quality management (TQM) approach (see Table 1.2). Marketing plans must reflect the emphasis on value demanded by the market with respect to the quality of product and level of customer service.

Firms adopting a societal marketing orientation are interested in understanding how their customers perceive and define quality as well as making sure that their products are fully capable of generating customer satisfaction in both the short- and long-terms. Thus, product quality is not primarily internally determined but is rather centered around customer perceptions and evaluative criteria. The Strategic Planning Institute's procedure for assessing perceived quality may be instructive:[2]

1. A group of managers from different functional areas of the business meet to identify the nonprice attributes of the product or service that influence consumer choice.
2. The group assigns weights to the attributes to reflect the importance each attribute plays in consumer decision making. The weights must sum to 100 percent. This is done on a market segment by market segment basis when the weights differ by consumer segment.

3. A quality score is created for the company's product as well as its major competitors by multiplying the product's rating (determined by the management team) on the attribute by the importance weight and summing for all attributes.
4. The quality score along with other competitive comparison measures (e.g., pricing, share of market) and financial performance measures, i.e., return on investment, return on sales, and internal rate of return (ROI, ROS, IRR, respectively), are validated by comparing them with benchmarked data for similar business.
5. Finally, the team develops budgets and plans for improving quality relative to competition and to marketplace needs and perceptions, and calculates the financial payoff.

Whenever possible, the team's judgments are compared to and modified by information collected from customers.

TABLE 1.2. Traditional versus TQM Views

Traditional view	**Total quality management view**
Productivity and quality are conflicting goals.	Productivity gains are achieved through quality improvements.
Quality is defined as conformance to specifications or standards.	Quality is defined by degree of satisfaction of user needs.
Quality is measured by degree of conformance.	Quality is measured by continuous process/product improvement and user satisfaction.
Quality is achieved through inspection.	Quality is determined by product design and is achieved by effective process controls.
Some defects are allowed if the product meets minimum quality standards.	Defects are prevented through process-control techniques.
Quality is a separate function and focused on evaluating production process and output.	Quality is part of every function in all phases of the product life cycle.
Workers are blamed for poor quality.	Everyone is responsible for quality.
Supplier relationships are short-term and cost oriented.	Supplier relationships are long-term and profit oriented.

Source: Adapted from V. Daniel Hunt, *Quality in America* (Homewood, IL: Business One Irwin, 1992), p. 72.

The key to successful implementation of a quality strategy is teamwork and cooperation. Everyone should see his or her job, whatever the functional area, as a "value-added" role in the delivery of a quality product. Team members must be cognizant of what constitutes quality in the customer's mind, feel that the quality is everyone's responsibility, and be empowered to make decisions which affect the value delivery chain. Keys to successfully achieving world-class quality include the following:[3]

1. Top management must provide unequivocal support for the quality effort.
2. Close contact must be maintained with customers in order to fully understand their needs.
3. To avoid untimely delays, reaction time must be reduced when definitions of quality change over time.
4. People should be empowered to utilize their best talents
5. Reward systems should be assessed and adjusted to recognize efforts that are consistent with quality objectives.
6. The total quality program has to be viewed as an ongoing concern by everyone in the organization.

Service Quality Strategy

Companies have been concerned with delivery of a satisfactory level of customer service for decades, but it is safe to say that the level of concern has increased. Competitive forces and the more demanding nature of customers have combined to put customer service at, or near, the top of most marketers' lists of important issues. Research has revealed five dimensions used by customers to define perceived quality of service (see Table 1.3).

Further research has revealed that while respondents rank all five dimensions toward the "important" end of the scale in defining service quality, when asked, they said that reliability was the most critical. This suggests that firms must accomplish the following tasks with regard to their service strategy:

1. Determine the specific service expectation of the target market.
2. Design a service strategy grounded in meeting or exceeding those expectations.

3. Deliver on those promised service levels consistently when dealing with customers.
4. If steps 1 through 3 are performed better than competitors, a competitive advantage exists in the area of customer service and should be exploited as such.

Improving Customer Perceptions of Service Quality

The most vexing problem for management, given the importance of reliability in defining service quality, is to close any gap that exists between expectations and ultimate delivery of service to customers. However, four service-related gaps should be of concern to marketing planners:[4]

1. *Gap between the customer's expectations and the marketer's perceptions*—Research into what customers are actually thinking is needed. Marketers cannot assume that without such research they know with clarity what those expectations are.

