

MARKETING ^{2e} MANAGEMENT

Greg W. Marshall / Mark W. Johnston



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Marketing Management

Second Edition

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Greg W. Marshall
ROLLINS COLLEGE

Mark W. Johnston
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MARKETING MANAGEMENT, SECOND EDITION

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To Patti and Justin

-Greg

To Susan, my love, and Grace, my joy, thank you

-Mark

ABOUT THE AUTHORS

Greg W. Marshall

Greg W. Marshall is the Charles Harwood Professor of Marketing and Strategy in the Roy E. Crummer Graduate School of Business at Rollins College in Winter Park, Florida, and is also the academic director of the Executive DBA program there. For three years he served as vice president for Strategic Marketing for Rollins. He earned his PhD in Business Administration from Oklahoma State University, taking a marketing major and management minor, and holds a BSBA in marketing and an MBA from the University of Tulsa. Before joining Rollins, Greg was on the faculty at the University of South Florida, Texas Christian University, and Oklahoma State University. He currently also holds an appointment as professor of Marketing and Strategy at Aston Business School in Birmingham, United Kingdom.

Prior to returning to school for his doctorate, Greg's managerial industry experience included 13 years in consumer packaged goods and retailing with companies such as Warner Lambert, Mennen, and Target Corporation. He also has considerable experience as a consultant and trainer for a variety of organizations and has been heavily involved in teaching Marketing Management at multiple universities to both MBA and undergraduate students.

Greg is editor of the *Journal of Marketing Theory and Practice* and from 2002–2005 was editor of the *Journal of Personal Selling & Sales Management*. His published research focuses on the areas of decision making by marketing managers, intraorganizational relationships, and sales force performance. He is past president of the American Marketing Association Academic Division and also was a founder and served for five years on its Strategic Planning Group. He is a Distinguished Fellow and past president of the Academy of Marketing Science and is a Fellow and past president of the Society for Marketing Advances.

Mark W. Johnston

Mark W. Johnston is the Alan and Sandra Gerry Professor of Marketing and Ethics in the Roy E. Crummer Graduate School of Business at Rollins College in Winter Park, Florida. He earned his PhD from Texas A&M University and holds a BBA and an MB from Western

Illinois University. Before joining Rollins, Mark was on the faculty at Louisiana State University. Prior to his academic career, he worked in industry as a sales representative for a leading distributor of photographic equipment. His research has been published in a number of professional journals including *Journal of Marketing Research*, *Journal of Applied Psychology*, *Journal of Business Ethics*, *Journal of Marketing Education*, *Journal of Personal Selling & Sales Management*, and many others.

Mark has been retained as a consultant for firms in a number of industries including personal health care, chemical, transportation, hospitality, and telecommunications. He has consulted on a wide range of issues involving strategic business development, sales force structure and performance, international market opportunities, and ethical decision making. Mark also works with MBA students on consulting projects around the world for companies such as Tupperware, Disney, and Johnson & Johnson. He has conducted seminars globally on a range of topics including the strategic role of selling in the organization, developing an ethical framework for decision making, improving business unit performance, and structuring an effective international marketing department.

For more than two decades Mark has taught Marketing Management, working with thousands of students. His hands-on, real-world approach has earned him a number of teaching awards.



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INTRODUCTION

No doubt about it, the field of marketing is *really changing*. The changes in the practice of marketing management are dramatic and important, and call attention to a number of organizational issues in today's business milieu that differ from the past. In general, marketing management today is:

- Very strategic—customer centricity is now a core *organizational* value.
- Heavily enabled by technology and data.
- Focused on facilitating *value* for the customer.
- Concerned with internal alignment of people, processes, systems, and strategies to effectively compete through a customer focus.
- Accountable to top management through diligent attention to metrics and measurement.
- Oriented toward service as the driver of product.
- Focused on a long-term customer relationship-centered understanding of the need to develop deep commitments from current profitable customers while also cultivating new ones.
- “Owned” by everybody in the firm, to one degree or another.
- Critically committed to exhibiting the utmost ethical behavior in all dealings.

In contrast, marketing management in the past has been:

- Much less strategic in nature.
- Very 4Ps oriented—more tactical.
- Less relationship-centered, thus focused on shorter time horizon decision making.
- Less focused on the ability to consistently deliver value for the customer.
- Oriented toward product as the core deliverable.
- Done by marketing *departments*.
- Much less accountable to upper management in terms of measurement of marketing success.

WHY WE WROTE THIS BOOK

Given the dramatic changes in the field of marketing, it is a sure bet that the job of leading and managing marketing's contributions to the organization and its customers, clients, partners, and society at large has changed at a concurrent level. Yet, the typical marketing management book on the market today does not effectively capture and communicate to students how marketing management is really practiced in the 21st century world of business. Clearly, it is time for an updated approach to teaching and learning within the field. This book is designed to fulfill that need.

We hear it from colleagues all the time—the complaint that the book they are using in their marketing management course “doesn't say what I believe the students need to hear” or that it “is too simplistic—like a marketing principles book” or that it “doesn't match what my MBAs actually do on the job” or that it “reads like an encyclopedia of marketing” or that it “has too much about everything and not enough focus on anything.” During the development process for this book,

we heard comments like these and others from hundreds of colleagues in focus groups, in written reviewer comments, and in numerous conversations around the world about the course. As a result, we became convinced that such comments truly are pervasive among instructors who teach marketing management, whether as the introductory MBA course, capstone undergraduate course, or first focal course after the undergraduate marketing principles course. Many marketing management instructors are looking for a book that is:

- Written for today's students in an up-to-date, user-friendly, yet professional and thorough style.
- Able to strike an effective balance between presenting the new world order of marketing at the strategic, operational, and tactical levels.
- A step up from the previous norm in terms of support materials for the classroom.

Marshall/Johnston's *Marketing Management, 2e* has taken great effort to represent marketing management the way it is actually practiced in successful organizations today. In our view, leading and managing the aspects of marketing to improve individual, unit, and organizational performance—**marketing management**—is a *core business activity*. Its relevance is not limited to just marketing departments or marketing majors. And business students of all backgrounds should appreciate the impact of effective marketing management on their own professional careers as well on as the overall success of their organizations. Bottom line, the ability to do great marketing management is relevant to *everyone in a firm*.

The content of the book reflects the major trends in the managerial practice of marketing, and the pedagogy is crafted around *learning and teaching preferences in today's classroom*. Above all, it is written in a style that is appealing for both students and instructors so that students will actually enjoy reading the material and instructors will be proud to teach from it and confident about presenting its up-to-date, professional, and thorough approach to their courses.

STRUCTURE OF THE BOOK

Marshall/Johnston's *Marketing Management, 2e* has six major parts, reflective of the logical sequence of building blocks for the course.

- **Part One: Discover Marketing Management.** In this part, students gain an understanding of the dynamics of the field. Significant attention is paid to framing the importance of studying marketing to future success as a manager. To kick off the marketing planning theme early in the course, Part One includes comprehensive coverage of this aspect along with an example marketing plan.
- **Part Two: Use Information to Drive Marketing Decisions.** It has often been said that information is the fuel that fires the engine of marketing management decision making. With this in mind, Part Two focuses on effective management of information to better understand customers, both in the consumer and business marketplaces. Effective segmentation, target marketing, and positioning are at the core of successful marketing and this part provides a modern managerial treatment of these critical topics, including connecting CRM capabilities with other relevant competencies and capabilities of successful marketers.
- **Part Three: Develop the Value Offering—The Product Experience.** This “product suite” of chapters presents a coherent and comprehensive drill-down into today's world of product strategy, branding, and new-product development. Reflective of the notion that service is a key driver of product success, we devote a separate chapter to making important links between service and the overall offering.

- **Part Four: Price and Deliver the Value Offering.** Part Four begins with a fresh, managerially relevant treatment of pricing decision making followed by an integrative approach to the multitude of modes at a manager's disposal today by which an offering can be made available to customers through channels and points of interface.
- **Part Five: Communicate the Value Offering through the Elements of Integrated Marketing Communications.** With the rise of social media and the dramatic changes in the deployment of marketing communications, this new "marketing communications suite" of chapters has been created for *Marketing Management, 2e* to best feature the array of new-age and traditional marketing communication vehicles available to managers.
- **Part Six: Bring It All Together—Global and Performance Dimensions.** Global marketplace issues are presented based on the idea that today, truly *all marketing is global*. The final chapter in the book is unique in marketing management books, in that it is the first of its kind to focus on comprehensive approaches to selecting and executing marketing metrics for decision making. As such, it is useful as a resource chapter for numerous other topics in the course including the development of a marketing plan.

KEY FEATURES OF THE BOOK

ETHICAL DIMENSION 3

The Source of the Click

Internet ad spending is currently \$100 billion and is projected to reach more than \$160 billion by 2016. The pay structure has evolved along two distinct lines. About half of all Internet ads are priced based on the number of people viewing the ad, similar to traditional television advertising. The other model for Internet advertising charges by the click. If someone views an ad and then chooses to click on the ad through to the advertiser, the advertiser pays a fee ranging from a few pennies to \$20. A critical assumption in the click's legitimacy: It is supposed to represent someone actively seeking information from the advertiser's site.

Two companies control the vast majority of Internet ad placements—Yahoo and Google. While Google and Yahoo generate most of their revenue on legitimate websites, they also send ads to affiliated sites, known as "domain parking websites," which are basically advertising sites with very little content. Publicly they state these sites provide a useful service by directing Internet surfers to relevant information. However, companies are starting to express concern that some of these sites may actually be generating illegitimate clicks, clicks by individuals (or other computers) who are not legitimate potential customers.