2. *Gap between management perceptions and service quality specifications*—Knowledge of customer expectations is the first link in a chain of steps leading to customer satisfaction with service delivery. Specifications of policies and tasks of service delivery must be developed based on that knowledge and communicated to employees. Employees must understand that their job performance will be based in part or in whole on meeting those specifications.

3. *Gap between service quality specifications and service delivery*—Highly motivated, well-trained, and well-informed employees are needed to actually perform the tasks specified as necessary for delivery of quality service. Control systems that are capable of measuring any gap between desired and actual service delivery should be in place to indicate where excellence or shortfalls are occurring.

4. *Gap between service delivery and external communications*—Excellent delivery of service specifications can still disappoint customers if marketers have caused those customers to have unrealistically high expectations of service. For example, promotional photos that suggest the accommodations at a resort are more spacious or luxurious than they really are will likely raise expectations higher than can be delivered, resulting in disappointed customers.

Product quality and customer service decisions should be the cornerstone of product decisions in the marketing plan.

TABLE 1.3. Dimensions of Service Quality

Dimension	Components
Tangibles	Physical appearance of facilities, equipment, personnel, and communications materials
Reliability	Dependability and accuracy of promised service
Responsiveness	Willingness of providers to help customers and give prompt service
Assurance	Employees' knowledge, courtesy, and ability to convey trust and confidence
Empathy	Providing care and individualized attention

Source: Adapted from Valarie A. Zeithaml, A. Parasuraman, and Leonard L. Berry, *Delivering Quality Service: Balancing Customer Perceptions and Expectations* (New York: Free Press, 1990), p. 26.

Relationships

Another key element of effective marketing is relationship management. The word *relationship* means connection or closeness, and marketers must develop relationships with suppliers, intermediaries, other colleagues, and customers. The focus of relationship management is on building and maintaining long-term relationships with all the parties that contribute to the success of the organization.

The power of strong relationships can be seen in moves made by General Motors to revitalize and update their dealerships. GM has been slowly trying to remake its distribution system, including relocating dealerships to reflect shifts in population and merge dealerships from 9,500 to 7,000.

This $1 billion dollar project has already shown signs of paying off. In Bergen County, New Jersey, sales rose 42 percent after half of the dealerships were upgraded or moved. In addition to new and larger dealerships, consumer amenities such as playrooms for children and Internet access are available in some waiting rooms.

Not all dealers are happy with the changes, however. A move or merger that helps one dealer may hurt another, and this could result in broken relationships, i.e., lawsuits. Most industry experts feel that this is a move they must make to catch up to what other automakers have already done.[5]

Customer Satisfaction

An organizational emphasis on quality should result in increased customer satisfaction. Customer satisfaction is the result of a company's ability to meet or exceed the expectations of the buyer. Increased customer satisfaction results in retention of existing customers. Since it is cheaper for a company to retain an existing customer than attract a new one, customer satisfaction becomes a focal point for maintaining sales and improving profitability.

Organizations who want to improve customer satisfaction must implement systems to, first, measure current levels of satisfaction against established customer satisfaction goals, and, second, develop action plans to alter operations if goals are not being met. For example, a bank may have a goal that customers should wait no more than five minutes before accessing a teller for a transaction. Studying waiting times within the bank and at drive-through operations could provide measures of the bank's performance. If the goal is not being met, the bank might implement changes to reduce waiting time such as increasing the number of open teller windows, changing operating hours, or improving ATM accessibility. The overall process used to improve customer satisfaction is shown in the following list:

1. Determine relevant attributes and characteristics of customer satisfaction based on consumers' perspectives.
2. Establish customer satisfaction goals for each of these attributes.
3. Develop the measurement processes to assess performances on each of the attributes.
4. Analyze differences in goals and performance to determine where improvements need to be made.
5. Develop and implement an action plan to bring performance into alignment with goals.

Developing and implementing such a process leads to *continuous quality improvements* (CQI). This means the organization is always in the process of analyzing and implementing policies and procedures to improve service quality and customer satisfaction. Meeting these challenges in the new millennium requires effective marketing management processes.

THE EFFECTIVE MARKETING MANAGEMENT PROCESS

Effectively undertaking the marketing management process involves steps that are easy to describe but considerably more difficult to perform. The challenges of hypercompetitive markets and the demands of successfully addressing the four key elements of quality, value, relationships, and customer satisfaction can be daunting to marketing managers. However, experience has shown that effective marketing managers should follow the steps of the model shown in Figure 1.1. The remainder of this chapter briefly discusses the steps of the process; the remainder of the book discusses the steps in detail.

Societal Marketing Orientation

The process begins with the recognition that effective marketing management is driven by a distinctive orientation of the marketing manager toward the customers, the company, and the company's products. Although this orientation can take several forms (see Table 1.1), *effective* marketing managers will more often than not adopt a societal marketing orientation as a guiding philosophy. In fact, studies have shown a strong correlation between marketing orientation and profitability.[6] Companies without an authentic marketing orientation are more likely to have: an unfocused competitive position; a "me-too" approach to delivering customer value; excessive customer

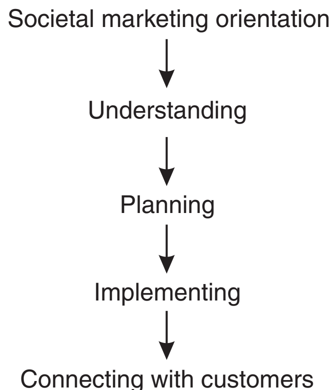

FIGURE 1.1. The Effective Marketing Management Process

turnover; market-share instability; a high cost of customer retention and acquisition; sporadic business unit profits and stagnant shareholder value; and managers under constant pressure to generate short-run results.[7] One can easily see why companies would want to become marketing oriented. However, committing to a societal marketing orientation is not a trivial undertaking. For many companies it means making a major philosophical shift in their thinking throughout the organization—not just among marketing managers. In fact, three fundamental forces drive the degree to which an organization actually does adopt a marketing orientation:[8]

Marketing knowledge—The extent to which managers and employees throughout the organization have been educated in marketing thought. For example, the Walt Disney Company requires all new employees to take a four-day course in how to treat customers, even if they are hired to sweep the streets at Disney World.

Marketing leadership—Being marketing oriented begins at the top of an organization. If senior management merely gives lip service to a marketing orientation, but manages with a product orientation, for example, it will be next to impossible for a true marketing orientation to flourish in that company.

Employee satisfaction—Employers cannot expect employees who are ill-treated to go to heroic lengths to satisfy customers (top management speeches on customer service to the contrary). Sears, for example, found a high correlation between employee job satisfaction, customer satisfaction, and store profitability.[9]

Practicing a marketing orientation demands a restructuring of what is considered most important in the organization's operations and changing how things are done. One of the most obvious pieces of evidence that an organization has adopted a marketing orientation is the emphasis managers place on the next step in the process.

Understanding

Organizations practicing a societal marketing orientation "determine the needs, wants, and interests of target markets and . . . deliver

the desired satisfactions more effectively and efficiently than competitors in a way that preserves or enhances the consumer's and society's well-being."[10] Therefore, organizations guided by this philosophy make it a high priority to *understand* before they develop and implement plans. They understand the market, their competition, and the financial consequences of different marketing programs before settling on a planned course of action.

At the heart of the marketing manager's role in an organization is analysis of the firm's operating environment. The manager must understand the forces that influence the actions that can be taken by an individual firm. This is accomplished through research and analysis. The marketing research function is at the core of marketing analysis. Marketing research includes procedures and techniques involved in the design, data collection, analysis, and presentation of information used in making marketing decisions. The purpose of marketing research is to reduce uncertainty or potential error in decision making. The degree of uncertainty surrounding a decision, the importance of the decision, and the amount of uncertainty the information will reduce give information value.

Two basic types of data can be used in decision making: secondary and primary. *Secondary data* have been collected for another purpose and already exist. *Primary data* are collected for a specific purpose or research project and are used if no appropriate secondary data exist.

Some organizations have focused attention on creating marketing information systems (MIS) that provide a continuous flow of information to managers. Marketing research projects, the company's internal system of reports on sales, orders, receivables, etc., environmental input, and computerized decision-support systems can help in decision making. The marketing information system can provide insights on market segmentation, customer profiles and relationships, and products to assist in obtaining additional profit from a company's existing base of customers. A company's marketing database can provide timely, comprehensive information about current or prospective customers in order to maintain closer customer relationships and increased sales. Desktop marketing communication systems allow companies to communicate through microcomputer-based publishing. Database marketing research was designed to facilitate marketing functions such as direct mail, telemarketing, cross selling, and target-marketing research.

The understanding of such research and information processes is intended to include an understanding of market segments, competition, and the financial implications of management decisions.