Click fraud, estimated at more than \$1 billion, has become a big issue for many Internet advertisers. Websites with names such as "insurance1472.com" are dummy sites located primarily in Asia and Eastern Europe

that generate false clicks. The process works like this. First, ABC Company contracts with Google or Yahoo to advertise on the Internet and negotiates the fee ABC will pay for each click from an ABC ad to the company website. Second, Google or Yahoo displays the ad on legitimate websites but also sends the ad to domain parking websites that are often just lists of ads. Fourth, the owner of the parked website sends out a list of sites to individuals known collectively as "paid-to-click groups." These individuals' role is to click on ads for which they receive a small payment. Finally, Google or Yahoo charges ABC Company for the click, then shares part of the revenue with the domain parking website, which shares it with the other participants in the fraud.

Adding to the position of Google when click fraud is rampant is the fact that, however, both of them with advertisers their business model is to generate illegitimate clicks, clicks by individuals (or other computers) who are not legitimate potential customers.

Ethical Perspectives

1. Advertisers advertising number of clicks is not accurate
2. Google and Yahoo with click fraud significant

At the broadest conceptual level, members of society at large can be viewed as a stakeholder for marketing, a concept called **societal marketing**. As one example, the concept of environmentally friendly marketing, or **green marketing**, has been a growing trend in socially responsible companies. Today the movement has evolved into a part of the philosophical and strategic core of many firms under the label **sustainability**, which refers to business practices that meet humanity's needs without harming future generations.¹¹ Sustainability practices have helped socially responsible organizations incorporate *doing well by doing good* into their overarching business models so that both the success of the firm and the success of society at large are sustained over the long term. Ethical Dimension 1 takes a look at environmentally friendly marketing at several firms.

"Purpose Marketing, or 'Pro-Social Marketing,'" is growing as a marketing strategy. This growing popularity can be attributed to an increasing number of consumers who say what a company stands for influences their purchasing decisions. Companies, such as Panera Bread, must communicate their core values through their use of the marketing mix. Panera is known for its quick service restaurants, but it's also charitable, actively working with other organizations including Feeding America. In order to create awareness of its social consciousness, Panera launched its "Live consciously. Eat deliciously" campaign. The initiative will have a significant presence on social media sites, including Facebook and Twitter, exposing this new positioning to millions of fans. Purpose marketing with this type of sincerity has the potential to appeal to consumers on an emotional level and further drive customer loyalty. This trend moves marketing beyond push brand messaging and instead engages consumers in a much more meaningful way.¹²

Value and Exchange Are Core Marketing Concepts

Throughout the various topics encompassed within this book, the idea of value as a core concept in marketing will be a central theme. From a customer's perspective, we define **value** as a ratio of the bundle of benefits a customer receives from an offering compared to the costs incurred by the customer in acquiring that bundle of benefits.¹³ Another central tenet of marketing is the concept of **exchange**, in which a person gives up something of value to them for something else they desire to have.¹⁴ Usually an exchange is facilitated by money, but not always. Sometimes people trade or barter nonmonetary resources such as time, skill, expertise, intellectual capital, and other things of value for something else they want. For any

growth in a community. In Mexico City, dirt days during the week as congestion and smog hang over the city. In China, government staffers are worried for pollution levels, nearly 20 unusable even for agricultural irrigation, as these concerns influence marketers as they products are manufactured. For example, investing billions to identify and develop m

Political/Legal Environment Political environment significantly affect company industry. In 2003, the National Do Not Call intrusive telemarketing calls. Telemarketing companies were forced to reconfigure their Local, state, and federal legislatures put than ever before. In addition, government business activity. During the 1990s the actively pursued several antitrust activities, B

72 PART TWO Use Information to Drive Marketing Decisions

ETHICAL DIMENSION

Reflective of the centrality of ethical practices to marketing management, each chapter includes a real-world example of business ethics related to chapter material. These lively boxed features highlight how ethical issues permeate every marketing decision.

POP-OUT EXAMPLES

Each chapter contains numerous pop-out examples so that students can immediately connect chapter content to real-world application.

MANAGEMENT DECISION CASE

At the end of each chapter is a case drawn from the business headlines. Students are engaged by the currency of the problem and asked to develop solutions using chapter material. The cases are just the right size for today's classroom use—not too short but not too long!

MANAGEMENT DECISION CASE: Using Information to Target Customers Who Do Not Know They Are Being Targeted

In late 2013, Target Corporation, one of the biggest retail organizations in America, announced one of the largest data security breaches in history, with tens of millions of credit cards compromised by system hackers. This case focuses on another interesting but less publicized event from the same time frame.

If we wanted to figure out if a customer is pregnant, even if she didn't want us to know, can you do that? This question is emblematic of similar questions that are asked in companies all over the world in an effort to more specifically identify customers for increased sales opportunities. In this case, the Target brass were hoping to identify buying patterns of their female customers that would allow for effective promotion of specific products such as maternity and baby items. As Target has learned, customer buying patterns are representative of their life stage and to the extent that an organization can identify those life stages through data mining and information analysis, greater sales opportunities are possible.

Target is one of many companies that have discovered the benefits of "big data" and "business analytics." As individuals buy items, whether it is online or

if Target was encouraging his daughter to get pregnant, the store manager apologized profusely for Target's home office's action. A few days later the store manager phoned the customer to apologize again and learned the customer's daughter was actually pregnant, a fact that was revealed after the father returned from the store and spoke with her.

As enhanced computer processing power becomes more prevalent and more people are trained in the science and art of business analytics, there is no question that companies will utilize these data to increase company performance. In fact, Target Corporation's total revenues rose from \$44 billion in 2002 to over \$70 billion in 2013, an increase attributed to Target's "heightened focus on items and categories that appeal to specific segments such as mom and baby." However, the ability for companies to analyze big data with sophisticated techniques is not without some risk, and given Target's highly publicized security breach in late 2013 Target must be highly sensitive to the issue. The key is to balance the need ensure security and at the same time use data to enhance organizational success.

MARKETING PLAN EXERCISE

ACTIVITY 3: Identify Critical Information

This exercise asks you to identify the critical information needed to create the marketing plan. In that regard it is important to evaluate existing information (internal inside and secondary data) as well as new information gathered through primary research. This assignment includes:

1. Catalog internal sources of information available to you inside the organization and what information you will receive from each source.
2. Identify secondary data sources and the specific information you need from each source.
 - a. List sources.
 - b. Date.
 - c. Assess the relevance of the data to the project.
3. List primary data needs to create the marketing plan. Then develop the specific instruments (focus group questions, surveys) that you will use later in the marketing plan.

MARKETING PLAN EXERCISE

Each chapter connects that chapter's key content to a semester-long marketing plan project activity. Marshall/Johnston's *Marketing Management, 2e* is the only marketing management book to effectively thread a marketing planning focus throughout the textbook itself. Whether or not a semester marketing plan project is used by the instructor, the marketing plan exercise feature does a great job of tying together important planning concepts for students in a methodical, stepwise manner.

GLOSSARY OF TERMS

A complete glossary of key terms and definitions is provided at the end of the book. The glossary serves as an important reference as well as a handy study aid for students preparing for exams.

OTHER FEATURES IN EACH CHAPTER

- *Learning objectives:* These set the stage at the beginning of the chapter for what students will achieve by reading and studying the chapter. Each objective reappears in the margin at the relevant point in the chapter so students can track their progress.
- *Summary:* At the end of each chapter, a summary reminds students of the highlighted topics.
- *Key terms:* Terms are bolded throughout the chapter and connected with definitions in the Glossary.
- *Application questions:* These engaging questions at the end of each chapter are designed to direct students' thinking about the topics to the next level of application. Throughout the book all of these questions have been specially designed to simulate managerial decision making.

SUPPLEMENT PACKAGE

Marshall/Johnston's *Marketing Management, 2e* is committed to having the best supplement package in the marketing management textbook arena.



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Fueled by LearnSmart, SmartBook is the first and only adaptive reading experience available today. SmartBook personalizes content for each student in a continuously adapting reading experience. Reading is no longer a passive and linear experience, but an engaging and dynamic one where students are more likely to master and retain important concepts, coming to class better prepared.

Practice Marketing

McGraw-Hill's Practice Marketing is a 3D, online, multiplayer game that enables students to gain practical experience by applying the skills they learn in a highly interactive and engaging environment. Using the knowledge built on their course, students become the marketing manager for a company entering the backpack market. By making decisions and seeing the results, players get feedback on their actions and learn by doing. Practice Marketing is the first in this series of new digital products from McGraw-Hill. Contact your local rep for more details.

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Assurance of Learning Ready

Assurance of learning is an important element of many accreditation standards. Marshall/Johnston's *Marketing Management, 2e* is designed specifically to support your assurance of learning initiatives. As mentioned earlier, each chapter in the book begins with a list of learning objectives, which are then addressed throughout the chapter as well as in the end-of-chapter problems and exercises. Every test bank question is also linked to one of these objectives and indicates level of difficulty, topic area, Bloom's Taxonomy level, and AACSB skill area. EZ Test, McGraw-Hill's easy-to-use test bank software, can search the test bank by these and other categories, providing an engine for targeted Assurance of Learning analysis and assessment.