Market Segment Analysis

A firm needs to identify the most attractive market segments that it can serve effectively. Instead of trying to be all things to all people, marketers must identify broad classes of buyers who differ in their product requirements and/or marketing responses and develop marketing mixes aimed at these buyers. This involves market segmentation and target marketing.

Consumer and organizational markets can be segmented in many different ways. When segmenting consumer markets three approaches are used:

1. Research-based segmentation
2. Existing segmentation services
3. Managerial judgment

Once segments have been identified, distinct marketing mixes can then be used to target different markets. All market segments are not equally attractive.

Target marketing involves evaluating the market segments, selecting appropriate segments, and positioning. When evaluating segments the marketer must consider size and growth patterns, attractiveness, competition for each segment, and potential profitability of the markets. After evaluating the different options, a company must decide which segments, if any, to select for targeting its marketing effort. The final step involves positioning. Product positioning is the act of designing the company's offering to attract customers in the chosen segment.

Competitive Analysis

Understanding competitors is crucial to effective marketing. A company must compare its products, prices, distribution, and promotion with those of close competitors to discern areas of potential com-

petitive advantage and disadvantage. A company should take five steps in analyzing its competitors.

First, a company should identify its competitors. A competitor can be a company that offers similar products and services, makes the same product or class of products, manufactures products that supply the same service (i.e., addresses the same need), and/or competes for the same customer dollars (i.e., addresses the same customer need).

Competitors can be identified from industry and market points of view. An industry is a group of firms offering products that are close substitutes for one another. Industry performance is based on industry conduct, which is influenced by industry structure. The market approach to competitor identification deals with companies that are trying to serve the same customer group. The key to identifying competitors is to link industry and market analysis to products used to satisfy customer needs by segment.

Second, a company should identify competitor strategies. The more a firm's strategy resembles another firm's strategy, the more closely they compete.

Third, a company must determine competitor objectives. Knowing competitor objectives allows a company to know whether the competitor is satisfied with its current financial results and how it might react to certain types of competitive attacks.

Fourth, a company needs to assess competitor strengths and weaknesses. This involves analyzing competitor sales, market share, profit margin, return on investment, cash flow, new investments, and capacity utilization.

Finally, a company should try to determine competitor reaction patterns. Some industries are characterized by little direct competition; others experience fierce competition.

Information about a company's competitors must be collected and disseminated within the firm. The company must design an intelligence system to constantly analyze competitors and provide information to managers who use the information as an input to planning.

Financial Analysis

Marketing managers must also understand the financial impact of different marketing decisions intended to put the societal marketing orientation into practice. Financial analysis of marketing programs

covers three different facets: revenue, cost, and profitability. One way to combine these three elements is to use a pro forma income statement, which is a projected statement for a specific time period using estimates of revenues and costs. It provides an estimate of future cash flows by a given market segment which can be discounted to determine the present value of the cash flows and the return on investment.

Revenue analysis involves trying to determine how many consumers will buy a product or service offering. For established markets, anticipated market share can be estimated and converted to a unit quantity and dollar amount. This is the sales revenue expected in a given time period. The key to obtaining an accurate estimate is careful judgment based on an analysis of your own offering versus competitive offerings. Competitive strengths and weaknesses in the market will be reflected in this basic estimate.

Cost analysis must be based on dependable estimates and a clear understanding of the different cost categories: period, product, fixed, variable and semivariable, direct and indirect, controllable, sunk, differential, and opportunity.

A company's historical records can provide much of the cost data needed for this analysis. Many other resources can provide information to form the basis of a reliable cost forecast. For example, trade publications, time studies, experiments, pilot plant or process activities, historical cost data, and interviews are all reliable data sources.

Risk analysis is the process used to identify and assign a degree of likelihood to changes in important variables that may be essential in determining the feasibility of a project or venture. Risk analysis includes the process of cost forecasting and forecasting procedures. The process of cost forecasting includes establishing a forecasting checklist and a project cost summary. Forecasting procedures include judgment techniques, survey techniques, historical data techniques, trend analysis, multiple regression, and percent of sales.

Profitability analysis defines the exact nature of an opportunity. One of the major objectives of all the time, energy, and resources used for a project is to generate a "good" profit. Two basic types of profitability analysis may be conducted: *return on investment,* which is how much the investment returns on an annual basis; and *financial analysis and capital budgeting,* which consists of the process of selecting among alternative investments in land, buildings, productive equipment, or other assets on the basis of future gain.