LEARNING OBJECTIVES

- LO 3-1** Describe the difference between market information systems and market research systems.
- LO 3-2** Identify how critical internal (inside the firm) information is collected and used in making marketing decisions.
- LO 3-3** Explain essential external (outside the firm) information collection methods.
- LO 3-4** Recognize the value of market research and its role in marketing.
- LO 3-5** Define the market research process.
- LO 3-6** Illustrate current research technologies and how they are used in market research.

AACSB Statement

The McGraw-Hill Companies is a proud corporate member of AACSB International. Understanding the importance and value of AACSB accreditation, Marshall/Johnston's *Marketing Management, 2e* has recognized the curricula guidelines detailed in the AACSB standards for business accreditation by connecting selected questions in the test bank to the general knowledge and skill guidelines found in the AACSB standards.

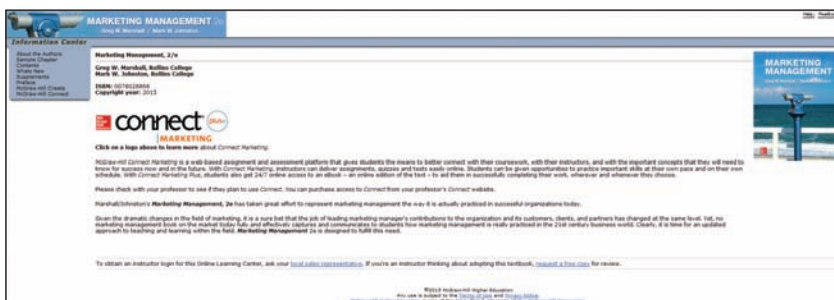
The statements contained in Marshall/Johnston's *Marketing Management, 2e* are provided only as a guide for the users of this text. The AACSB leaves content coverage and assessment within the purview of individual schools, the mission of the school, and the faculty. While Marshall/Johnston's *Marketing Management, 2e* and the teaching package make no claim of any specific AACSB qualification or evaluation, we have labeled selected questions according to the six general knowledge and skills areas.

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ONLINE LEARNING CENTER

Students using Marshall/Johnston's *Marketing Management, 2e* will have access to resources located on the Online Learning Center, including Chapter Quizzes.



CONCLUSION

Our overarching goal is to provide a marketing management book that truly captures the managerial practice of marketing in a way that is fully relevant to today's business students, professors, and managers. As stated earlier, we strongly believe that leading and managing the aspects of marketing to improve individual, unit, and organizational performance—**marketing management**—is a core business activity that is relevant to any MBA or undergraduate business student, regardless of his or her functional area of focus. At the end of the course, we want this book to allow marketing management instructors to have accomplished these key objectives:

- Clearly bring knowledge leadership in managerial aspects of marketing into the classroom, especially focusing on marketing management decision making in this new era of marketing.
- At the same time, cover the core areas of day-to-day management of marketing functions, but with a focus always on application and managerial decision making—not just basic “principles.”
- Integrate the following themes as systematic focal areas of the course experience: marketing planning, leadership, metrics, value, customer centricity, globalization, ethics, technology and data-driven marketing, and marketing's interface with other business functions.
- Speak to today's students in an up-to-date, user-friendly, yet professional and thorough writing style with vivid examples of actual marketing managers and leaders doing their jobs and making decisions about marketing problems and opportunities.
- Offer a state-of-the-art supplement package that enhances instructional effectiveness and the student's learning experience.
- Ultimately, provide a book today's instructors will be proud to teach from, secure in the knowledge that students *will want to read it* and that it represents the field of marketing management the way it is practiced in today's business milieu.

Acknowledgments

The task of writing a textbook requires the talents of many dedicated people. First and foremost, we want to thank the McGraw-Hill team for sharing the vision of this project with us from the very beginning. Particularly given the dynamic nature of marketing management both as a professional field and as a course of study, it was critically important that throughout the development process the authors and the editorial, production, and marketing team remain steadfast in believing in the vision of the project. The high level of mutual enthusiasm never waned, and we commend McGraw-Hill for this.

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contained in *Marketing Management, 2e* with utmost professional skill. All of these great professionals made our job as authors much more enjoyable, and we are indebted to them for their significant contributions to the project. We have been McGraw-Hill authors for over 15 years and consider their team to be family.

Dan Goebel at Illinois State University did a masterful job in creating the new set of Management Decision Cases that add so much value to this new edition. Likewise, Jill Solomon at the University of South Florida developed an outstanding set of testing materials and PowerPoints to accompany the book—she truly is an outstanding instructor of marketing management herself and that talent comes through in the materials she has created for this second edition. Leroy Robinson at the University of Houston–Clear Lake worked tirelessly to create an outstanding Instructor’s Manual to accompany this edition and to develop the interactive Connect exercises and the adaptive LearnSmart materials. His significant contributions ensure that *Marketing Management, 2e* contains relevant and engaging resources for instructors and students. Thanks to all three of you for a job well done!

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Greg W. Marshall, ROLLINS COLLEGE

Mark W. Johnston, ROLLINS COLLEGE

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REVIEWERS

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Kalthom Abdullah, *INTERNATIONAL ISLAMIC UNIVERSITY OF MALAYSIA*

Denise Ammirato, *WESTFIELD STATE COLLEGE*

David Amponsah, *TROY UNIVERSITY MONTGOMERY*

David Andrus, *KANSAS STATE UNIVERSITY*

Paul Arsenault, *WEST CHESTER UNIVERSITY OF PENNSYLVANIA*

Semih Arslanoglu, *BOSTON UNIVERSITY*

Chad Autry, *UNIVERSITY OF TENNESSEE-KNOXVILLE*

Parimal Baghat, *INDIANA UNIVERSITY OF PENNSYLVANIA*

William Baker, *SAN DIEGO STATE UNIVERSITY*

Roger Baran, *DEPAUL UNIVERSITY*

Danny Bellenger, *GEORGIA STATE UNIVERSITY*

John Bellenoit, *WESTFIELD STATE COLLEGE*

Parimal Bhagat, *INDIANA UNIVERSITY OF PENNSYLVANIA*

Subodh Bhat, *SAN FRANCISCO STATE UNIVERSITY*

Carol Bienstock, *RADFORD UNIVERSITY*

Diedre Bird, *PROVIDENCE COLLEGE*

Douglas Boyd, *JAMES MADISON UNIVERSITY*

Steve Brokaw, *UNIVERSITY OF WISCONSIN-LACROSSE*

Laura Buckner, *MIDDLE TENNESSEE STATE UNIVERSITY*

Tim Calkins, *NORTHWESTERN UNIVERSITY*

Barb Casey, *DOWLING COLLEGE*

Bob Cline, *UNIVERSITY OF IOWA*

Cathy Cole, *UNIVERSITY OF IOWA*

Mark Collins, *UNIVERSITY OF TENNESSEE-KNOXVILLE*

David Conrad, *AUGSBURG COLLEGE*

Bob Cutler, *CLEVELAND STATE UNIVERSITY*

Geoffrey Da Silva, *TEMASEK POLYTECHNIC*

Lorie Darche, *SOUTHWEST FLORIDA COLLEGE*

Patricia Daugherty, *MICHIGAN STATE UNIVERSITY*

F. Robert Dwyer, *UNIVERSITY OF CINCINNATI*

Michael Edwards, *UNIVERSITY OF ST. THOMAS*

Adel El-Ansary, *UNIVERSITY OF NORTH FLORIDA*

Alexander Ellinger, *UNIVERSITY OF ALABAMA-TUSCALOOSA*

Ken Fairweather, *LETOURNEAU UNIVERSITY*

Bagher Fardanesh, *JOHNS HOPKINS UNIVERSITY*

Andrew Forman, *HOFSTRA UNIVERSITY*

Fred Fusting, *LOYOLA COLLEGE OF MARYLAND*

Jule B. Gassenheimer, *ROLLINS COLLEGE*

Mahesh Gopinath, *OLD DOMINION UNIVERSITY*

Shiv Gupta, *UNIVERSITY OF FINDLAY*

Liz Hafer, *UNIVERSITY OF COLORADO-BOULDER*

Angela Hausman, *UNIVERSITY OF NORTH CAROLINA AT PEMBROKE*

Chuck Hermans, *MISSOURI STATE UNIVERSITY*

Asep Hermawan, *UNIVERSITAS TRISAKTI*

Mahmood Hussain, *SAN FRANCISCO STATE UNIVERSITY*

Donna Rue Jenkins, *WARREN NATIONAL UNIVERSITY*

Johny Johansson, *GEORGETOWN UNIVERSITY*

Amit Joshi, *UNIVERSITY OF CENTRAL FLORIDA*

Fred Katz, *JOHNS HOPKINS UNIVERSITY*

Craig Kelley, *CALIFORNIA STATE UNIVERSITY-SACRAMENTO*

Elias Konwufine, *KEISER UNIVERSITY*

Robert Kopp, *BABSON COLLEGE*

Michael Levens, *WALSH COLLEGE*

Cesar Maloles, *CALIFORNIA STATE UNIVERSITY-EAST BAY*

Avinash Malshe, *UNIVERSITY OF ST. THOMAS*

Susan Mantel, *INDIANA UNIVERSITY-PURDUE UNIVERSITY-INDIANAPOLIS*

Norton Marks, *CALIFORNIA STATE UNIVERSITY-SAN BERNARDINO*

Thomas Maronick, *TOWSON UNIVERSITY*

H. Lee Mathews, *OHIO STATE UNIVERSITY*
 Melvin Mattson, *RADFORD UNIVERSITY*
 Denny McCorkle, *UNIVERSITY OF NORTHERN COLORADO*
 Michael Menasco, *CALIFORNIA STATE UNIVERSITY–SAN BERNADINO*
 Morgan Miles, *UNIVERSITY OF TASMANIA*
 Chad Milewicz, *UNIVERSITY OF CENTRAL FLORIDA*
 Herb Miller, *UNIVERSITY OF TEXAS*
 Mark Mitchell, *COASTAL CAROLINA UNIVERSITY*
 Thomas Noordewier, *UNIVERSITY OF VERMONT*
 Nicholas Nugent, *SOUTHERN NEW HAMPSHIRE UNIVERSITY*
 Carl Obermiller, *SEATTLE UNIVERSITY*
 Azizah Omar, *UNIVERSITI SAINS MALAYSIA*
 Barnett Parker, *PFEIFFER UNIVERSITY*
 Vanessa Patrick, *UNIVERSITY OF GEORGIA*
 Dennis Pitta, *UNIVERSITY OF BALTIMORE*
 Salim Qureshi, *BLOOMSBURG UNIVERSITY*
 Pushkala Raman, *TEXAS WOMAN'S UNIVERSITY*
 K. Ramakrishna Rao, *MULTIMEDIA UNIVERSITY*
 Molly Rapert, *UNIVERSITY OF ARKANSAS–FAYETTEVILLE*
 Richard Rexeisen, *UNIVERSITY OF ST. THOMAS*
 Subom Rhee, *SANTA CLARA UNIVERSITY*
 Robert Richey, *UNIVERSITY OF ALABAMA–TUSCALOOSA*
 Torsten Ringberg, *UNIVERSITY OF WISCONSIN–MILWAUKEE*
 Ann Root, *FLORIDA ATLANTIC UNIVERSITY–BOCA RATON*
 David Rylander, *TEXAS WOMAN'S UNIVERSITY*
 Mahmud Sabri Haron, *UNIVERSITI SAINS MALAYSIA*
 Dennis Sandler, *PACE UNIVERSITY*
 Matt Sarkees, *PENNSYLVANIA STATE UNIVERSITY*
 Linda Saytes, *UNIVERSITY OF SAN FRANCISCO*
 Shahid Sheikh, *AMERICAN INTERCONTINENTAL UNIVERSITY*
 Susan Sieloff, *NORTHEASTERN UNIVERSITY*
 Karen Smith, *COLUMBIA SOUTHERN UNIVERSITY*
 Sharon Smith, *DEPAUL UNIVERSITY*
 Jill Solomon, *UNIVERSITY OF SOUTH FLORIDA*
 Ashish Sood, *EMORY UNIVERSITY*
 Robert Spekman, *UNIVERSITY OF VIRGINIA, DARDEN SCHOOL*
 James Spiers, *ARIZONA STATE UNIVERSITY*
 Thomas Steenburgh, *UNIVERSITY OF VIRGINIA, DARDEN SCHOOL*
 Geoffrey Stewart, *UNIVERSITY OF LOUISIANA–LAFAYETTE*
 John Stovall, *GEORGIA SOUTHWESTERN STATE UNIVERSITY*
 Ziad Swaidan, *UNIVERSITY OF HOUSTON AT VICTORIA*
 Michael Swenson, *BRIGHAM YOUNG UNIVERSITY*
 Leona Tam, *OLD DOMINION UNIVERSITY*
 Niwet Thamma, *RAMKHAMHEANG UNIVERSITY*
 Meg Thams, *REGIS UNIVERSITY*
 Rungting Tu, *PEKING UNIVERSITY*
 Bronislaw Verhage, *GEORGIA STATE UNIVERSITY*
 Guangping Wang, *PENNSYLVANIA STATE UNIVERSITY*
 Cathy Waters, *BOSTON COLLEGE*
 Art Weinstein, *NOVA SOUTHEASTERN UNIVERSITY*
 Darin White, *UNION UNIVERSITY–JACKSON*
 Ken Williamson, *JAMES MADISON UNIVERSITY*
 Dale Wilson, *MICHIGAN STATE UNIVERSITY*
 Walter Wochos, *CARDINAL STRITCH UNIVERSITY*
 Khanchitpol Yousapronpaiboon, *KHONKHEN UNIVERSITY*
 Zach Zacharia, *LEHIGH UNIVERSITY*
 Yong Zhang, *HOFSTRA UNIVERSITY*
 Shaoming Zou, *UNIVERSITY OF MISSOURI–COLUMBIA*

BRIEF TABLE OF CONTENTS

part ONE

Discover Marketing Management 1

CHAPTER 1

Marketing in Today's Business Milieu 2

CHAPTER 2

Elements of Marketing Strategy,
Planning, and Competition 26

part TWO

Use Information to Drive Marketing
Decisions 61

CHAPTER 3

Manage Marketing Information 62

CHAPTER 4

Understand Business-to-Consumer
Markets 94

CHAPTER 5

Understand Business-to-Business
Markets 130

CHAPTER 6

Segmentation, Target Marketing,
Positioning, and CRM 158

part THREE

Develop the Value Offering—The
Product Experience 197

CHAPTER 7

Product Strategy and New-Product
Development 198

CHAPTER 8

Build the Brand 238

CHAPTER 9

Service as the Core Offering 264

part FOUR

Price and Deliver the Value Offering 293

CHAPTER 10

Manage Pricing Decisions 294

CHAPTER 11

Manage Marketing Channels
and Points of Customer Interface 322

part FIVE

Communicate the Value Offering
through the Elements of Integrated
Marketing Communications 359

CHAPTER 12

Promotional Strategy and New Media 360

CHAPTER 13

Advertising, Sales Promotion,
and Public Relations 396

CHAPTER 14

Personal Selling and Direct
Marketing 414

part SIX

Bring It all Together—Global
and Performance Dimensions 441

CHAPTER 15

Understand the Global Marketplace:
Marketing without Borders 442

CHAPTER 16

The Marketing Dashboard: Metrics for
Measuring Marketing Performance 474

GLOSSARY G-1

PHOTO CREDITS PG-1

INDEX I-1

TABLE OF CONTENTS

part ONE

Discover Marketing Management 1

CHAPTER 01

Marketing in Today's Business Milieu 2

WELCOME TO MARKETING MANAGEMENT 3

MARKETING MISCONCEPTIONS 3

- Behind the Misconceptions 3
- Beyond the Misconceptions and Toward the *Reality* of Modern Marketing 6

DEFINING MARKETING 6

- Value and Exchange Are Core Marketing Concepts 8

MARKETING'S ROOTS AND EVOLUTION 10

- Pre-Industrial Revolution 10
- Focus on Production and Products 10
- Focus on Selling 11
- Advent of the Marketing Concept 11
- Post-Marketing Concept Approaches 12

CHANGE DRIVERS IMPACTING THE FUTURE OF MARKETING 14

- Shift to Product Glut and Customer Shortage 15
- Shift in Information Power from Marketer to Customer 15
- Shift in Generational Values and Preferences 16
- Shift to Distinguishing Marketing (Big M) from marketing (little m) 17
- Shift to Justifying the Relevance and Payback of the Marketing Investment 19

YOUR MARKETING MANAGEMENT JOURNEY BEGINS 20

SUMMARY 21

KEY TERMS 21

APPLICATION QUESTIONS 21

MANAGEMENT DECISION CASE: GAINING A FOOTHOLD AMONG GIANTS WHILE BEING KIND 22

NOTES 23

CHAPTER 02

Elements of Marketing Strategy, Planning, and Competition 26

VALUE IS AT THE CORE OF MARKETING 27

- The Value Chain 28
- Planning for the Value Offering 30

MARKETING PLANNING IS BOTH STRATEGIC AND TACTICAL 30

ELEMENTS OF MARKETING PLANNING 32

- Connecting the Marketing Plan to the Firm's Business Plan 32
- Organizational Mission, Vision, Goals, and Objectives 35
- Organizational Strategies 36
- Situation Analysis 39
- Additional Aspects of Marketing Planning 43

TIPS FOR SUCCESSFUL MARKETING PLANNING 46

VISIT THE APPENDIX FOR A MARKETING PLAN EXAMPLE 47

SUMMARY 48

KEY TERMS 48

APPLICATION QUESTIONS 48

MANAGEMENT DECISION CASE: HEWLETT-PACKARD AND THE CASE FOR STRATEGIC CHANGE 49

MARKETING PLAN EXERCISES 50

NOTES 50

APPENDIX Cloudcab Small Jet Taxi Service Abbreviated Example Marketing Plan 53

part TWO

Use Information to Drive Marketing Decisions 61

CHAPTER 03

Manage Marketing Information 62

MAKING GOOD MARKETING DECISIONS—THE NEED TO KNOW 63

MARKET INFORMATION SYSTEM 64

- The Nature of a Market Information System 64
- Internal Sources—Collecting Information Inside the Company 66
- External Sources—Collecting Information Outside the Company 68

MARKET RESEARCH SYSTEMS 73

- The Importance of Market Research to Managers 73
- The Market Research Process 74
- Market Research Technology 82
- Market Research Challenges in Global Markets 84