Many methods are available to evaluate investment alternatives prior to making the capital budgeting decision. They can be divided into two categories, nontime methods and time-value methods. Nontime methods include payback period (how long it will take for the investment to pay for itself); simple return on investment (the desirability of an investment in terms of a percentage return); and average return on investment (the measure of the estimated profitability of an investment).

Planning

Classes in marketing planning or strategy are required course work for aspiring marketing managers at accredited business schools. Likewise, books and seminars intended to aid practitioners in the development of marketing plans are very popular. This is because development of a well-grounded marketing plan is believed by most successful practitioners and theorists to be a prerequisite for success in today's hypercompetitive global marketplace. Although most marketers acknowledge the importance of effective planning, the model in Figure 1.1 indicates that this is the third stage of the process, not the first. Furthermore, such an orientation requires that the understanding about the marketplace must have a direct material influence on the content of those plans. Without the commitment to implementing the prior steps in the model, it becomes very easy to become so embroiled in the planning process that the voice of the market can become drowned out by all the "good creative ideas" spontaneously emerging during the process. Although not all ideas must have marketplace studies as their genesis, good ideas owe their "goodness" to the fact that they will ultimately help the company connect with the market, which reinforces the need for both accurate understanding and effective planning.

Marketing planning is conducted at two levels: the strategic level and the operating level.

Strategic Planning

Strategic planning is the responsibility of top management. Operational marketing plans are the direct responsibility of all marketing managers and involve short-term actions that help achieve long-term objectives.

Because strategic decisions have a long-term impact on the organization, strategic management is needed. Strategic management involves a three-step process. Step one defines the corporate purpose or mission with a written statement which spells out the uniqueness that has led to the creation of the business.

The second step is to develop a set of corporate objectives. An objective is a statement of what is to be accomplished by an organization. Three basic objectives are (1) to engage in a business activity that is economically and socially useful, (2) to maintain and survive as a business entity, and (3) to grow in size of operation.

The third step is to determine the overall corporate strategies which will be used to accomplish objectives. The organization tries to match its capabilities and skills with the key requirements of the market in order to take advantage of an existing opportunity. Designing strategies involves identifying options, assessing these options, and selecting the most appropriate strategy or strategies.

Several techniques are available for more effective planning of strategic business units (SBUs). For example, a matrix developed by the Boston Consulting Group classifies SBUs on the basis of their relative market share and growth potential and offers guidance in assigning resources to each unit. General Electric pioneered a more comprehensive matrix based on long-term market or industry attractiveness and the business strength or competitive position of each SBU. The GE matrix provides nine cells and three zones by which SBUs may be classified leading to appropriate marketing decisions for the portfolios based on each unit's status or ranking.

Operational Marketing Plans

The operational marketing plan contains the overall strategic approaches to marketing within an SBU. It is derived from the corporate strategic plan. Several steps are involved in preparing an operational marketing plan. First, a detailed analysis of the SBU's situation should be done. This includes the product-market definition, customer analysis, key competitor analysis, environmental analysis, and marketing strategy assessment.

Second, management should indicate objectives for each market target. Firms also need various operating objectives to provide performance guidelines for each marketing mix component.

Third is the development of the marketing strategy. This involves deciding on the specific way to combine the marketing variables to satisfy the needs of market targets and accomplish the objectives of the organization. The selection of a marketing strategy moves the planning process to preparation of the actual plan and its supporting sales forecast and budget. Preparing the plan involves selecting the planning cycle and frequency, deciding the nature and use of the annual plan, choosing a format for the plan, and forecasting revenues and estimating expenses. To satisfy customer needs, marketers must develop a marketing strategy consisting of a combination of marketing variables called the marketing mix. The marketing mix is the set of controllable variables generally referred to as the four "Ps" of marketing—product, place, price, and promotion.

As shown in Figure 1.2, marketing mix decisions are made with a particular market segment in mind. Marketing effort is targeted at the selected segments by blending the elements into a cohesive strategy aimed at satisfying those specific segments. Organizations targeting several segments must develop an overall marketing program that includes all of its marketing activities.

Implementing

A good plan with great implementation is better than a great plan with only good implementation. Putting well-conceived plans into effect is one of the most demanding aspects of marketing management. No customer is satisfied, no contribution is made to the betterment of society, and no organization makes a profit by *developing* a plan. It is only when the well-conceived plan is *implemented* that all these objectives are possible. However, there is a huge difference between just doing something and doing the right things well. Implementation consists of putting into practice those strategies developed from an understanding of the market. That understanding occurs because the philosophy makes its achievement mandatory.