SUMMARY 88

KEY TERMS 88

APPLICATION QUESTIONS 88

MANAGEMENT DECISION CASE: USING INFORMATION TO TARGET CUSTOMERS WHO DO NOT KNOW THEY ARE BEING TARGETED 89

MARKETING PLAN EXERCISE 90

NOTES 90

CHAPTER 04

Understand Business-to-Consumer Markets 94

THE POWER OF THE CONSUMER 95

INTERNAL FORCES AFFECT CONSUMER CHOICES 95

- Personal Characteristics 95
- Psychological Attributes 99

EXTERNAL FACTORS SHAPE CONSUMER CHOICES 106

- Cultural Factors 106
- Situational Factors 108
- Social Factors 109

THE LEVEL OF INVOLVEMENT INFLUENCES THE PROCESS 114

- Decision Making with High Involvement 114
- Decision Making with Limited Involvement 115

THE CONSUMER DECISION-MAKING PROCESS 115

- Problem Recognition 116
- Search for Information 116
- Evaluation of Alternatives 119
- Product Choice Decision 120
- Post-Purchase Assessment 121

SUMMARY 124

KEY TERMS 124

APPLICATION QUESTIONS 124

MANAGEMENT DECISION CASE: SMARTPHONES, SENIORS, AND PURCHASE DECISIONS 125

MARKETING PLAN EXERCISE 126

NOTES 126

CHAPTER 05

Understand Business-to-Business Markets 130

ORGANIZATIONAL BUYING: MARKETING TO A BUSINESS 131

DIFFERENCES BETWEEN BUSINESS AND CONSUMER MARKETS 132

- Relationships with Customers 132

- Number and Size of Customers 133
- Geographic Concentration 133
- Complexity of the Buying Process 133
- Complexity of the Supply Chain 134
- Demand for Products and Services Is Different in a Business Market 135

BUYING SITUATIONS 136

- Straight Rebuy 136
- Modified Rebuy 137
- New Purchase 137

BUYING CENTERS 138

- Members of the Buying Center 138
- Pursuing the Buying Center 139

THE PLAYERS IN BUSINESS-TO-BUSINESS MARKETS 140

- The North American Industrial Classification System (NAICS) 140
- Manufacturers 141
- Resellers 142
- Government 143
- Institutions 143

THE BUSINESS MARKET PURCHASE DECISION PROCESS 143

- Problem Recognition 144
- Define the Need and Product Specifications 144
- Search for Suppliers 145
- Seek Sales Proposals in Response to RFP 147
- Make the Purchase Decision 147
- Post-Purchase Evaluation of Product and Supplier 150

THE ROLE OF TECHNOLOGY IN BUSINESS MARKETS 151

- E-Procurement 151

SUMMARY 152

KEY TERMS 152

APPLICATION QUESTIONS 152

MANAGEMENT DECISION CASE: ORGANIZATIONAL BUYING ON A GRAND SCALE 153

MARKETING PLAN EXERCISE 154

NOTES 154

CHAPTER 06

Segmentation, Target Marketing, Positioning, and CRM 158

FULFILLING CONSUMER NEEDS AND WANTS 159

WHAT IS SEGMENTATION? 160

- Effective Segmentation 160

SEGMENTING CONSUMER MARKETS 161

- Geographic Segmentation 161
- Demographic Segmentation 163
- Psychographic Segmentation 172
- Behavioral Segmentation 174

Firms Use Multiple Segmentation Approaches
Simultaneously 176
Segmenting Business Markets 176

TARGET MARKETING 177

Analyze Market Segments 177
Develop Profiles of Each Potential Target Market 178
Select a Target Marketing Approach 179

POSITIONING 180

Perceptual Maps 182
Sources of Differentiation 183
Positioning Errors 183

OBJECTIVES AND CAPABILITIES OF CRM 184

THE CRM PROCESS CYCLE 186

Knowledge Discovery 186
Marketing Planning 187
Customer Interaction 187
Analysis and Refinement 187

MORE ON CUSTOMER TOUCHPOINTS 188

CRM Facilitates a Customer-Centric Culture 188

SUMMARY 190

KEY TERMS 190

APPLICATION QUESTIONS 190

MANAGEMENT DECISION CASE: HOTEL CHOICES AND THEIR APPEAL TO DIFFERENT MARKETS 192

MARKETING PLAN EXERCISE 193

NOTES 193

part THREE

Develop the Value Offering—The Product Experience 197

CHAPTER 07

Product Strategy and New-Product Development 198

PRODUCT: THE HEART OF MARKETING 199

Product Characteristics 199
Product Classifications 202
Product Discrimination: Create a Point of
Differentiation 205
Product Plan: Moving from One Product to Many
Products 210
Product Decisions Affect Other Marketing
Mix Elements 211

THE LIFE OF THE PRODUCT: BUILDING THE PRODUCT EXPERIENCE 213

Product Life Cycle Sales Revenue and Profitability 215
Product Life Cycle Timeline 215
Product Life Cycle Caveats 215

NEW PRODUCTS—CREATING LONG-TERM SUCCESS 218

“New” Defined 218
Reasons for New-Product Success or Failure 219

NEW-PRODUCT DEVELOPMENT PROCESS 220

Identify Product Opportunities 220
Define the Product Opportunity 223
Develop the Product Opportunity 225

CONSUMER ADOPTION AND DIFFUSION PROCESS 228

Consumer Product Adoption Process 228
The Diffusion of Innovations 229

SUMMARY 231

KEY TERMS 231

APPLICATION QUESTIONS 231

MANAGEMENT DECISION CASE: PRODUCT DEVELOPMENT AND RENEWAL IN THE TOY MARKET 232

MARKETING PLAN EXERCISE 233

NOTES 234

CHAPTER 08

Build the Brand 238

BRAND: THE FUNDAMENTAL CHARACTER OF A PRODUCT 239

Brands Play Many Roles 239
The Boundaries of Branding 242

BRAND EQUITY—OWNING A BRAND 243

Defining Brand Equity 243
Benefits of Brand Equity 245

BRANDING DECISIONS 247

Stand-Alone or Family Branding 248
National or Store Branding 250
Licensing 250
Co-Branding 250

PACKAGING AND LABELING: ESSENTIAL BRAND ELEMENTS 251

Package Objectives 251
Effective Packaging 255
Labeling 255

WARRANTIES AND SERVICE AGREEMENTS: BUILDING CUSTOMER CONFIDENCE 257

Warranties Help Define the Brand 257

SUMMARY 259

KEY TERMS 259

APPLICATION QUESTIONS 259

MANAGEMENT DECISION CASE: DEVELOPING AND GROWING BRAND EQUITY IN AN ICONIC BRAND 259

MARKETING PLAN EXERCISE 260

NOTES 261

CHAPTER 09

Service as the Core Offering 264

WHY SERVICE IS IMPORTANT 265

- Service as a Differentiator 265
- A New Dominant Logic for Marketing 265

CHARACTERISTICS OF SERVICES 266

- Intangibility 266
- Inseparability 267
- Variability 268
- Perishability 269

THE SERVICE-PROFIT CHAIN 269

- Internal Service Quality 269
- Satisfied, Productive, and Loyal Employees 271
- Greater Service Value for External Customers 272
- Customer Satisfaction and Loyalty 272
- Revenue and Profit Growth 272

SERVICE ATTRIBUTES 274

- Search Attributes 274
- Experience Attributes 275
- Credence Attributes 275
- Importance of Understanding Service Attributes 276

SERVICE QUALITY 278

- Gap Analysis 278
- SERVQUAL: A Multiple-Item Scale to Measure Service Quality 283
- The SERVQUAL Instrument 284

SERVICE BLUEPRINTS 287

SUMMARY 288

KEY TERMS 288

APPLICATION QUESTIONS 288

MANAGEMENT DECISION CASE: SERVICE AND THE STORY OF NETFLIX 289

MARKETING PLAN EXERCISE 290

NOTES 290

part FOUR

Price and Deliver the Value Offering 293

CHAPTER 10

Manage Pricing Decisions 294

PRICE IS A CORE COMPONENT OF VALUE 295

ESTABLISH PRICING OBJECTIVES AND RELATED STRATEGIES 297

- Penetration Pricing 298
- Price Skimming 298

- Profit Maximization and Target ROI 299
- Competitor-Based Pricing 300
- Value Pricing 301

SELECT PRICING TACTICS 303

- Product Line Pricing 303
- Captive Pricing 305
- Price Bundling 305
- Reference Pricing 306
- Prestige Pricing 306
- Odd/Even Pricing 307
- One-Price Strategy and Variable Pricing 307
- Everyday Low Pricing (EDLP) and High/Low Pricing 308
- Auction Pricing 309

SET THE EXACT PRICE 309

- Cost-Plus Pricing/Markup on Cost 309
- Markup on Sales Price 310
- Average-Cost Pricing 310
- Target Return Pricing 311

DETERMINE CHANNEL DISCOUNTS AND ALLOWANCES 311

- Cash Discounts 311
- Trade Discounts 311
- Quantity Discounts 312
- Seasonal Discounts 312
- Promotional Allowances 312
- Geographic Aspects of Pricing 312

EXECUTE PRICE CHANGES 313

UNDERSTAND LEGAL CONSIDERATIONS IN PRICING 314

- Price-Fixing 314
- Price Discrimination 314
- Deceptive Pricing 315
- Predatory Pricing 315
- Fair Trade and Minimum Markup Laws 315

SUMMARY 316

KEY TERMS 316

APPLICATION QUESTIONS 316

MANAGEMENT DECISION CASE: PRICE UNBUNDLING: AN UNCOMMON WORD LEADING TO VERY NICE FINANCIAL RETURNS 317

MARKETING PLAN EXERCISE 318

NOTES 318

CHAPTER 11

Manage Marketing Channels and Points of Customer Interface 322

THE VALUE CHAIN AND VALUE NETWORKS 323

CHANNELS AND INTERMEDIARIES 326

FUNCTIONS OF CHANNEL INTERMEDIARIES 328

Physical Distribution Functions 328
Transaction and Communication Functions 329
Facilitating Functions 330