Implementation involves organizing the marketing effort, selecting the right personnel, and creating a culture of teamwork and achievement.

In organizing the marketing department, four basic dimensions of marketing activity must be accommodated: functions, geographic areas, products, and customer markets. The most common form of mar-

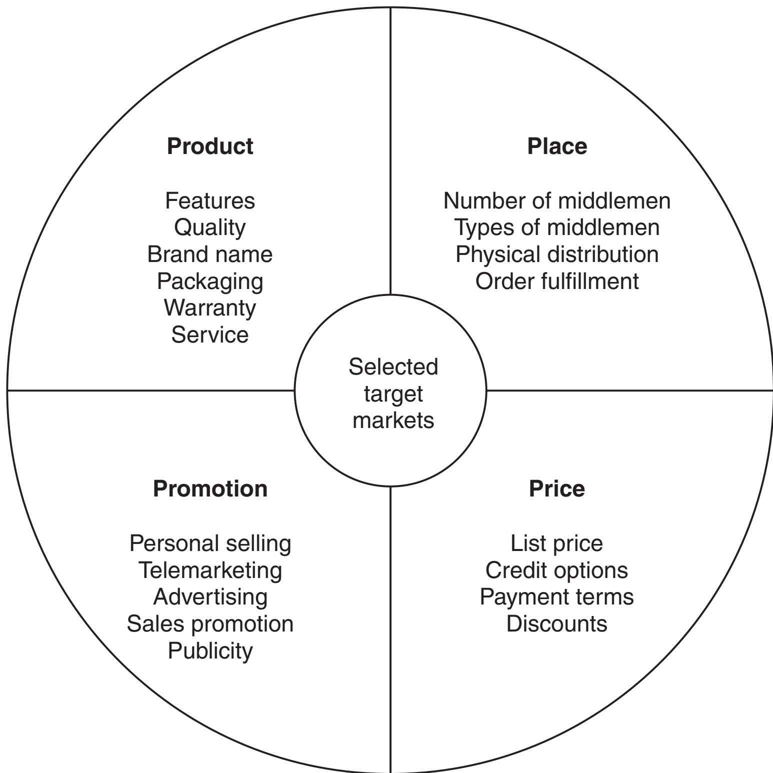

FIGURE 1.2. The Marketing Mix Components

keting organization is a functional approach. The main advantage is its administrative simplicity. A company may organize along geographic lines such as setting up its sales force by region when it is selling in a national market. Companies producing a variety of products and/or brands often establish a product or brand management organization. In order to make the product management system work better, a company can use a five-step approach, or it can switch from a product manager to a product team approach, with vertical, triangular, or horizontal product teams. A market management organization sells products to a diverse set of markets. Companies that produce many products flowing into many markets can use a product-management or a market-management system.

Marketing implementation is the process that turns marketing plans into action assignments and ensures that such assignments are executed in a manner that accomplishes the plans' stated objectives. Four areas that can influence the effective implementation of marketing programs are (1) skills in recognizing and diagnosing a problem, (2) assessing the company level where the problem exists, (3) implementing plans, and (4) evaluating implementation results.

Connecting with Customers

Although there is no guarantee that success is the inevitable result of following the steps of the model in Figure 1.1—and some organizations can be successful without following it—those that follow it are more likely to be successful:

> Winning organizations do an exceptional job of connecting with customers. . . . Every time satisfaction occurs, a new connection is made or an existing connection is made stronger.
>
> Marketing is about . . . connecting with customers in ways that are deeply rewarding for them. Marketing is also about serving the needs of society and accomplishing the goals of the organization. It includes researching potential customers' needs and wants; developing appropriate goods and services; communicating with the market; creating, selecting, and managing channels to reach customers; and pricing to deliver superior customer value. It is about satisfying customers so they will reward the business with the loyalty necessary to reach organizational objectives.[11]

Connecting does not happen by chance; it is the end result of a series of complex activities in which marketers engage because they are committed to a philosophy that highly values that connection and its salubrious impact on society.

Marketers are responsible not only for ensuring that the organization successfully connects with its target markets but also for determining *how well* the organization has connected. This involves evaluation and control of marketing activities.