DISINTERMEDIATION AND E-CHANNELS 331

VERTICAL MARKETING SYSTEMS 332

Corporate Systems 332
Contractual Systems 332
Administered Systems 332

CHANNEL BEHAVIOR: CONFLICT AND POWER 333

SELECTING CHANNEL APPROACHES 334

Distribution Intensity 334
Channel Control and Adaptability 336
Prioritization of Channel Functions—Push versus Pull Strategy 336

LOGISTICS ASPECTS OF SUPPLY CHAIN MANAGEMENT 336

Order Processing 337
Warehousing and Materials Handling 338
Inventory Management 338
Transportation 338

LEGAL ISSUES IN SUPPLY CHAIN MANAGEMENT 339

Exclusive Dealing 339
Exclusive Territories 340
Tying Contracts 340

RETAILING 340

Offer Variety for Consumers 341
Separate Large Product Volume into Consumer Purchase Quantities 341
Maintain Inventory Levels 342
Make Additional Services Available to Consumers 342
Characteristics of Store Retailers 343
Types of Store Retailers 344
Non-Store Retailing 346

ELECTRONIC COMMERCE 348

Business-to-Consumer Electronic Commerce 348
Business-to-Business Electronic Commerce 350

SUMMARY 352

KEY TERMS 352

APPLICATION QUESTIONS 353

MANAGEMENT DECISION CASE: PUSHING SUPPLY CHAIN EFFICIENCIES TO THE MAXIMUM IN RETAILING 353

MARKETING PLAN EXERCISE 354

NOTES 355

part FIVE

Communicate the Value Offering through the Elements of Integrated Marketing Communications 359

CHAPTER 12

Promotional Strategy and New Media 360

ESSENTIALS OF PROMOTION AND INTEGRATED MARKETING COMMUNICATIONS (IMC) 361

The Rise of IMC 362
IMC Decision Making 363
IMC and the Promotion Mix 364
Push and Pull Strategies 364
Internal Marketing and IMC 366
Looking Ahead 366

COMMUNICATION PROCESS MODEL 366

Sender 367
Encoding Process 367
Message Transmission 368
Decoding Process 368
Receiver 368
Feedback Loop 368
Noise 369

HIERARCHY OF EFFECTS MODEL 370

Attention 370
Interest 371
Desire 371
Action 372

THE MARKETING MANAGER'S ROLE IN PROMOTIONAL STRATEGY 372

Identify Targets for Promotion 373
Establish Goals for Promotion 373
Select the Promotion Mix 375
Develop the Message 377
Select Media for Use in Promotion 378
Prepare Promotion Budget 378
Establish Measures of Results 380

NEW MEDIA 381

Online Communication Decisions 381
Mobile Growth Opportunities 384
Social Media Change the Conversation 386

SUMMARY 391

KEY TERMS 391

APPLICATION QUESTIONS 392

MANAGEMENT DECISION CASE: WATER IS LIFE: ATTRACTING ATTENTION TO A CAUSE THROUGH GUERRILLA TACTICS 393

MARKETING PLAN EXERCISE 394

NOTES 394

CHAPTER 13

Advertising, Sales Promotion, and Public Relations 396

ADVERTISING 397

Types of Advertising 398
Advertising Execution and Media Types 401
The Role of the Creative Agency 404

SALES PROMOTION 404

Sales Promotion to Consumers 405
Sales Promotion to Channel Members 405

PUBLIC RELATIONS (PR) 407

Gaining Product Publicity and Buzz 407
Securing Event Sponsorships 408
Crisis Management 409

SUMMARY 410

KEY TERMS 410

APPLICATION QUESTIONS 410

MANAGEMENT DECISION CASE: ADVERTISING TO GAIN OR KEEP MARKET SHARE IN THE HYPERCOMPETITIVE INSURANCE SPACE 411

MARKETING PLAN EXERCISE 412

NOTES 413

CHAPTER 14

Personal Selling and Direct Marketing 414

TOWARD A MORE PERSONAL COMMUNICATION WITH THE CUSTOMER 415

PERSONAL SELLING—THE MOST PERSONAL FORM OF COMMUNICATION 415

Activities in Personal Selling 416
Sales in B2C versus B2B Markets 418
Classifying Sales Positions 418
The Personal Selling Process 419
Organizing the Sales Force 423
Managing the Sales Force 426

DIRECT MARKETING 431

Creating a Direct Marketing Campaign 432
Direct Marketing Channels 433

SUMMARY 435

KEY TERMS 435

APPLICATION QUESTIONS 435

MANAGEMENT DECISION CASE: PHARMACEUTICAL SALES: PRESSURE IS ON TO CHANGE THE SELLING PROCESS 436

MARKETING PLAN EXERCISE 437

NOTES 437

part SIX

Bring It all Together—Global and Performance Dimensions 441

CHAPTER 15

Understand the Global Marketplace: Marketing without Borders 442

MARKETING IS NOT LIMITED BY BORDERS 443

THE GLOBAL EXPERIENCE LEARNING CURVE 444

Companies with No Foreign Marketing 444
Companies with Foreign Marketing 445
International Marketing 445
Global Marketing 446
Essential Information 446
Emerging Markets 448
Marketing in Emerging Markets 449
Multinational Regional Market Zones 449
Marketing in Regional Market Zones 453

SELECT THE GLOBAL MARKET 453

Identify Selection Criteria 454
Company Review 454

DEVELOP GLOBAL MARKET STRATEGIES 455

Market Entry Strategies 455
Organizational Structure 459
Product 460
Consumers 460
Market Channels 462
Marketing Communications 464
Pricing 465

SUMMARY 468

KEY TERMS 468

APPLICATION QUESTIONS 468

MANAGEMENT DECISION CASE: A NEW GLOBAL COMPETITOR: COMMERCIAL JETLINER PRODUCTION BEGINS IN CHINA 469

MARKETING PLAN EXERCISE 470

NOTES 470

CHAPTER 16

The Marketing Dashboard: Metrics for Measuring Marketing Performance 474

THE MARKETING DASHBOARD 475

Goals and Elements of a Marketing Dashboard 475
Potential Pitfalls in Marketing Dashboards 477
Toward Your Own Marketing Dashboard 478

RETURN ON MARKETING INVESTMENT (ROMI) 478

Cautions about Overreliance on ROMI 479
Proceed with Caution 480

A SAMPLING OF OTHER MARKETING METRICS 481

Market Share 481
Penetration 481

Margin on Sales	482
Cannibalization Rate	483
Customer Lifetime Value (CLV)	483
Sales Force Effectiveness	483
Supply Chain Metrics	484
Promotions and Pass-Through	484
Cost per Thousand Impressions (CPM) Rates	484
Share of Voice	484
Click-Through Rates	485
DEVELOPING EFFECTIVE ACTION PLANS	485
Responsibility for the Action Plan	485
Timing of the Action Plan	486
Budget for the Action Plan	486
Measurement and Control of the Action Plan	487
FORECASTING FOR MARKETING PLANNING	487
Subjective Methods of Forecasting	487
Objective Methods of Forecasting	489
Selecting the Appropriate Forecasting Method(s)	493
THE MARKETING BUDGET	494

CONTROLS AND CONTINGENCY PLANNING 495

THE MARKETING AUDIT 497

SUMMARY 500

KEY TERMS 500

APPLICATION QUESTIONS 500

**MANAGEMENT DECISION CASE: FORECASTING
AND WANNABE BLOCKBUSTER FILMS 501**

MARKETING PLAN EXERCISE 502

NOTES 502

GLOSSARY G-1

PHOTO CREDITS PG-1

INDEX I-1

PART 1

Discover Marketing Management

chapter 01

MARKETING IN TODAY'S BUSINESS MILIEU

chapter 02

ELEMENTS OF MARKETING STRATEGY, PLANNING, AND COMPETITION

CHAPTER 01

Marketing in Today's Business Milieu

LEARNING OBJECTIVES

- LO 1-1** Identify typical misconceptions about marketing, why they persist, and the resulting challenges for marketing management.
 - LO 1-2** Define what marketing and marketing management really are and how they contribute to a firm's success.
 - LO 1-3** Appreciate how marketing has evolved from its early roots to be practiced as it is today.
 - LO 1-4** Recognize the impact of key change drivers on the future of marketing.
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WELCOME TO MARKETING MANAGEMENT

Welcome to the world of marketing management! Now is a great time to be studying about marketing. In fact, marketing as a field of study has much to offer everyone, regardless of whether or not the word “marketing” appears in their job title. Whether your interest and training are in engineering, accounting, finance, information technology, or fields outside business, marketing is relevant to you. You can be confident that, when finished with this course about marketing management, you will emerge with a set of knowledge and skills that will not only enhance your personal effectiveness as a leader and manager regardless of area of responsibility or job title, but will also positively impact the performance of your work group and firm. Mastering great marketing is useful for anyone!

Despite the strong case for the value of learning about marketing, marketing is often misunderstood for a variety of reasons. So before we go any further, let’s start by clearing the air. Before you learn about great marketing and how to successfully manage it, it is important to address some misconceptions and stereotypes about marketing. Getting these out in the open will give you the opportunity to challenge your own perceptions of the field. After this section, attention will quickly turn from marketing misconceptions to *marketing realities* in today’s business milieu.