The marketing department must engage in continuous monitoring and control of marketing activities. Despite the need for effective control, many companies have inadequate procedures. Marketing eval-

uation and control are needed in three areas: sales, costs, and profitability. The overall effectiveness of the marketing function can also be evaluated through a marketing audit.

By using sales analysis, market-share analysis, marketing expense-to-sales analysis, and financial analysis, management can do a performance diagnosis and then take corrective action to close any gaps between its goals and performance.

Companies must measure the profitability of their various products, territories, customer groups, trade channels, and order sizes to help management determine whether any products or marketing activities should be expanded, reduced, or eliminated. Firms should attempt to develop profit-and-loss statements by products, territories, etc. Then the best corrective action can be evaluated.

Companies should periodically review their overall marketing effectiveness with a marketing audit. A marketing audit is a comprehensive, systematic review of a firm's marketing environment, objectives, strategies, and activities with a goal of determining problem areas and opportunities and recommending a plan of action to improve the company's marketing performance.

An expanded version of the effective marketing management process model appears in Figure 1.3 with corresponding chapters and topics.

THE ENVIRONMENT OF MARKETING DECISIONS

Marketing decisions are made within a specific operating environment influenced by several factors. These factors can be divided into two groups: internal and external. The internal factors include the resources and objectives of the organization, organization purpose and strategy, and values of top management. The external environmental factors include social and cultural climate; the economic competition; the state of technology that affects its products and services; political/legal climate; and demographics. Some of the potential inputs of these external factors on marketing decisions are shown in Table 1.4.

The sociocultural environment of the organization is made up of the cultural and social structure of the countries where the organization markets its products. These influences include social institutions,

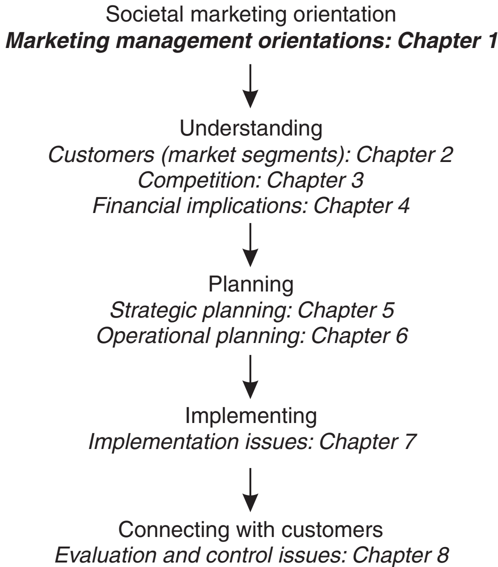

FIGURE 1.3. The Effective Marketing Management Process

values, beliefs, and behaviors. Marketers must study these elements of the environment when developing marketing strategy.

The demographic environment is comprised of the size, distribution, and composition of people and organizations. Market growth, movement, buying behavior, and delineation by age, sex, education, marital status, and occupation must be studied and reflected in the choice of market segments and marketing strategy.

Technology affects marketing programs in three important ways: research and development (R&D) to develop new products, R&D to improve the designing and manufacturing processes, and the development of new means for performing the marketing functions themselves.

The economic environment consists of the changing patterns of government, industrial, and consumer expenditures, income and savings, and investment levels. These patterns are determined by level of personal incomes, consumption expenditures, changes in levels of personal savings, inflation, prosperity and recession, and interest rates. The competitive environment consists of the number, nature, and strategies of competitors and their actions and reactions. All these must be analyzed to determine their effect on marketing programs.

TABLE 1.4. External Environmental Influences on Marketing Decisions

Environmental factor	Marketing areas affected	Examples
Sociocultural	Consumer behavior—products and services consumed, collection and use of information, values, and ideas or product/services	Health consciousness, environmental awareness, use of language and symbols
Demographic	Target market—size, income, location, expenditure patterns, decision makers	Growth in the Sunbelt states, higher median age, graying of America, higher median incomes
Economic/competitive	Consumer behavior and marketing strategy—employment, inflation, industry growth or decline, new competitors, markets sought, marketing mix changes	Increased expenditures on leisure activities, high consumer confidence, new forms of competition
Technological	Consumer behavior and marketing strategy—acquisition and use of information by consumers, changes in marketing mix variables	Development of database marketing, Internet marketing, and electronic banking
Political/legal	Marketing strategy and specific variables—price changes, labeling, product testing, promotional techniques, marketing, etc.	Bans on tobacco advertising and antismoking campaigns, nutrition labeling of products, and control on Internet marketing

The political and legal environment affects marketing in a variety of ways. The legal environment consists of laws and regulations that affect the operations of firms. Laws and regulations govern product safety, warranties of products and services, pricing of products and services, the granting of credit, advertising and promotion, and distribution of products.

GLOBAL ORIENTATIONS TO MARKETING DECISIONS

Globalization of business activities has caused a change in market decisions. Marketing managers must learn to think and act in a world that is continually being connected through product and information

flows. The importance of global markets to some U.S. firms can be seen in Table 1.5. This table shows that many U.S. companies derive a significant share of their revenues from foreign markets. As international markets account for larger and larger shares of many organizations, marketers must learn to adapt their strategies to compete effectively.

The external environment must be thoroughly researched to ensure that effective strategies used in one country are appropriate for other countries. Product designs, promotional appeals, distribution strategies, and pricing strategies may require considerable adjustment prior to entry into the international market.

For example, a Wendy's restaurant in the Orient may add local products such as noodles or rice to its menu to satisfy consumers. Failing to do so may result in a loss of business because it does not reflect the local culture and its values.

TABLE 1.5. Percent of Total Revenues from Foreign Sales for Selected Companies in 2002

Company	Total sales from foreign markets (%)
Compaq Computers	71.5
GE	69.7
Xerox	66.0
Coca-Cola	59.3
Lucent Technologies	59.3
IBM	56.9
American International Group	50.1
Hewlett-Packard	49.4
Intel	49.9
Motorola	47.3
United Technologies	47.2
Procter & Gamble	45.9
Johnson & Johnson	41.5

Source: Company data.

ETHICAL ORIENTATION TO MARKETING DECISIONS

In recent years, increasing attention has been focused on creating an organizational environment with a high concern for ethics. Ethics are principles of right or good conduct, or a body of such principles. Ethical issues in marketing can be categorized in one of two areas: individual-marketing-decision-related and collective-marketing-decision-related issues. Some individual marketing decisions may lead to unethical practices, although they may help the company. Collective marketing decisions may result in no ethical infraction in and of themselves. However, they may contribute to problems in combination with similar decisions over time or by other marketers such as the environmental impact of packaging.

The American Marketing Association (AMA) has led in the development of ethical standards of behavior among its members through the use of a code of ethics. Not only are general areas covered, such as honesty and fairness, but specific attention is devoted to the marketing mix variables.

The growth and the impact of the Internet on marketing activities have prompted the AMA's development of a code of ethics dealing specifically with this marketing tool. The code focuses on privacy, ownership, and access to infrastructure. These are the key areas of concern for ethical standards of conducting marketing or marketing research on the Internet. Both of the AMA Codes of Ethics may be found at <http://www.marketingpower.com>.

E-COMMERCE AND MARKETING PRINCIPLES

Conventional wisdom might suggest that the advent and growth of e-commerce or Internet marketing has altered the rules of the marketing game. Although successful use of the Net has been a challenge to all types of marketers, marketing principles have not been fundamentally altered as a result. Marketers are still trying to factor the use of the Internet into marketing programs and their marketing mix (e.g., product, price, promotion, and channel of distribution decisions), and efforts to integrate the Internet into marketing planning come with their own set of unique challenges and opportunities. However, marketing management principles are flexible enough to accommodate

something as radically influential as e-commerce without losing their basic validity. For example, marketing management tasks consist of understanding, planning, implementing, connecting, and control; effective marketing management focuses on quality, value, relationships, and customer satisfaction. These are enduring principles that remain unchanged by the growing importance of the Internet. Rather, modern marketing management must find ways to creatively merge the use of the Internet with marketing strategies grounded in an understanding of consumer behavior, marketplace dynamics, and environmental influences. This book focuses on modern marketing processes that provide a foundation for future marketing managers. As with all learning, an individual's success will ultimately depend upon how well he or she can apply knowledge.

SUMMARY

The effective marketing management process is simple to describe but considerably more difficult to perform. A focus on quality, value, relationships, and customer satisfaction in the new millennium has resulted in a highly competitive marketplace. More than ever, marketing managers must effectively execute the stages of the marketing management process if organizations are to connect with customers. The environment, global concerns, and a need to practice ethical marketing provide the backdrop for this process. Chapter 2 begins the three-chapter sequence of *understanding* the market, competition, and financial implications—the first steps that marketing-oriented managers take in their efforts to ultimately connect with customers.