MARKETING MISCONCEPTIONS

When you think of *marketing*, what sorts of ideas and images initially come to mind? Close your eyes and think about the essence of the word. What images flow in? The images will vary depending on your age, your professional background, and whether you have worked in some aspect of the marketing field. Here is a short list of perceptions commonly conjured up about marketing:

- Catchy and entertaining advertisements—or perhaps the opposite, incessant and boring advertisements.
- Pushy salespeople trying to persuade someone to *buy it right now*.
- Incessant SPAM in your e-mail inbox and unwelcome solicitations on your smartphone.
- Famous brands and their celebrity spokespeople, such as Nike’s athlete endorsers.
- Product claims that turn out to be overstated or just plain false, causing doubt about the trustworthiness of a company.
- Marketing departments “own” an organization’s marketing initiative.

Exhibit 1.1 expands on the common stereotypes and misconceptions about marketing.

Behind the Misconceptions

Several important factors have contributed to the development of these misconceptions: marketing’s inherent visibility and its tendency toward buzzwords and “spin.”

Marketing Is Highly Visible by Nature Unlike most other key areas of business, marketing as a field is highly public and readily visible outside the confines of the internal business operation. Think of it this way: Most aspects of financial management, accounting, information technology, production, operations management, and human resource management take place behind the curtain of an organization, out of the general public’s sight. But marketing is very different. A good portion of marketing is very public. Marketing is seen through the web page

LO 1-1

Identify typical misconceptions about marketing, why they persist, and the resulting challenges for marketing management.

MISCONCEPTION NO. 1: Marketing is all about advertising.

THE REALITY: Advertising is just one way that marketing is communicated to potential customers. Advertising is highly visible to the general public, so many people naturally think of advertising when they think of marketing. A famous axiom: *Good advertising makes a bad product fail faster.*

MISCONCEPTION NO. 2: Marketing is all about selling.

THE REALITY: The general public also experiences a lot of selling. Much of this day-to-day selling is in retail store environments. Selling, or more correctly “personal selling,” is simply another method of marketing communication. Marketers have to decide on a mix of marketing communication approaches that (in addition to advertising and personal selling) might also include public relations/publicity, sales promotion, and direct marketing. Later chapters discuss how and when each might be most effective in communicating the message.

MISCONCEPTION NO. 3: Marketing is all about the sizzle.

THE REALITY: Yes, some aspects of marketing are inherently fun and glitzy. Hiring Tiger Woods as a celebrity spokesperson had to be a real thrill for everybody at Nike, not to mention the pleasure and fun it gave Nike fans. But marketing also has aspects that involve sophisticated research, detailed analysis, careful decision making, and thoughtful development of strategies and plans. For many organizations, marketing represents a major investment and firms are naturally reluctant to invest major resources without a reasonable level of assurance of a satisfactory payback.

MISCONCEPTION NO. 4: Marketing is inherently unethical and harmful to society.

THE REALITY: Marketing is no more inherently unethical than other business areas. The accounting scandals at Enron, WorldCom, and other firms in the early 2000s show that to be true. However, when some element of marketing proves to be unethical (or even illegal), it tends to be visible to the general public. Untrue advertising claims, arm-twisting sales tactics, and nonenvironmentally friendly product packaging are a few very visible examples of marketing not behaving at its best.

MISCONCEPTION NO. 5: Only marketers market.

THE REALITY: Everybody does marketing. Everybody has a stake in the success of marketing. Regardless of your position in a firm or job title, learning how to do great marketing is a key professional asset. People with strong marketing skills achieve greater success—both on the job and off. If you’ve never thought of yourself in the context of being a “personal brand” that needs to be effectively communicated, just consider how useful such an approach could be in job seeking or positioning yourself for a promotion.

MISCONCEPTION NO. 6: Marketing is just another cost center in a firm.

THE REALITY: The mind-set that marketing is a cost, rather than an investment, is deadly in a firm because costs are inherently to be reduced or avoided. When management doesn’t view marketing as earning its keep—that is, marketing being able to pay back its investment over the long term—it becomes very easy for firms to suboptimize their success in the long run by avoiding investment in brand and product development in favor of cutting costs. This is the classic argument that successful firms must simultaneously monitor costs to ensure short-term financial performance while also investing in marketing to ensure long-term competitive strength.

that stimulates interest in seeking more product information, the (hopefully) good service received from the salesperson representing a firm’s products, the enjoyment and interest generated from a clever advertisement on Super Bowl Sunday, or the well-stocked shelves at the neighborhood Target Store.

Of all the business fields, marketing is almost certainly the most visible to people outside the organization. While other fields also have negative stereotypical images (think accountants with green eyeshades or IT computer geeks), you’d be hard pressed to identify another business field about which nearly everyone has formed a deeply held set of images and opinions or about which nearly everybody thinks they know enough to confidently offer advice! Think about how many times casual conversation in a social setting turns to something marketing related. Have you ever had similar social exchanges about the ins and outs of financial

management or the complexities of computerized production systems? Of course not, but it seems almost anybody is comfortable talking (and tweeting!) about elements of marketing—from the week’s advertised specials at the supermarket to this year’s fashion for kids heading back to school to the service received at a favorite vacation hotel—marketing is a topic everyone can discuss!

Marketing strategies, including pricing strategies, are not easily changed once established with the consumer. Penney (JCP) has faced difficulties since February 2012 when CEO Ron Johnson steered the retailer away from deep discounts, coupons, and super sale advertisements, instead offering everyday low pricing (EDLP). Johnson’s ultimate goal was to transition the department store into a specialty store featuring in-store boutiques. However, customers did not respond favorably. The company reported four consecutive quarters of net losses. By February 2013, JCP announced it would be adding sales to select merchandise again and by late spring the same year Johnson was out as CEO, quickly followed by other top-management changes. JCP has since shifted to displaying manufacturer suggested retail pricing alongside its EDLP on select merchandise in order to educate the customer on the value of its EDLP approach. JCP may have recognized that its core customers were not ready for such a big change, and as a result it had to evolve (or devolve) its strategy. The company’s challenge going forward is to regain those customers lost to competitors.¹

Why is the notion that marketing is visible and accessible to nearly everyone so important to students of marketing management? The truth is, despite the fact that much of marketing is easily observable to just about anyone, marketing as a professional field worthy of serious study doesn’t always get the respect it deserves, maybe in part because of its overexposure. The business functions of financial management, operations, IT, and the rest seem to be viewed by many MBA and undergraduate students (and also, unfortunately, by managers in many firms) as the more “serious” parts of an enterprise—topics that are perceived as more concrete, more scientific, and more analytical than marketing, thus implying they are topics worthy of more substantial investment in time, money, and other resources.² In the past, marketing has had few useful metrics or measures to gauge the performance impact of a firm’s marketing investment, while other areas of the firm have historically been much more driven by measurement of results. The old adage “if it can’t be measured, it can’t be managed” has plagued marketing for years. This is changing, and today measurement of marketing’s performance and contribution is a focal point in many firms.³ In fact, so many great marketing metrics are available that we’ve included a whole chapter on the topic at the end of the book.

Marketing Is More Than Buzzwords Given the inherently transparent nature of marketing and the prior lack of ways to effectively measure its impact on a firm’s success, it should be no surprise that some managers consider marketing to be little more than a necessary evil—a *cost* they reluctantly have to incur.⁴ They’re not sure *how* marketing works, or even *if* marketing really does work, but for competitive reasons—or maybe just because it’s always been done—they continue to invest large sums of money in its many facets including market research, brand development, advertising, salespeople, public relations, and so forth. With so much ambiguity historically surrounding the management and control of marketing, a “flavor of the month” club mentality has developed around the field of marketing, often promoted by consultants and authors looking to make a quick buck by selling their latest and greatest ideas complete with their own catchy buzzwords for the program.

Anyone who doubts the pervasiveness of quick-fix approaches to marketing should visit a bookstore or online bookseller. Go to the business section and look at the marketing titles. Among the buzzwords right in the book titles are such

gems as *guerilla marketing*, *permission marketing*, *holistic marketing*, *marketing warfare*, *marketing rainmaking*, *buzz marketing*, *integrated marketing* . . . the list goes on and on. Although each of these approaches may provide a germ of usefulness, the circus-like atmosphere surrounding the field has detracted from its position as a respectable business function.

Beyond the Misconceptions and Toward the *Reality* of Modern Marketing

Of course, buzzwords are just window dressing, and most popular press prescription approaches to marketing don't do much to improve the *long-term* performance of an organization. Effective marketing management isn't about buzzwords or quick fixes. Nor is the essence of marketing really about the kinds of stereotypical viewpoints identified earlier in this section. In today's business milieu, marketing is a central function and set of processes essential to any enterprise.⁵ Moreover, leading and managing the facets of marketing to improve individual, unit, and organizational performance—**marketing management**—is a *core business activity*, worthy of any student's study and mastery.

Netflix was a leader in subscription streaming video content. New rivals have been establishing themselves in this market, providing similar service, pricing, and content. Netflix decided to use its favorable perception among families to differentiate itself. In 2012, the company made an exclusive deal to be the home for Disney's new releases along with offering older content beginning in 2016. In addition to licensing agreements, Netflix felt the pressure to create original content like rival streaming video producers, Amazon Prime and Hulu Plus. However, in its transition to original content, Netflix aimed to own the under-12 viewer segment. Early in 2013 it announced plans to create a children's series, *Turbo: F.A.S.T.*, which would be a spin-off of the Dreamworks film *Turbo*. Netflix recognized its appeal to parents as a service that provides endless hours of children's entertainment for an affordable monthly fee. Through its agreements with Disney and Dreamworks, as well as its new original content, Netflix has the potential to position itself as the go-to entertainment service for families with children.⁶

The chapters that follow lay the groundwork for developing the knowledge and skills around marketing that will allow you to build a more successful career as a leader and manager, regardless of department, area of specialization, level in the organization, or job title. Is marketing relevant to *you*? You bet it is because *everyone* in an organization does marketing in some way and must share ownership of its success or failure.

Learning about marketing management is not just about reading a book or taking a course, although dedication to these activities is a great starting point. Instead, great marketing is a lifelong journey that requires dedication to continuous learning and improvement of your knowledge and skills as a leader and manager. It is in this spirit that we enthusiastically invite you to begin your journey into the field of marketing management!

DEFINING MARKETING

Over 50 years ago, the late management guru Peter Drucker, often referred to as the father of modern management, set the stage for defining contemporary marketing and conceiving of its potential power. Consider this quote from Drucker, circa 1954 (emphasis added):

If we want to know what a business is we have to start with its *purpose*. There is only one valid definition of business purpose: *to create a customer*. It is the customer who

LO 1-2

Define what marketing and marketing management really are and how they contribute to a firm's success.

determines what a business is. For it is the customer, and he alone, who through being willing to pay for a good or service, converts economic resources into wealth, things into goods. What the business thinks it produces is not of first importance—especially not to the future of the business and its success. What the customer thinks he is buying, what he considers “value” is decisive. . . . Because it is the [purpose of a business] to create a customer, [the] business enterprise has two—and only two—business functions: *marketing* and *innovation*.⁷

Consider the power of these ideas: a business built around the customer with resources and processes aligned to maximize customer value. Within this context, Drucker is not talking just about “marketing departments,” but rather marketing in much broader terms. More on that distinction later. For now, consider this subsequent quote from Drucker circa 1973:

Marketing is so basic that it cannot be considered a separate function (i.e., a separate skill or work) within the business . . . it is, first, a central dimension of the entire business. It is the *whole business* . . . seen from the *customer's* point of view. Concern and responsibility for marketing must, therefore, permeate all areas of the enterprise.⁸

Clearly, Peter Drucker was a man whose business philosophy was way ahead of his time. Now fast forward to this decade. The American Marketing Association offers the following as its official definition of marketing:

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

This definition is quite good because it

- Focuses on the more *strategic* aspects of marketing, which positions marketing as a core contributor to overall firm success.
- Recognizes marketing as an activity, set of institutions, and processes—that is, marketing is not just a “department” in an organization.
- Shifts the areas of central focus of marketing to *value*—creating, communicating, delivering, and exchanging offerings of value to various stakeholders.

Just who are the relevant stakeholders of marketing? **Marketing's stakeholders** include any person or entity inside or outside a firm with whom marketing interacts, impacts, and is impacted by. For example, internal stakeholders—those inside a firm—include other organizational units that marketing interacts with in the course of business. Strong, productive relationships between marketing and finance, accounting, production, quality control, engineering, human resources, and many other areas in a firm are necessary in order for a firm to do business successfully.⁹ The range of external stakeholders—those outside a firm—is even broader and includes customers, vendors, governmental bodies, labor unions, and many others. One important challenge in marketing management is deciding how to prioritize these internal and external stakeholders in terms of their relevance and importance to the firm.¹⁰ Most firms place the customer first, but a key question is: how do you decide which of the others deserve the most attention?



Green marketing isn't a theme one might expect to see Waste Management, Inc., conveying, yet they have a powerful environmental message.

At the broadest conceptual level, members of society at large can be viewed as a stakeholder for marketing, a concept called **societal marketing**. As one example, the concept of environmentally friendly marketing, or *green marketing*, has been a growing trend in socially responsible companies. Today the movement has evolved into a part of the philosophical and strategic core of many firms under the label **sustainability**, which refers to business practices that meet humanity's needs without harming future generations.¹¹ Sustainability practices have helped socially responsible organizations incorporate *doing well by doing good* into their overarching business models so that both the success of the firm and the success of society at large are sustained over the long term. Ethical Dimension 1 takes a look at environmentally friendly marketing at several firms.

"Purpose marketing," or "pro-social marketing," is growing as a marketing strategy. This growing popularity can be attributed to an increasing number of consumers who say what a company stands for influences their purchasing decisions. Companies such as Panera Bread must communicate their core values through their use of the marketing mix. Panera is known for its quick-serve restaurants, but it's also charitable, actively working with other organizations including Feeding America. In order to create awareness of its social consciousness, Panera launched its "Live consciously. Eat deliciously" campaign. The initiative will have a significant presence on social media sites, including Facebook and Twitter, exposing this new positioning to millions of fans. Purpose marketing with this type of sincerity has the potential to appeal to consumers on an emotional level and further drive customer loyalty. This trend moves marketing beyond push brand messaging and instead engages consumers in a much more meaningful way.¹²

Value and Exchange Are Core Marketing Concepts

Throughout the various topics encompassed within this book, the idea of value as a core concept in marketing will be a central theme. From a customer's perspective, we define **value** as a ratio of the bundle of benefits a customer receives from an offering compared to the costs incurred by the customer in acquiring that bundle of benefits.¹³ Another central tenet of marketing is the concept of **exchange**, in which a person gives up something of value to them for something else they desire to have.¹⁴ Usually an exchange is facilitated by money, but not always. Sometimes people trade or barter nonmonetary resources such as time, skill, expertise, intellectual capital, and other things of value for something else they want. For any exchange to take place, the following five conditions must be present:

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

Just because these conditions exist does not guarantee that an exchange will take place. The parties must come to an agreement that results in both being better off, hence the phrase in the AMA definition of marketing ". . . exchanging offerings that *have value* . . ." (emphasis added)." Value implies that both parties win from the exchange.

Coca-Cola made new investments in its Simply Orange product line in order to provide a premium product for consumers. There has been an increasing trend in consumer behavior toward healthier eating (and drinking). In fact, the market for "still" beverages, including juices, has been outpacing the growth of sparkling

The Green Product Challenge

Environmental awareness coupled with a sense of social responsibility is leading many companies to assess their environmental policies and business practices. Some companies such as General Electric are developing environmentally sensitive products while others such as Starbucks have adopted tough recycling programs that minimize environmental waste. Companies worldwide acknowledge a concern for the environment, seek to minimize environmental damage, and commit resources to their environmental programs.

One challenge for manufacturers around the world is to transform environmentally harmful products into environmentally friendly products. In some industries, making products more environmentally safe has been relatively straightforward. For instance, air conditioner manufacturers moved from the refrigerant known by the brand name Freon to a more environmental friendly product, Puron, that reduced chlorine emissions and depletion of the ozone layer.

In other situations, it is more difficult to create environmentally sensitive products. Consider Nike, a company that built its running shoe business through outstanding products and creative marketing communications. A key product feature for Nike has been a small pocket of air in its Nike Air shoes. The extra cushion was a significant product innovation when it was introduced and proved to be a major market differentiator for the company. However, the pocket of “air” was not just air; it also contained a small amount of sulfur hexafluoride, or SF₆, a gas that damages the ozone layer.

In the early 1990s, questions about Nike’s use of SF₆ gas became public. While the Nike air cushion was a key factor in the company’s success, Nike realized that continued use of SF₆ posed an environmental problem.

Unfortunately, replacing SF₆ with a solution that minimized environmental damage while providing the same product benefits (long-lasting cushion and support) proved challenging.

After millions of dollars and almost two decades, a team of 60 Nike engineers replaced the old product with a new, greener solution using sophisticated manufacturing techniques to replace the SF₆ with nitrogen. The Air-Max was the first shoe to incorporate the new technology. Interestingly, the new shoe actually increases comfort and weighs less than older models, making the environmentally sensitive solution the best business solution as well. Nike’s focus on product performance and technical innovation created a better, environmentally friendly product that is successful in the marketplace.

As part of the product development process, Nike kept environmental groups informed of the progress. Although there were tensions as the process took longer than anyone planned, the communication between Nike and stakeholders helped minimize long-term negative publicity. The challenge for marketers is finding the right balance between consumer demand and environmental stewardship.¹⁵

Ethical Perspective

1. **Nike:** How would you prioritize what are often two conflicting demands: consumer product performance expectations and the demand for eco-friendly products?
2. **Consumers:** Would you choose a Nike shoe that provided less comfort but was more environmentally friendly? Would you pay a premium for an environmentally friendly Nike shoe?
3. **Environmental groups:** Nike took almost two decades to create a new sole for its air cushion; would you allow a company that much time to deal with an environmentally damaging product?

drinks in recent years. In order to develop its production in a growing beverage market, Coca-Cola is tackling the external variables that affect making juice. By using very sophisticated satellite and statistical models applied to securing a constant high-quality inflow of raw materials, Coke is able to provide its customers a standardized, 100% not-from-concentrate orange juice year-round. Bob Cross, the architect of Coke’s juice algorithm (called the Black Book), said the program “. . . requires analyzing up to 1 quintillion decision variables to consistently deliver the optimal blend, despite the whims of Mother Nature.” In addition, it includes information about the 600 flavors that are contained in an orange, as well as consumer preferences. As the juice is being bottled, “blend technicians” follow the recipe from the Black Book, even adding the natural flavors and fragrances that were lost in processing.¹⁶